



International Institute for  
Applied Systems Analysis  
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science for global insight

# Connectivity in the Digital Age. Digital Futures of Trade and Economic Cooperation in Eurasia

## INTRODUCTION

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IIASA, International Institute for Applied Systems Analysis

# About IIASA in brief



- Established in 1972 by USA and USSR: **bridge between East and West**, science diplomacy
- **2018**: International, independent, interdisciplinary research on **major global problems**; currently **22 member countries**
- Dimensions: economy, energy, land use, climate, air quality, technology, biodiversity, demography, natural hazards
- Solution oriented, **integrated systems analysis** into the issues of sustainability and global transformation



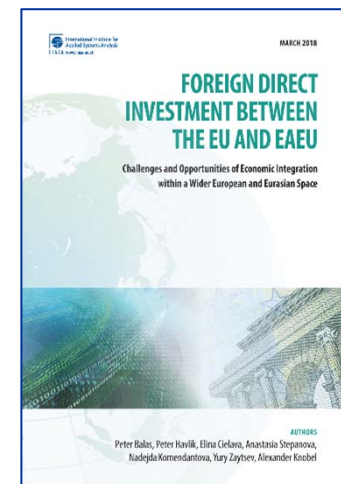
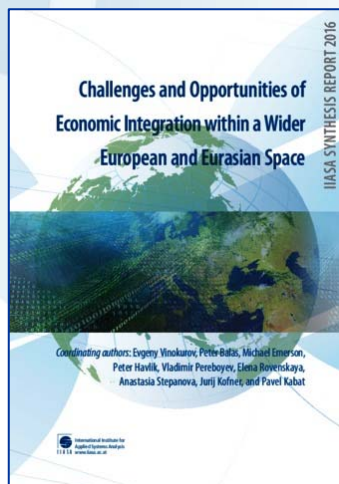
# IIASA project: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space

- Since 2014, focuses on **plausible futures** of **economic cooperation** between **the EU, the EAEU**, and their **neighbours**, including the key Asian players
- A unique platform to facilitate a **science-based** de-politicized **dialogue** between experts, high-level policy makers and representatives of business **across all relevant domains and regions**
- More information: <http://www.iiasa.ac.at/web/home/research/eurasian>



# IIASA project: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space

- 7 thematic workshops and a number of other events organized, 250+ international participants
- Reports synthesizing the state-of-the-art in particular dimensions (trade policy, non-tariff barriers, transport, energy, migration)
- Three studies on most pressing issues (transport, FDI, and convergence of standards)





# Major integration processes in Eurasia



## European Union (EU)

28 countries, 513 million people  
22 trill. USD PPP GDP = 22% of global economy  
43,119 USD PPP GDP/capita



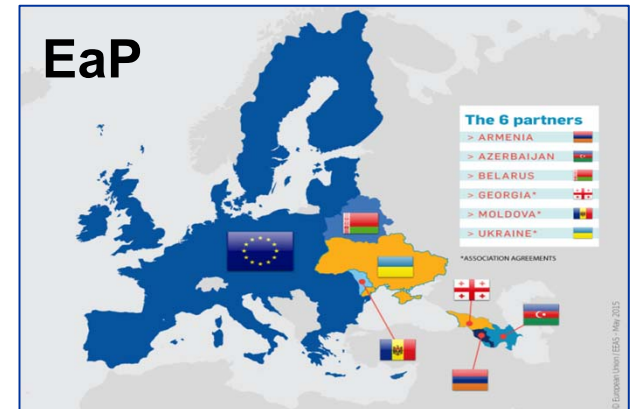
## Eurasian Economic Union (EAEU)

5 countries, 183 mio people  
5 trillion USD PPP GDP = 5% of global economy  
10,000 USD PPP GDP/capita



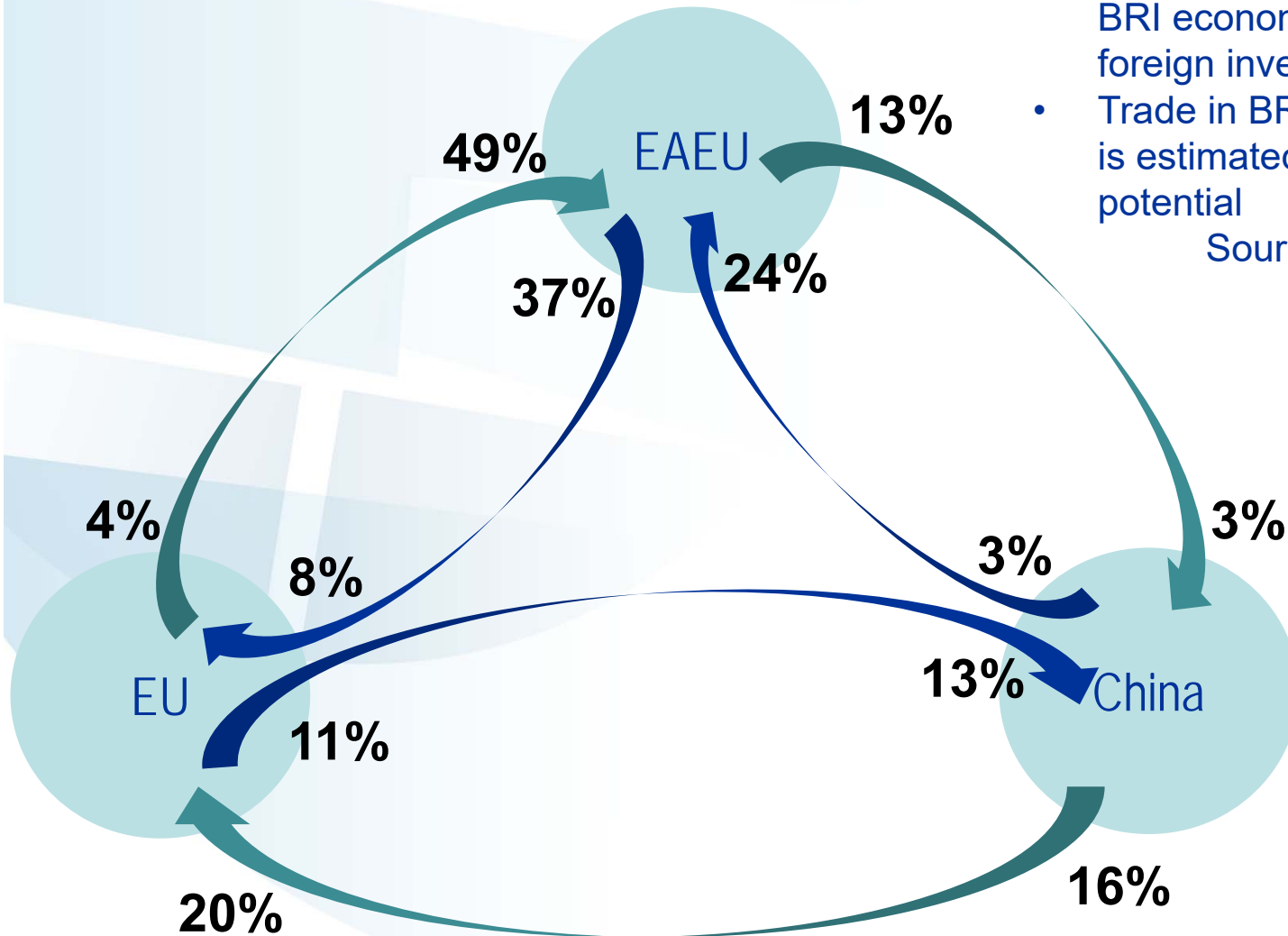
## Belt and Road Initiative (BRI)

60+ countries  
4 billion people in Asia  
estimated 5 trillion USD budget



- DCFTA with EU: Georgia, Ukraine, Moldova
- Comprehensive Economic and Partnership Agreement (CEPA) with EU: Armenia
- GSP+: Kyrgyzstan, Armenia
- Partnership and Cooperation Agreement (PCA) with EU: Azerbaijan, Belarus

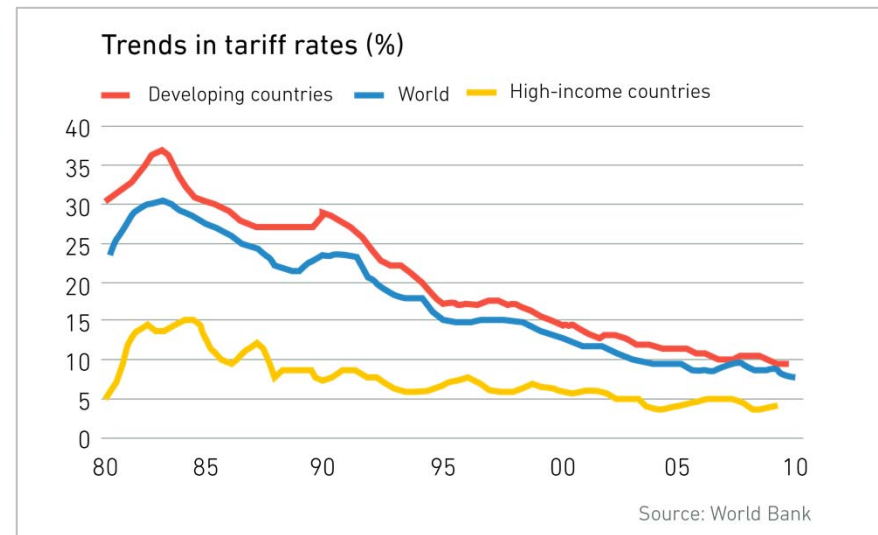
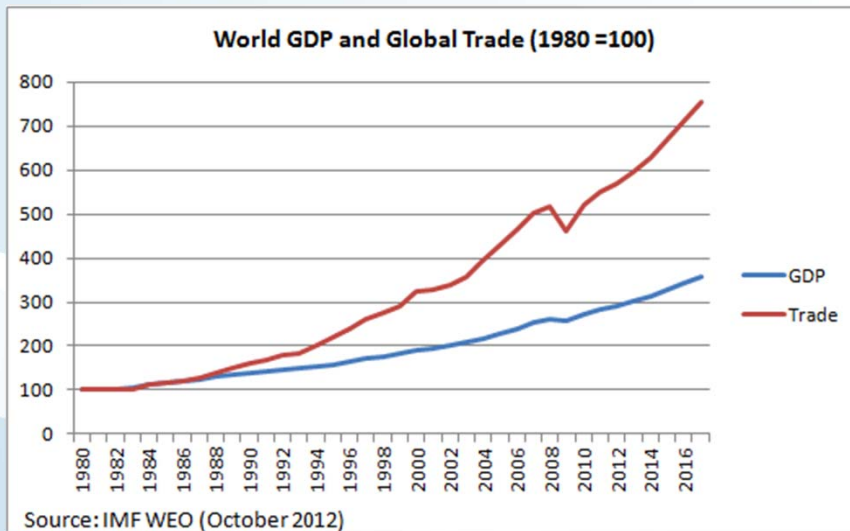
# Mutual trade in Eurasia: Big picture



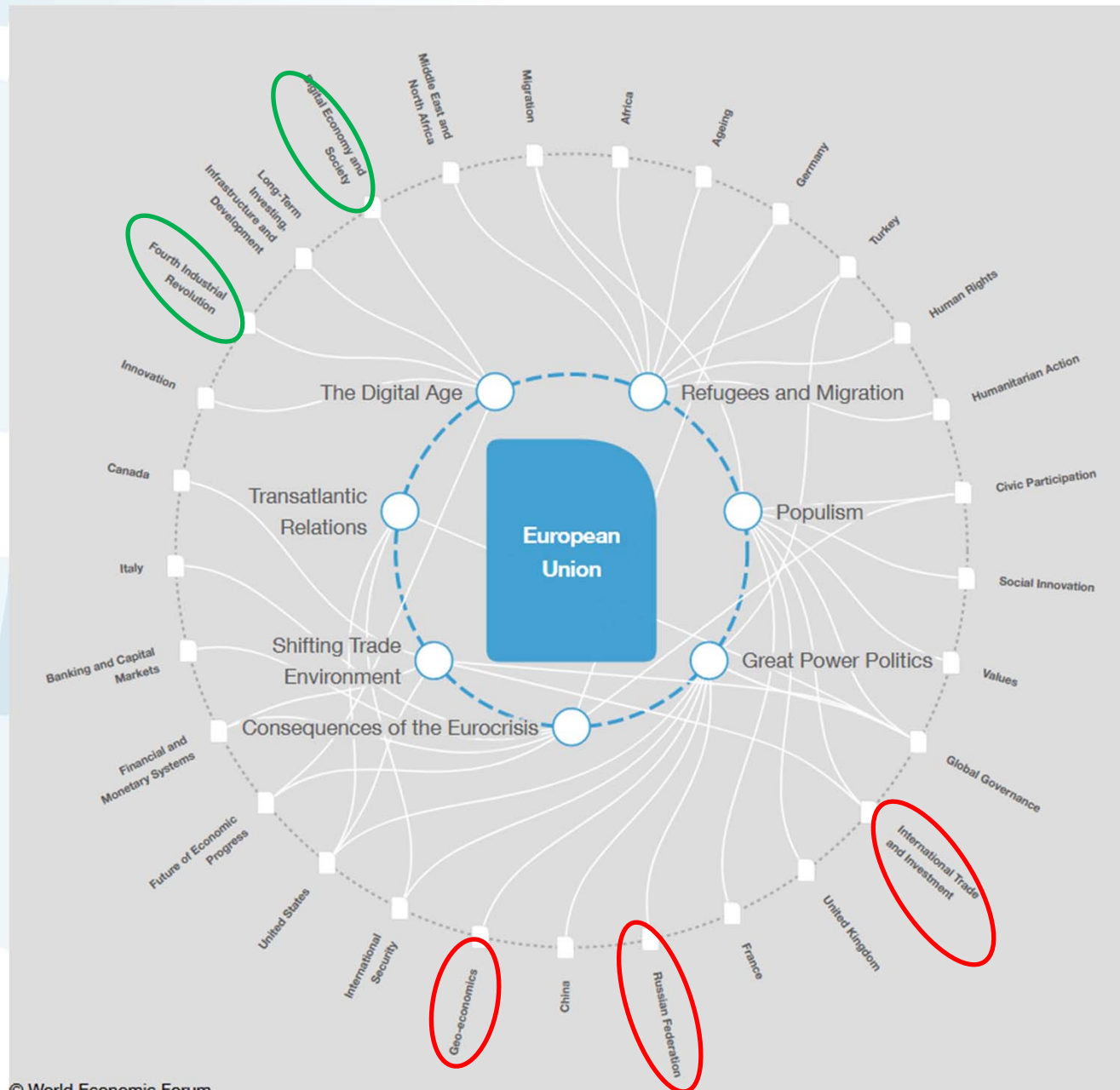
- Infrastructure and policy gaps in BRI economies hinder trade and foreign investment
- Trade in BRI corridor economies is estimated to be 30% below potential

Source: World Bank

# Global trade keeps growing and non-tariff barriers become the defining factor



# Possible futures - EU





# Possible futures - post-Soviet countries

## Ukraine



**Unlocking the Virtuous Circle** is a scenario of fundamental transformation in which stakeholders emerge with a widely-shared commitment to a new social contract based on transparency and reorientation of state expenditures. This provides fiscal space to support the modernization of the economy and unlocks a virtuous circle across sectors.



**Lost in Stagnation** is a scenario of collapse. While the global economic context worsens, Ukrainian stakeholders fail to find common ground on a strong forward-looking agenda, leaving the country stuck in a rapidly escalating downward spiral.



**Back to the Future** is a scenario of selective change in which the unreformed system finds a new equilibrium. Deteriorating external conditions create a sense of urgency for targeted top-level actions that support strategic sectors and catalyse new trade and investment perspectives, but stop short of transformative change.

## Russia



### Regional Rebalancing

Pockets of leadership driving institutional reform at a sub-federal level significantly change the business environment in some well-governed regions, in spite of stagnation in central institutions. A context of global resource scarcity allows some of these regions to grow quickly on the back of high investments in the agricultural sector and a range of associated value-chain products. This growth is also helped by new cross-border infrastructure links and lowered trade barriers with Russia's eastern neighbours.



### Precarious Stability

A sudden and sustained drop in oil prices creates a crisis in Russia's economic foundations that threatens the country's social stability. Paralysed by the threat of popular resistance to cutbacks in entitlements and social spending, the government is compelled to strengthen its hold on the economy, using state companies as vectors of social spending. While compromising its fiscal position, Russia preserves at least the illusion of economic stability for most of its population. Eventually the sustainability of these measures comes into question, opening a range of uncertainties about the country's long-term economic future.



### Beyond Complacency

Continuously high oil and gas prices lead to complacency about institutional reform, aside from specific measures to spur investments in the energy sector. While the success of this sector brings higher incomes to large parts of Russian society, discontent increases with inefficient public services and an unceasingly growing but inefficient state bureaucracy. A split among the elites eventually leads to a wave of institutional reforms.

## South Caucasus and Central Asia



### Split Up

In 2035, the global economy is dominated by powerful trading blocs centred on the Atlantic, Pacific and Indian oceans. Members within these blocs collaborate intensively on energy and other commercial matters, but politics and protectionism severely limit exchanges between the blocs.



### Southern Gateway

The global economy of 2035 is digital, knowledge-based and dominated by newly advanced economies. South-South trade, especially in services, has become more important. The Islamic Republic of Iran is now open for business and at the centre of access to new markets for non-Western producers.



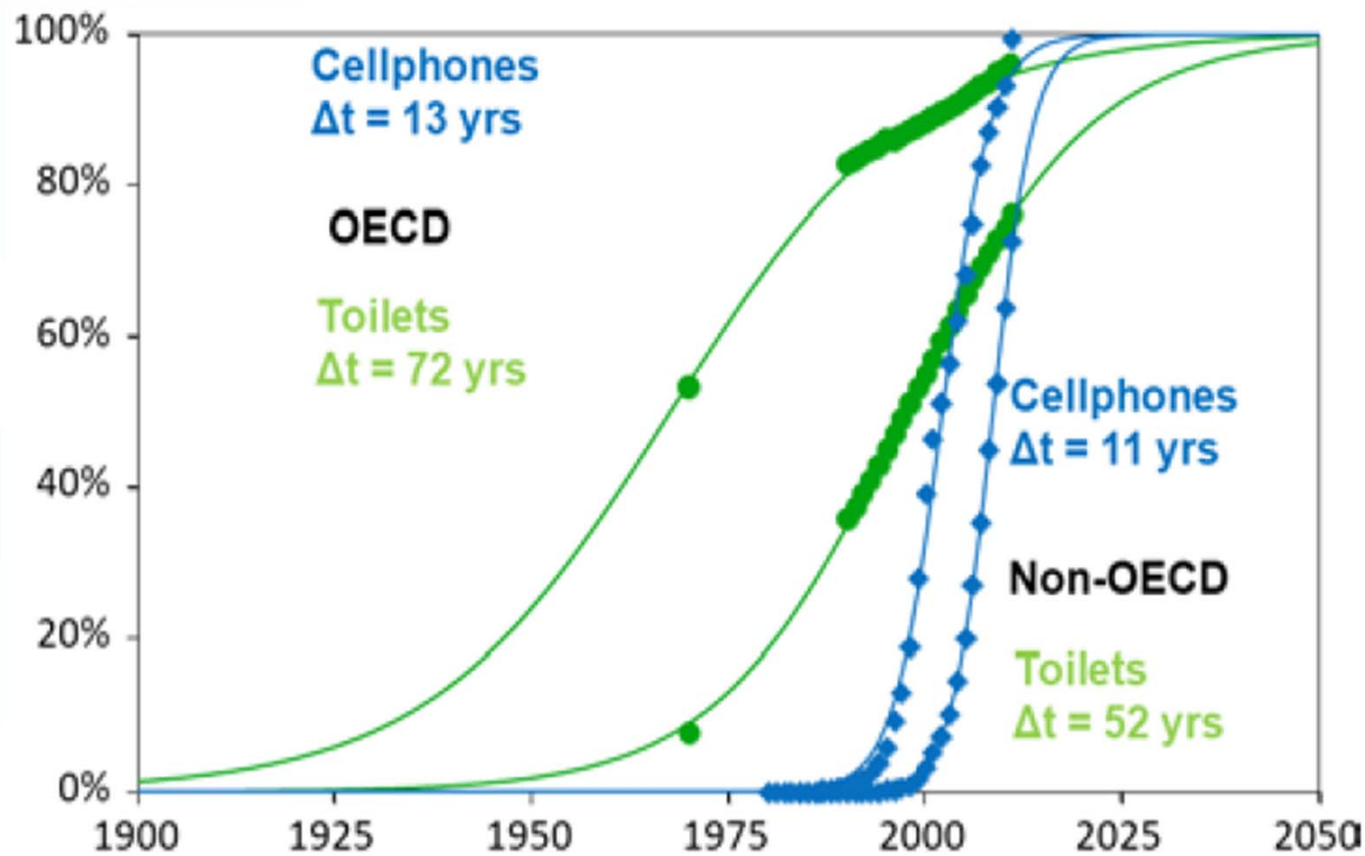
### Climate Pressure

By 2035, the bubbling effects of climate change are beginning to cause havoc in the global economy. The financial ramifications of ever more costly responses to natural disasters are leading to a funding shortfall that takes its toll on global economic activity. The consequences of these disruptions include a rising demand for environmentally responsible growth.

# Economic integration is an important factor to determine the future of the economies

- Top-down: International agreements (FTAs, DCFTAs)
- Bottom-up: Voluntary convergence of standards, investment projects, enhancement of the infrastructure
- Emerging: Digitalization allows for business to work across the borders

# Digital technology diffusion: fast and widespread



# Impacts of previous technological waves



Research on the impact of automation started during the Industrial revolution (1800s), when textile mills started replacing humans



Each wave of new technologies has been seen as a threat to jobs



But has empirically increased employment, jobs, and growth

# Goals of our workshop

- To overview estimates of the effects of digital technologies on cross-border trade in the Eurasian region
- To understand opportunities and challenges of the introduction of digital technologies in cross-border trade in the Eurasian region
- To overview the digitalization dimensions of trade agreements of various countries and consider their applicability for the countries and blocks of the Eurasian region
- To discuss the regulation of digital economy in international acts
- To consider various aspects of governance of digital technologies in the cross-border trade (especially in the aspect of big data governance)
- To review examples of successful digital cooperation in the region
- To evaluate broad impacts of digitalization of trade on the society
- To develop recommendations for deepening digital cooperation in the Eurasian region