Regional economic integration (REI) is an important strategy designed to promote international trade, economic development, peace and stability. Over the past seventy (70) years, a number of regional integration models has emerged, ranging from free trade agreements (FTAs) such as the Association of Southeast Asian Nations (ASEAN) to fully integrated regions such as the European Union (EU).

In 2014, China introduced an innovation to these traditional models of regional integration with the introduction of the Belt and Road Initiative (BRI). While the BRI shares the same major objectives and key components as existing integration models, it is unique in its vision of global markets connected by a vast physical infrastructure of road, rail, port, and ICT networks. This physical infrastructure is to be mainly financed by debt administered by the Asian Infrastructure Investment Bank (AIIB).

The BRI infrastructure is envisioned to stretch across Asia, linking Asian countries to markets in Europe, the Middle East and Africa. Around half of the countries in continental Asia that are along the Belt and Road are landlocked developing countries (LLDCs). Given the promise of increased connectivity offered by the BRI, what are the prospects for LLDCs’ international trade and competitiveness?

This study first investigates the evolution of the international trade networks in continental Asia from 1996 to 2014. Trade networks are constructed with countries as nodes and bilateral trade in commodities as links. The study finds that the continental Asian trade network has grown relatively slowly over the 19-year period under investigation and has remained loosely coupled and nebulous. LLDCs have persistently remained at the vulnerable fringes of the international trade network and have not successfully integrated into any of the trade clusters that have formed within the continent over time.

The study then investigates the vulnerability of the continental Asian trade network to shocks by evaluating the dependence of the network on the most connected countries. The study finds that the network remains heavily dependent on China to maintain the structure of the trade network. The position of LLDCs at the fringes of the trade network and the continued dominance of large economies such as China, Thailand and South Korea point to weak international competitiveness among continental Asian LLDCs.

The study thus delves deep into the case of private sector organizations in Mongolia to understand the challenges to achieving international competitiveness. Drawing on in-depth interviews of medium and large business organizations, the
study highlights the factors that have supported or hindered the international competitiveness of Mongolian businesses.

International competitiveness (Porter 1990) is driven by the presence of (1) robust domestic economic and industrial infrastructure (including energy and ICT infrastructure, as well as supporting industries), (2) factors and resources (including human capital), (3) domestic markets (that drive domestic demand for products and services), and (4) strong domestic businesses operating in a competitive domestic environment. There must also be the presence of government policy designed to support the development of domestic markets and support domestic businesses. The in-depth interviews find that:

- The domestic economic infrastructure is insufficient to support efficient and cost-effective business operations;
- Businesses continue to rely heavily on imported inputs, thus driving up prices of domestic products and services;
- While the country is rich in natural and mineral resources, the insufficient industrial infrastructure has not allowed the country to fully optimize the development of the sector;
- The development of other resources (including financial and human capital) likewise remains relatively weak;
- The small domestic market represents relatively low levels of demand, which is further driven lower given market access to international products and services; and
- Government institutions remain fragile, given the youth of the country’s capitalist democracy.

The study concludes that the increased connectivity of the BRI infrastructure will benefit the larger economies in continental Asia in the short- to medium-term, given their greater capacity to engage in international trade. Increased connectivity may counter-intuitively have the effect of stifling domestic economic growth and international business competitiveness in smaller countries, including LLDCs. In the short- to medium-term, therefore, LLDCs must direct government policy and financing to:

1. strengthen and support domestic businesses, with a particular focus on developing their capacity to innovate and engage in entrepreneurial activity (including improving export readiness);
2. strengthen domestic infrastructure and supporting industries; and
3. strengthen domestic resources (including human capital)

While increased international connectivity will ultimately be good for LLDCs, domestic economies and domestic businesses must be first strengthened in order to ensure LLDCs’ readiness to compete in the global business environment.

Reference: