

The Economics of the Belt and Road Initiative

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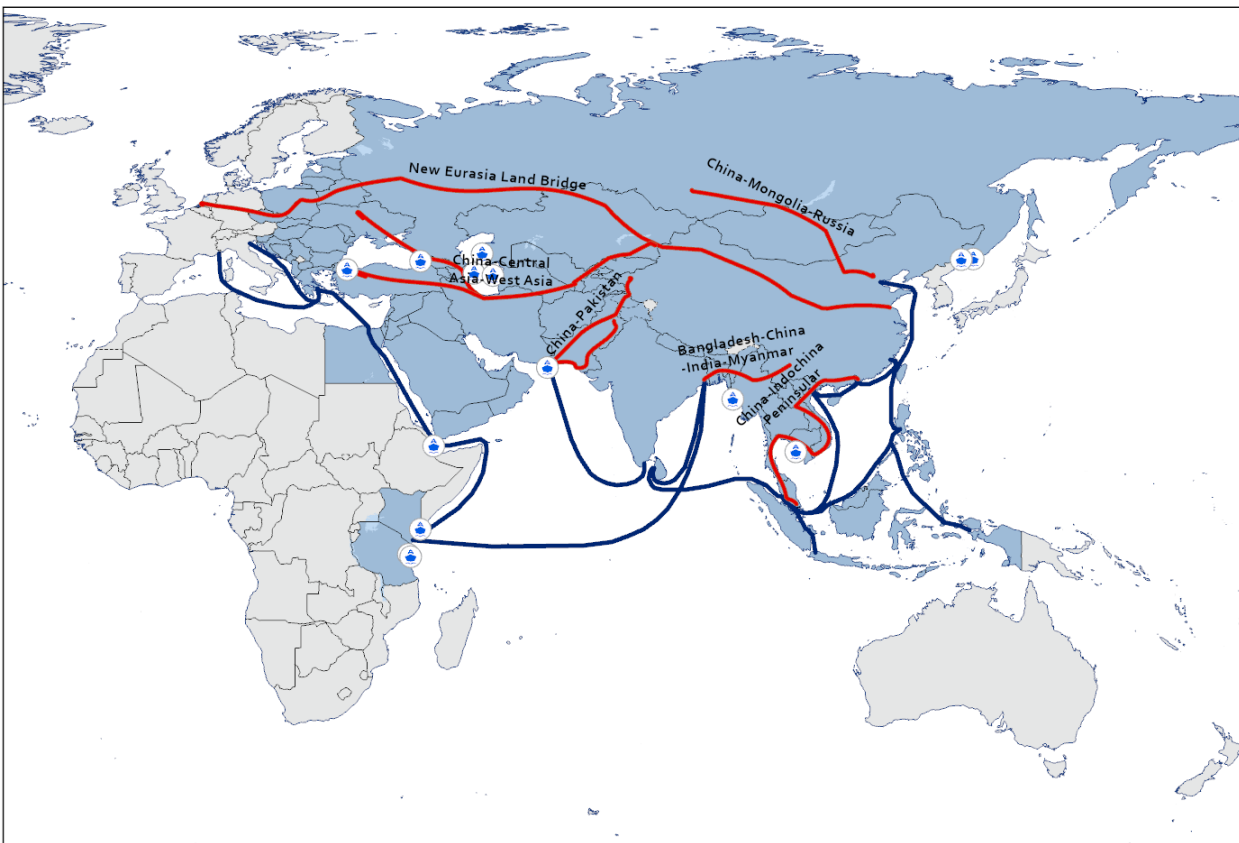
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Roadmap

- I. The Belt and Road Initiative (BRI)**
- II. Connectivity gaps in BRI economies**
- III. Assessing the economic effects of the BRI**
- IV. Conclusion**

I. The Belt and Road Initiative

The Belt and Road Initiative: What is it?



The BRI is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale

The BRI consists primarily of the Silk Road Economic Belt and the New Maritime Silk Road, with 6 economic corridors being identified

For this study, we focus on 71 economies located along the Belt and Road

- BRI economies account for over 30% of global GDP, 60% of population, 40% of world trade, and 75% of known energy reserves

The Belt and Road Initiative: Challenges and Opportunities

Opportunities

- Improving cross-border infrastructure and their management;
- Reducing trade costs, improving trade rules, boosting trade flows and GVC participation;
- Improving investment climate and boosting cross-border investment;
- Improving growth, employment and poverty reduction;
- Developing lagging and isolated regions.

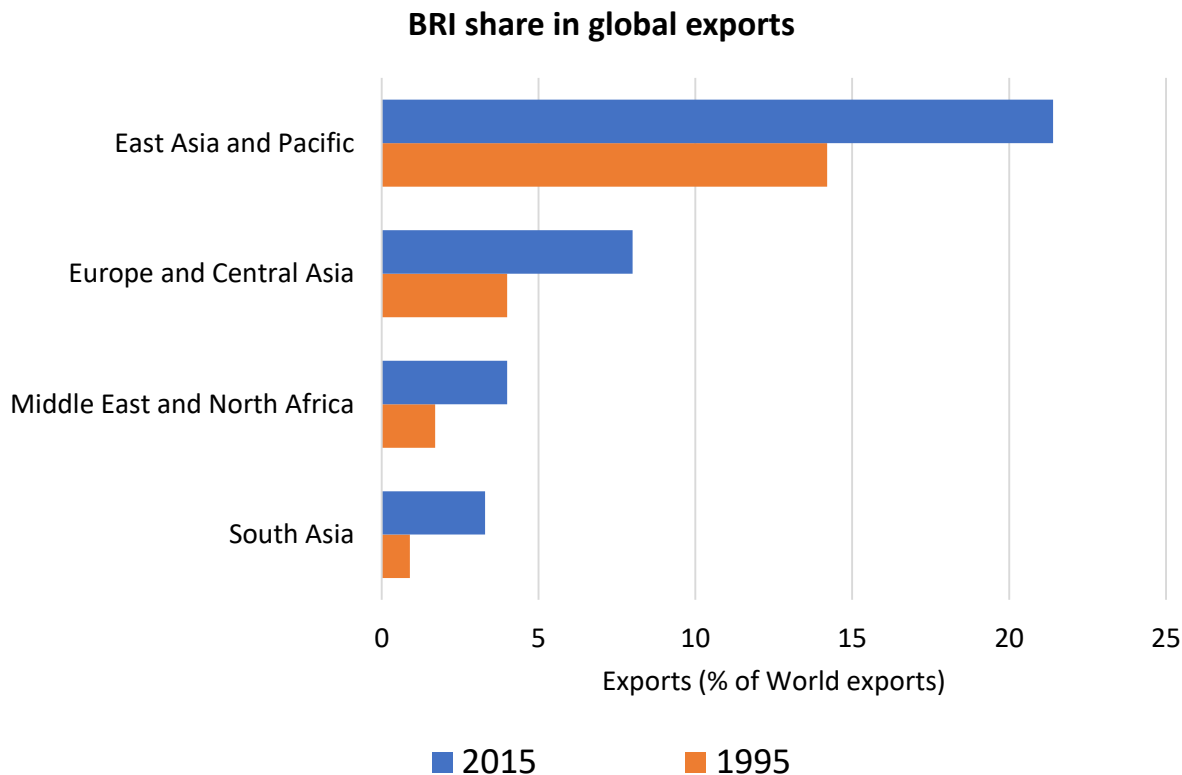
Challenges

- Ensuring that investment is efficient, in the face of high uncertainty;
 - Coordinating infrastructure investments, lack of data and transparency;
 - Managing environmental, social and governance risks;
 - Ensuring openness and transparency in public procurement;
 - Sustaining public debt.
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II. Connectivity gaps in BRI economies

BRI Trade Landscape

The share of BRI exports in global exports increased from 21% in 1995 to 37% in 2015 driven by a surge in global value chains



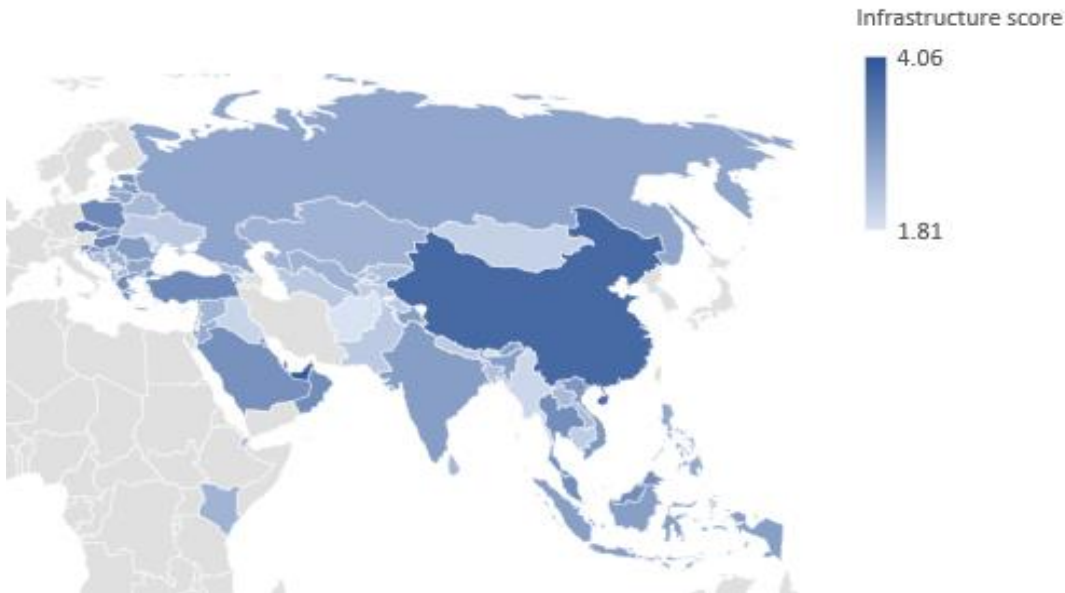
But large disparities persist across regions and countries

A gravity model shows that BRI economies under-trade with each other by 30%

Infrastructure Gaps

There are substantial transport and energy infrastructure gaps in developing economies

- Mckinsey (2016) finds that the world needs \$3.3 trillion in infrastructure annually; according to ADB (2016), developing Asia only requires \$1.7 trillion per year in infrastructure



BRI economies' average score of perceived quality of transport infrastructure is 2.7 out of 5, pointing to important gaps

But large differences:

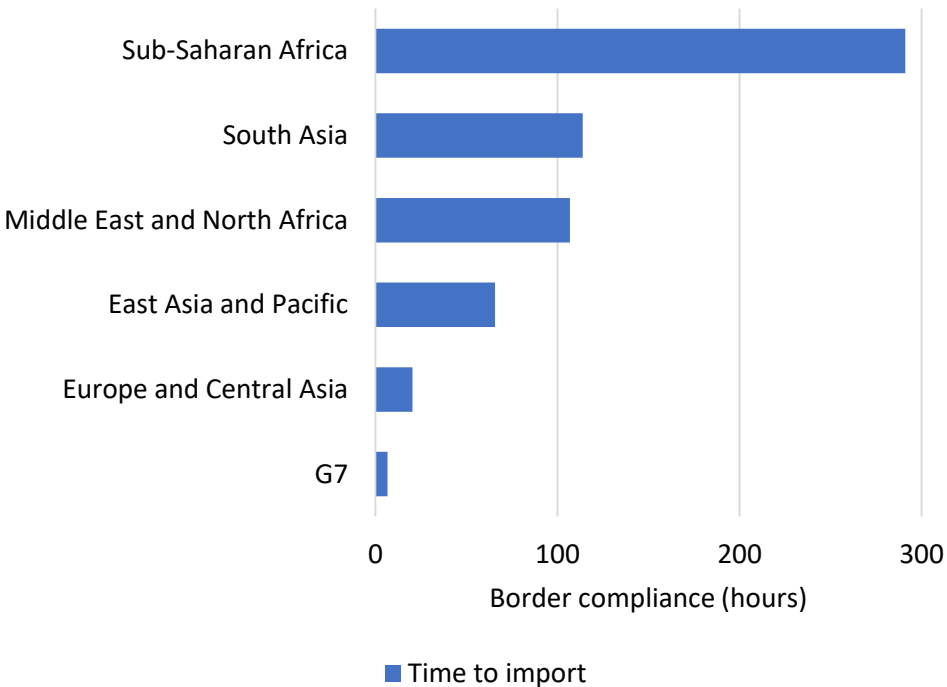
- 3 of the bottom 20 performers are BRI (Afghanistan, Bhutan, Iraq)
- As are 3 of the top 20 performers (Hong Kong SAR, Singapore, UAE)

Data Source: World Bank, Logistic Performance Indicator (LPI), 2018.

Policy Gaps

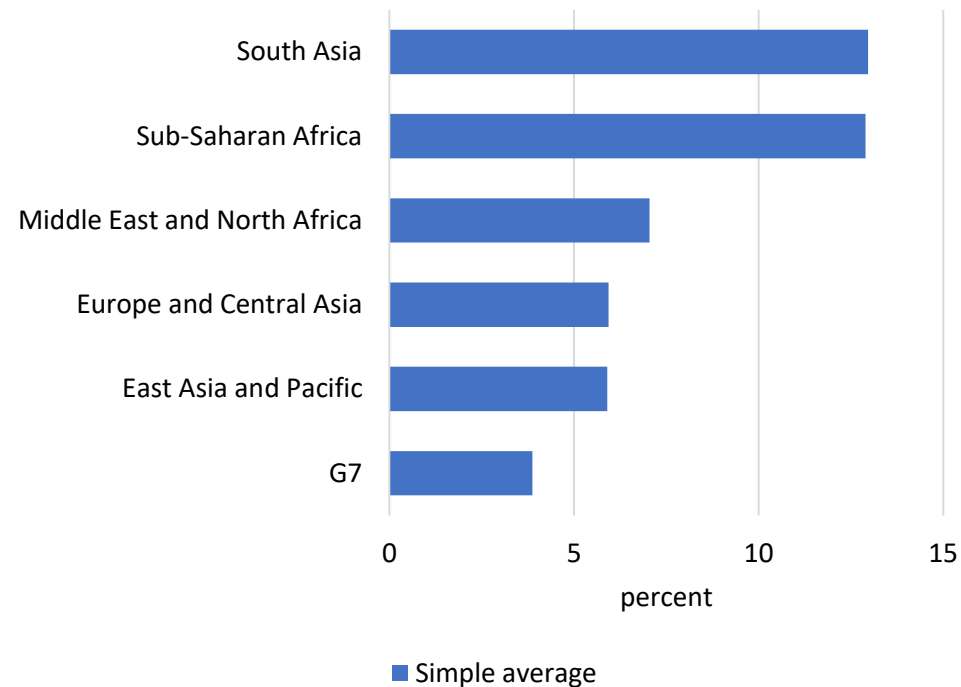
Border delays and trade policy barriers are significant in BRI economies

Time to Import in BRI countries against G7



Data Source: WB Doing Business Survey, 2013.

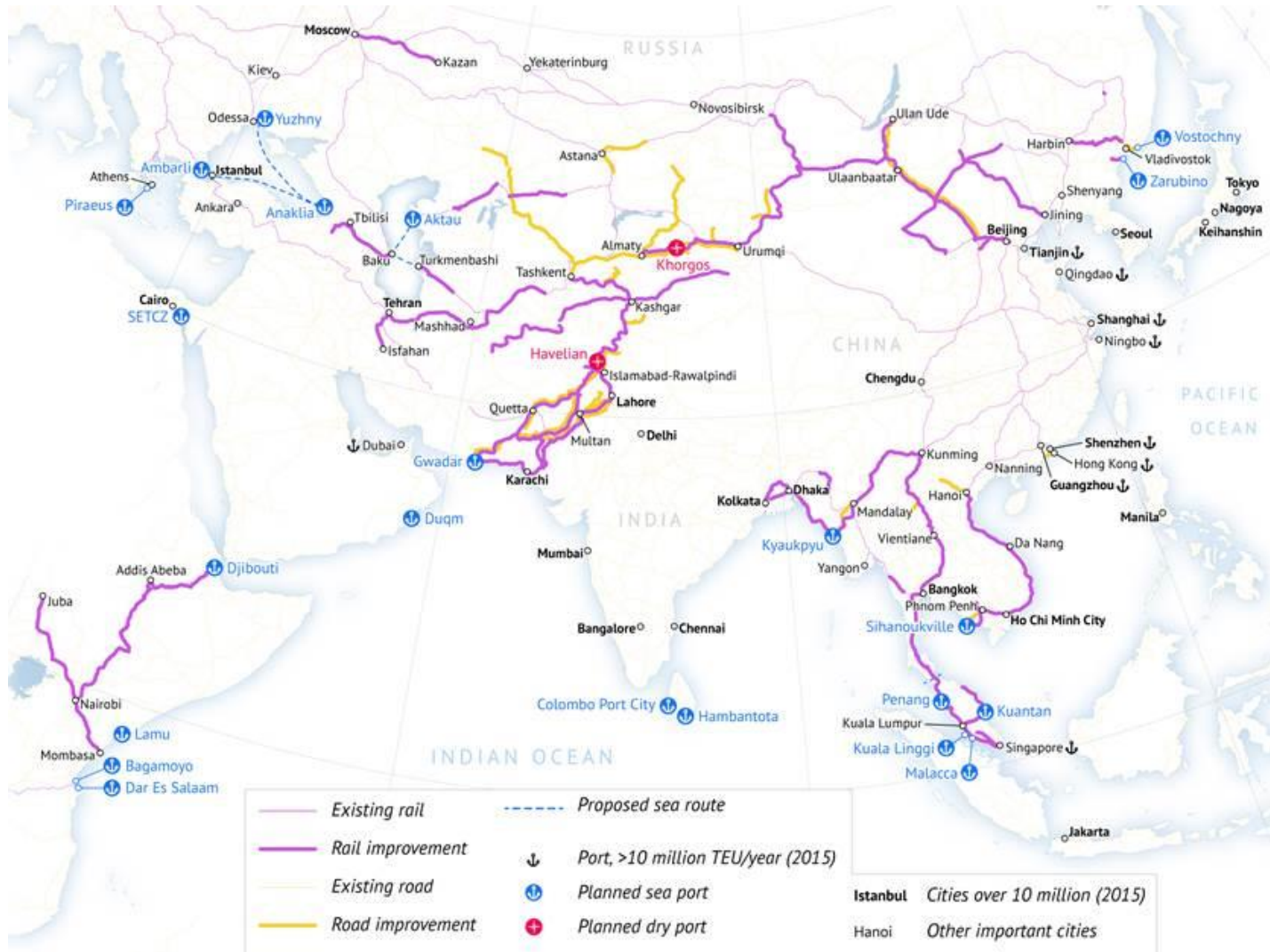
MFN Applied Average Tariffs in BRI and G7 countries, 2016



Data Source: TRAINS (WITS).

III. Economic effects of the BRI: opportunities and risks

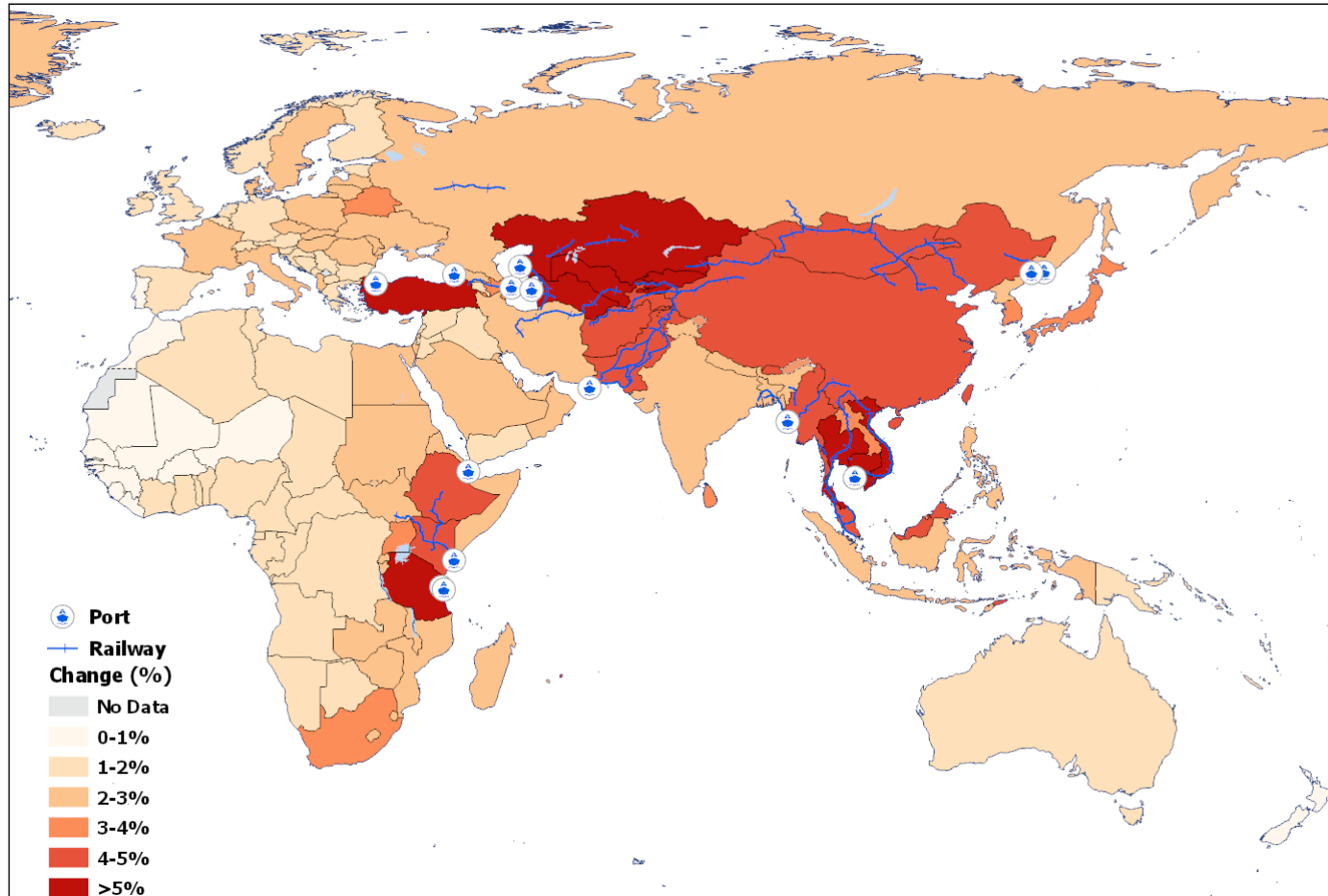
BRI-related Transport Projects: A Database



Source: Reed and Trubetsky (2018).

BRI and Time to Trade

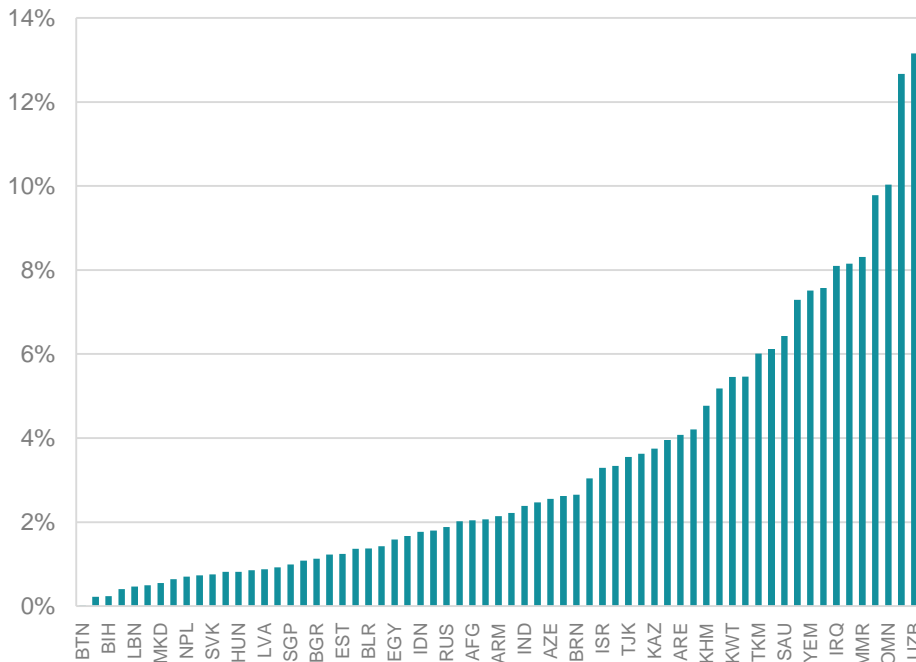
BRI projects will reduce trade times by 2.5% for the world and by 3.2% for BRI economies, thus reducing trade costs



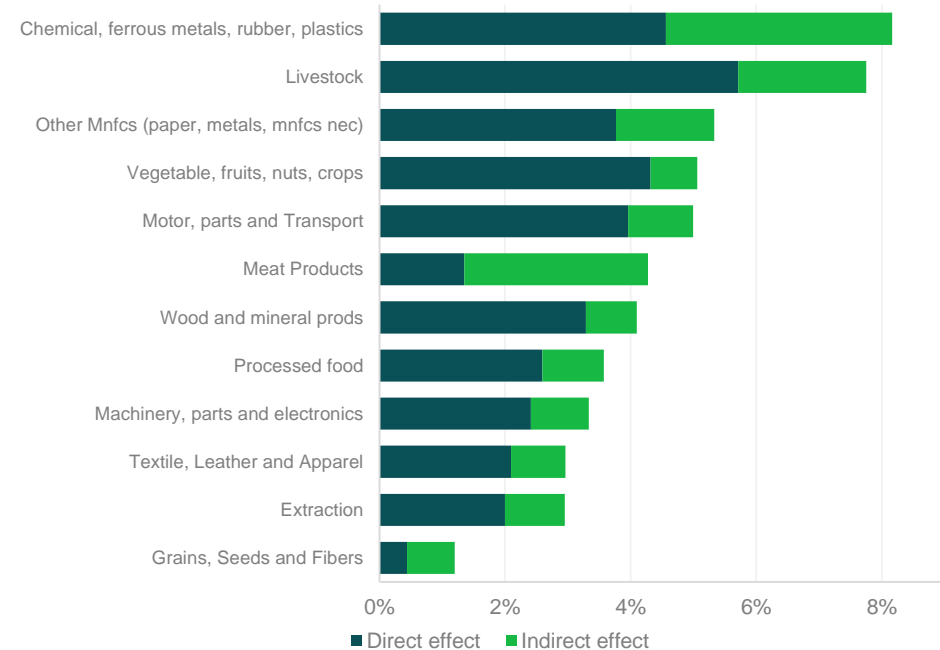
Trade Effects: A Gravity Analysis

A gravity model predicts that BRI projects increase trade among BRI economies by 4%. Industries that value time more experience the largest effect on trade

Percentage change in trade by country



Percentage change in trade by sector



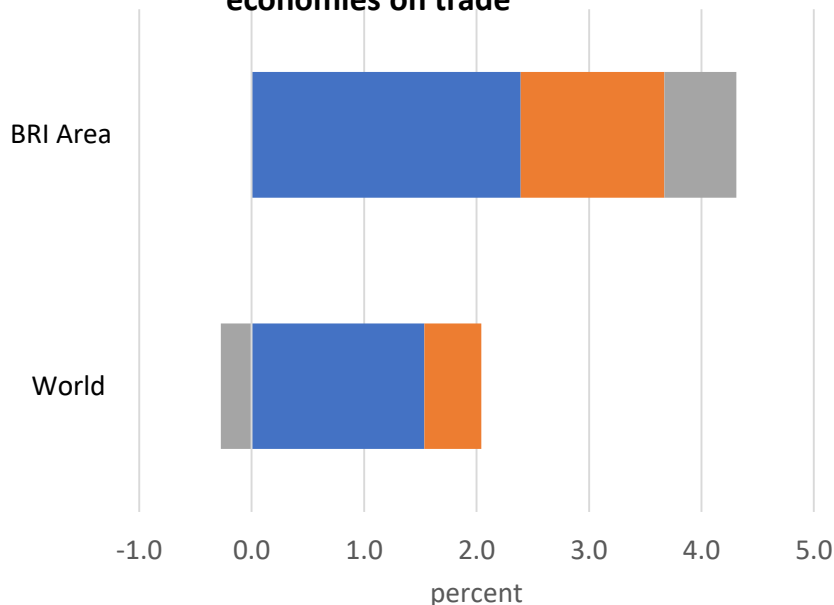
- Differences across countries reflect both the extent of improved connectivity and the export structure of the country
- Sectoral effects reflect different time-sensitivity of products (direct effect) and time sensitivity of inputs (indirect effect)

Welfare Effects: A General Equilibrium Analysis

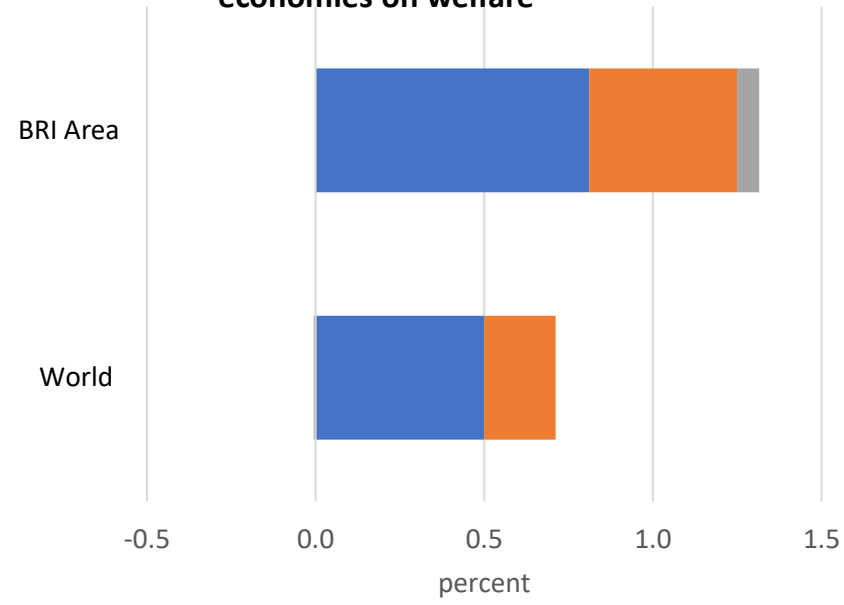
Reduction in trade costs due to the BRI boost trade, increasing welfare by up to 1.32% for BRI economies and 0.71% for the world

- Welfare gains are up to 10% in countries like Lao PDR and Cambodia

Impact of Infrastructure improvement on BRI economies on trade



Impact of Infrastructure improvement on BRI economies on welfare



■ Infrastructure improvement ■ Reduced border delays
 ■ Reduced preferential tariffs

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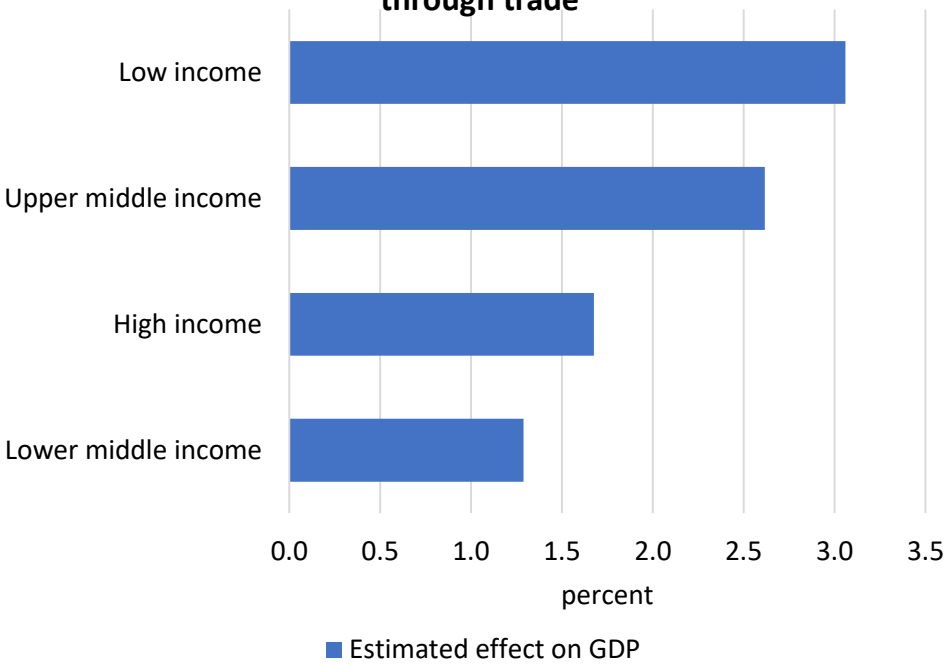
Source: Maliszewska and van der Mensbrugge (2018).

Other Effects

Effects of the BRI are larger when accounting for within country/region efficiency gains and impact through increased FDI

Results from a structural trade model

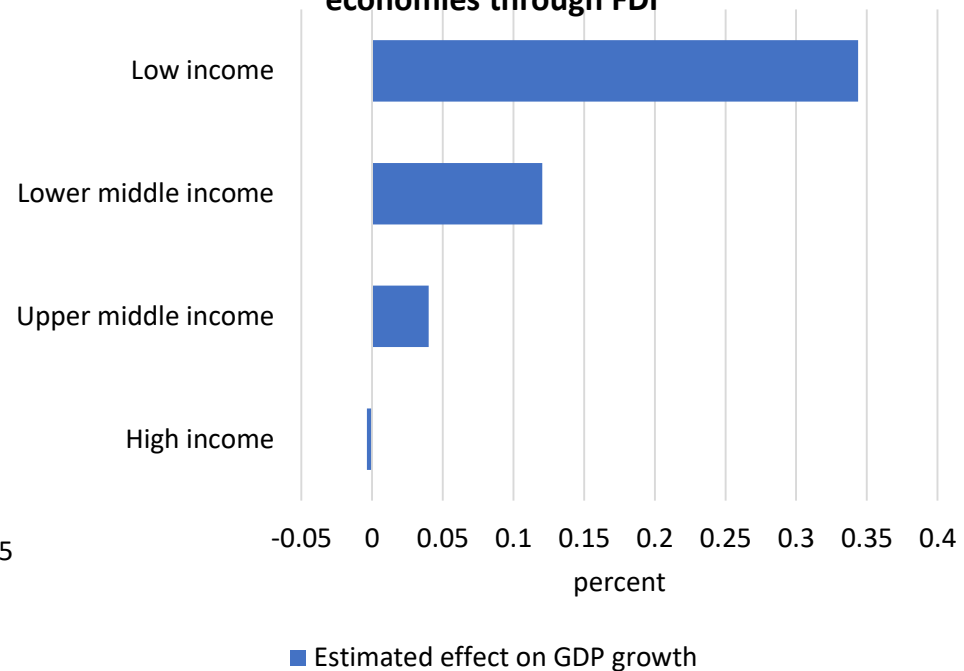
BRI transport projects on GDP of BRI economies through trade



Source: De Soyres, Mulabdic, Ruta (2018).

And from analysis of growth through FDI

BRI transport projects on GDP growth of BRI economies through FDI

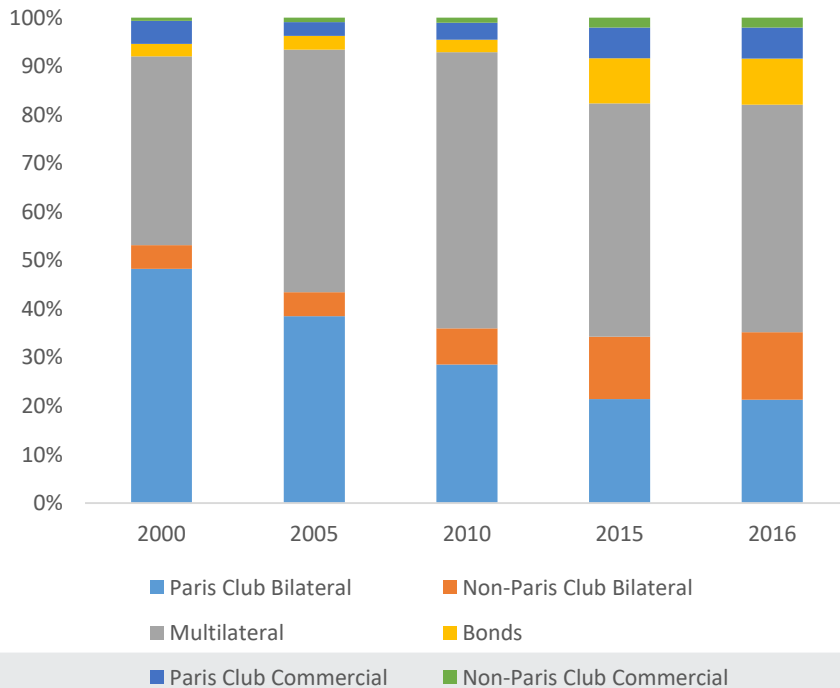


Source: Chen (2018).

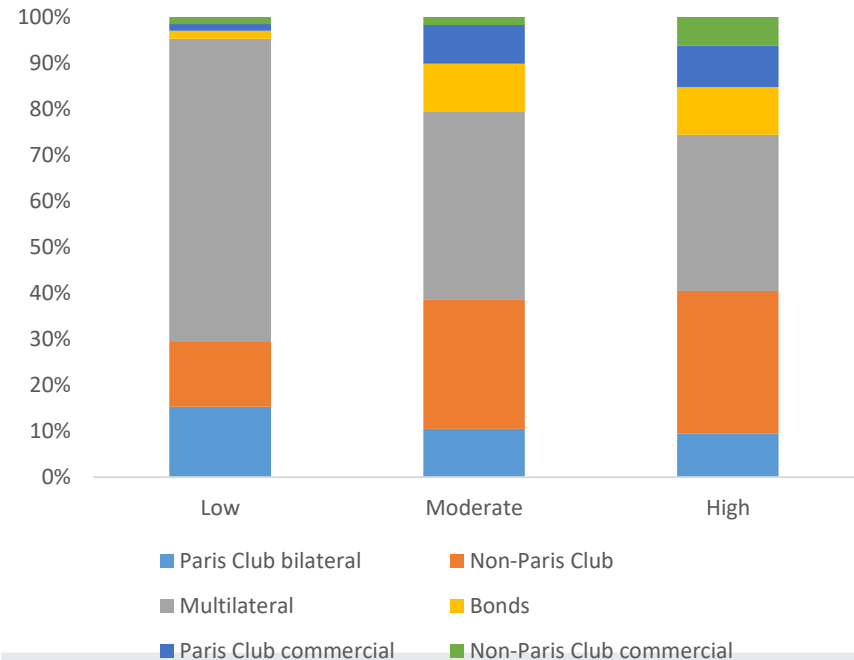
Fiscal Risks

External debt from Non-Paris Club, including China, is historically small in BRI economies. But it has increased in higher risk countries.

LIDCs –BRI: Composition of external public debt (% of total)



LIDCs –BRI: External debt by risk of debt distress (% of total)



Source: World Bank and staff estimates.

Conclusions

BRI will potentially have a large effect on trade and welfare for many countries

- All countries in the world experience a decrease in trade costs
- Not all sectors/countries will gain but potential aggregate effect is largely positive

But many policy barriers still remain in place. Potential gains of BRI would be enlarged by complementary reforms

- Need to reduce border delays, trade barriers and FDI restrictions
- But also boost investor protection, open public procurement, ensure private sector participation

Economic and non-economic risks associated to BRI projects need to be managed

- Public debt sustainability, governance, environmental and social concerns
- Coordination problems, lack of data, poor transparency magnify these challenges

THANK YOU!

For more information, visit:

<https://www.worldbank.org/en/topic/regional-integration>