

AN ECONOMIC PERSPECTIVE ON THE BELT AND ROAD INITIATIVE: 5 YEARS AFTER ITS LAUNCH

Presented at ECA Talks seminar at the World Bank

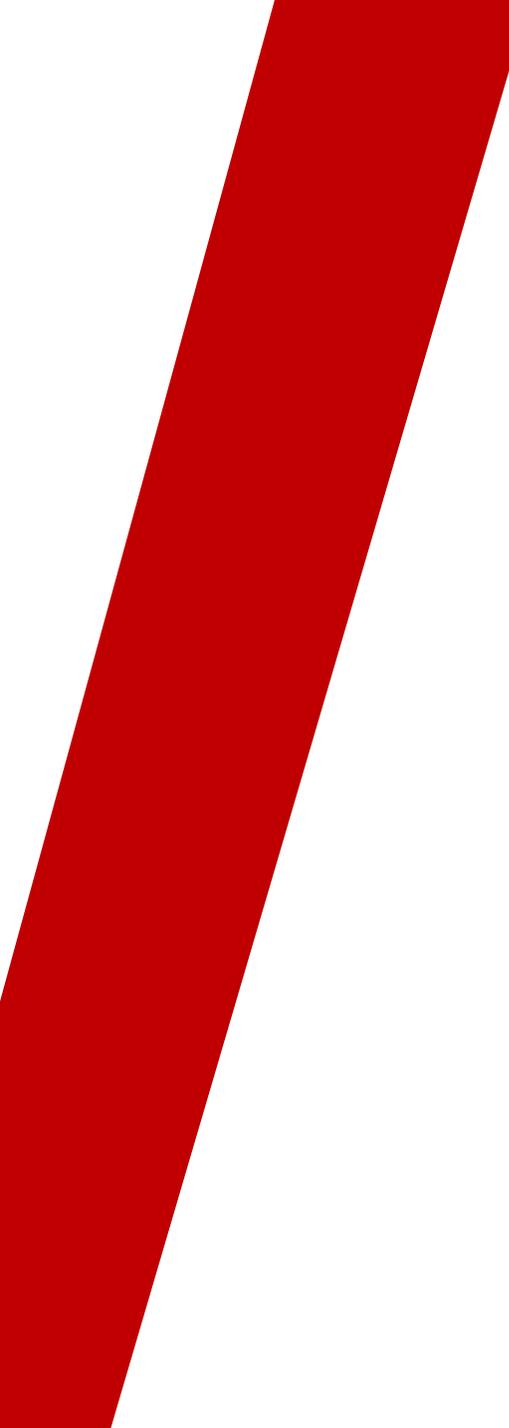
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OUTLINE

1. Belt and Road Initiative (BRI) globally – Current status and prospects 5 years after its launch
2. BRI in Central Asia and the South Caucasus – and “inside-out” perspective
3. Implications for policy (including for the World Bank Group)
4. Potential next steps in our work



1. BRI globally – status and prospects 5 years after its launch

INTRODUCTION

- BRI is **5 years old** – timely to take stock
- Focus on **economics**, not geopolitics
- Team has **15 people**, based in **11 countries**
- Bibliography with summary of **77 reports** [on Emerging Markets Forum website]

BRI IS MORE THAN INFRASTRUCTURE

Five BRI themes:

- Facilities connectivity
- Policy coordination
- Trade and investment
- Financial integration
- Cultural (people-to-people) exchange

BRI'S POTENTIAL CONTRIBUTIONS TO GLOBAL COMMUNITY

- Provides **significant amount of capital**
- Focuses on **infrastructure, agriculture, industry**
- **Reduces transport costs**, dramatically for landlocked countries
- Lays foundations for **new multimodal networks** between East Asia and rest of world
- **Reduces risks to global trade flows** (due to blockages of choke points)
- Recycles part of **China's large surpluses**

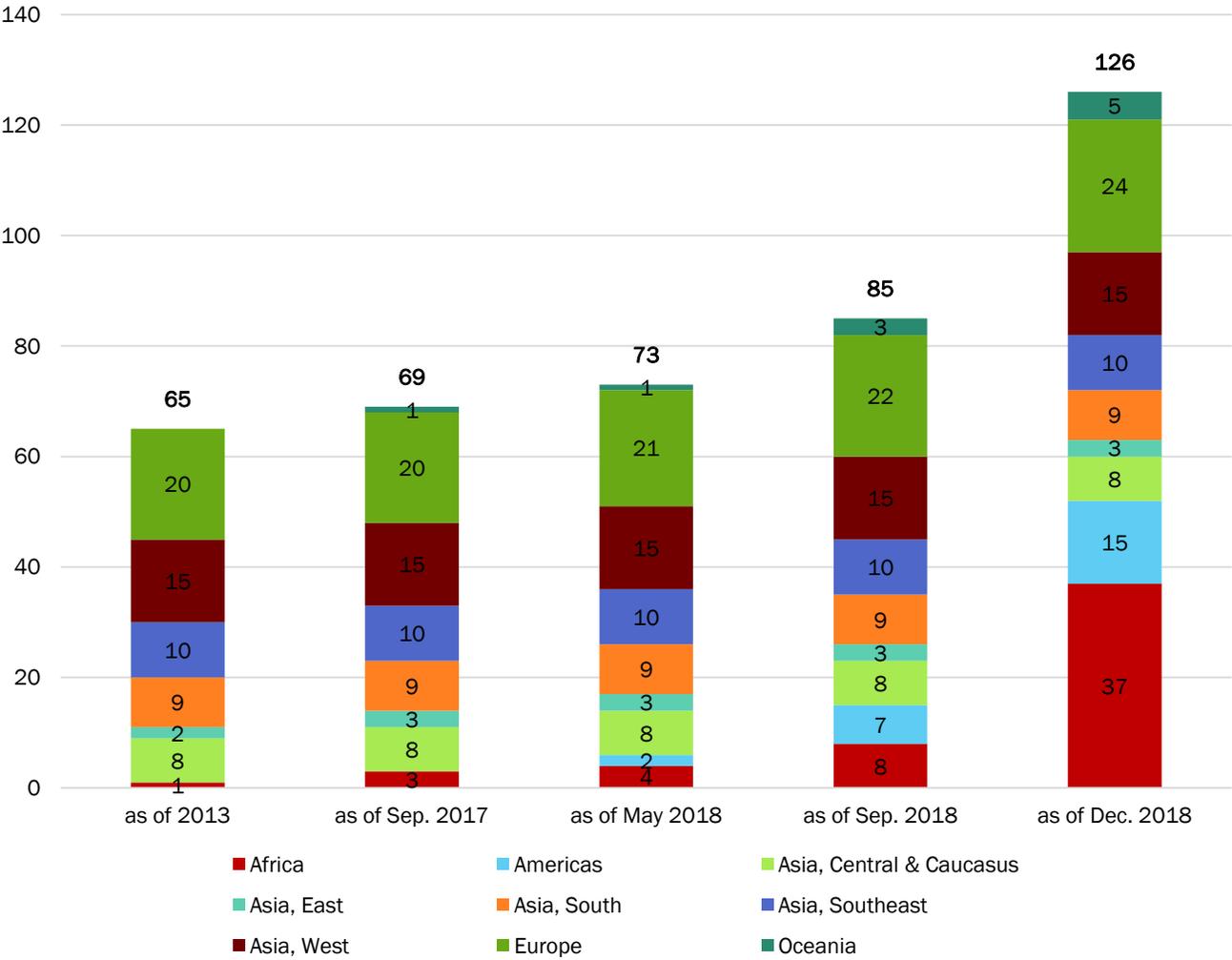
BUT... ALSO MAJOR CHALLENGES

- Many countries not creditworthy
- Most have limited fiscal headroom
- Fragile domestic governance environment
- **Limited local capacity** to evaluate projects
- Significant **operations and maintenance** burdens
- Domestic **economic and business environment**
- Complexities of **cross-border projects**

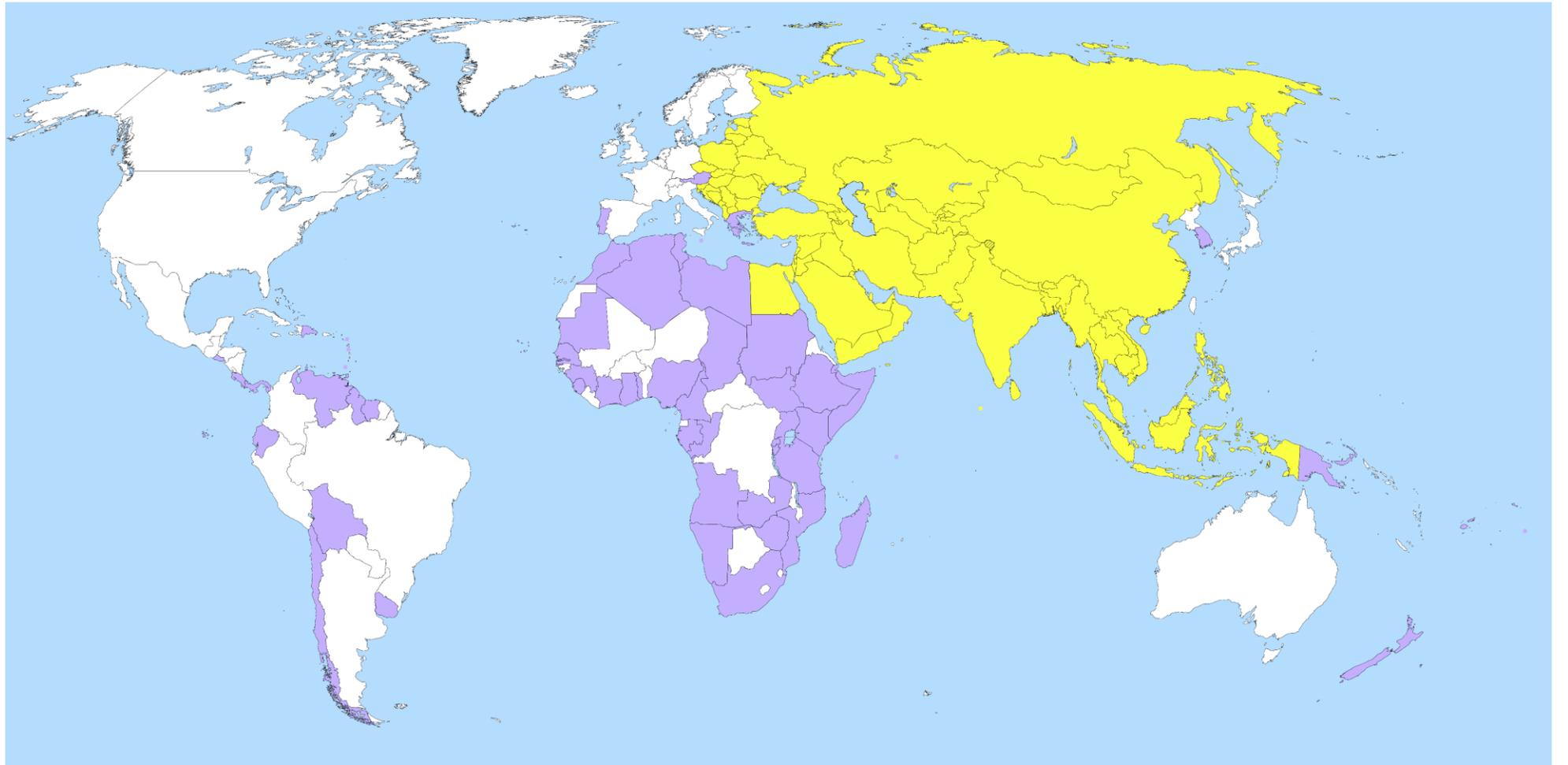
BRI AT 5: WHAT WE KNOW AND DO NOT KNOW?

- **Massive undertaking – from 65 to 126+ countries in 5 years (75+% of global population)**
- **China placing huge bet on future prospects of BRI countries**
- **No known master plan or central list of projects**
- **No official data on investments (to date or planned)**
- **Anecdotes about individual projects dominate news (Sri Lanka, Malaysia, Pakistan)**
- **Yet, many examples of successful projects and some countries with transparent programs (Kyrgyz)**

MAJOR 2018 EXPANSION INTO AFRICA, LATIN AMERICA

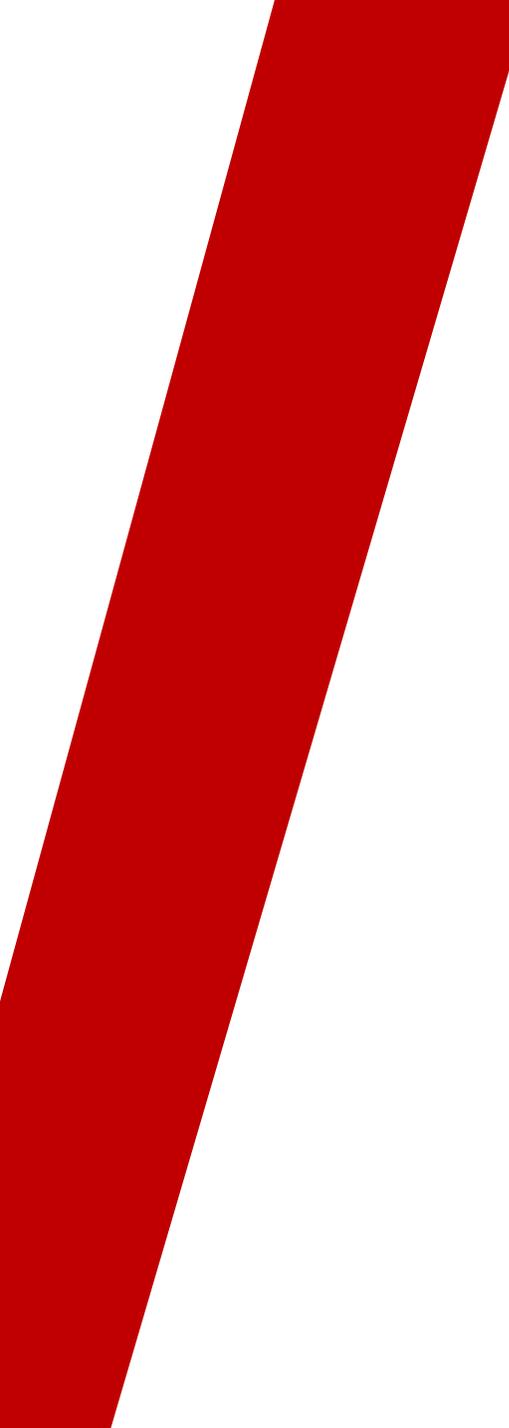


NOW, ALMOST A GLOBAL INITIATIVE



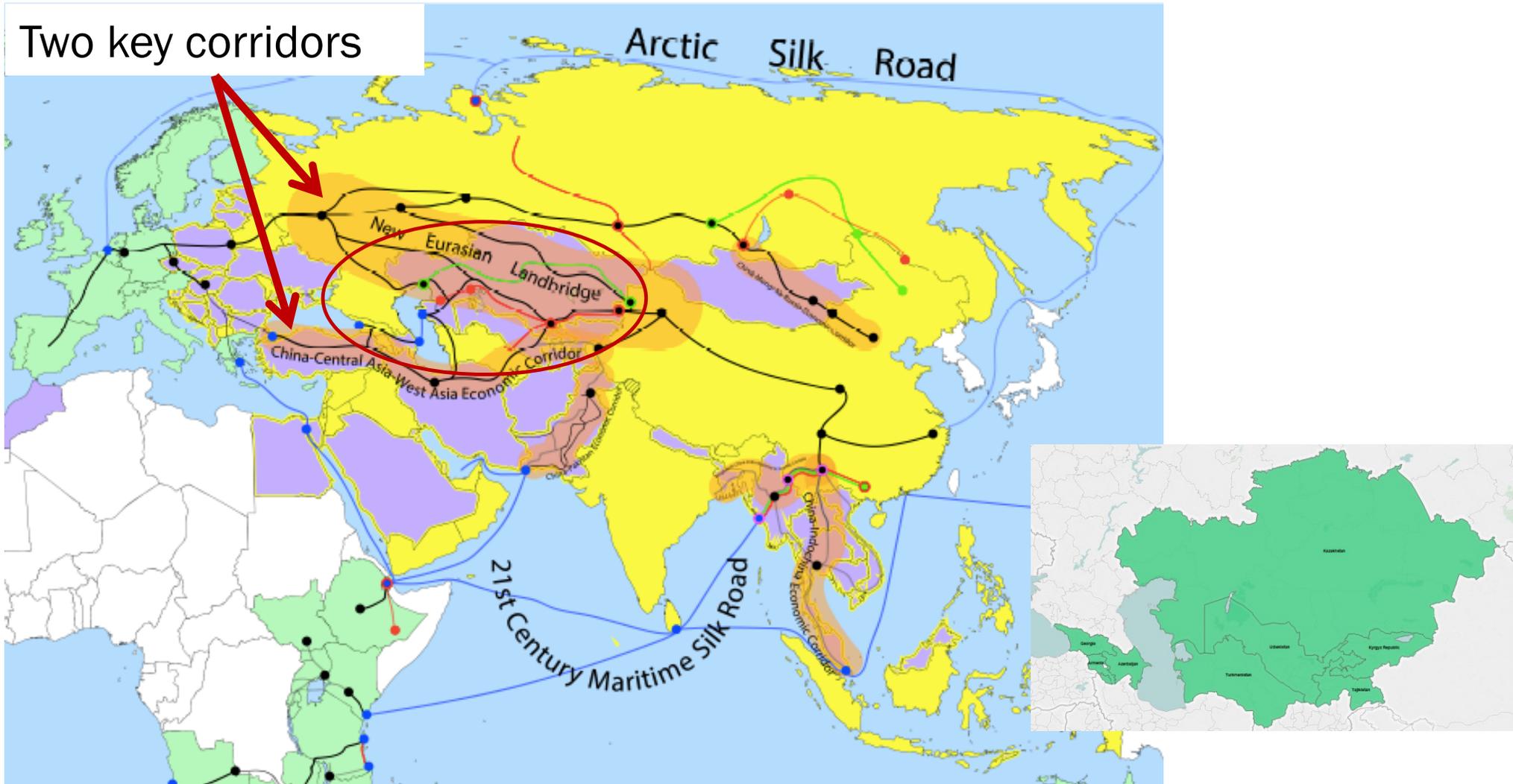
PRELIMINARY CONCLUSIONS FROM EXTERNAL DATA ON BRI INVESTMENTS

- Total Chinese exposure (equity and loans) to BRI countries is very significant and rising
- Unable to calculate China's total BRI investments
- FDI outflows to BRI countries: **\$80.7 billion** (2013-17)
- Reported commitments by all Chinese banks: around **\$400 billion** (2015-17)
- For reference, **\$490 billion** lent by WBG, ADB, AfDB, IDB (2013-17)
- Most BRI investments outside traditional Silk Route
- Oil/gas sector received most support; power next



2. BRI in Central Asia and the South Caucasus – an “inside-out” perspective

CENTRAL ASIA AND SOUTH CAUCASUS (CASC) AT CORE OF EURASIA



OUR STUDY OF BRI IN CASC

- 8 countries, 2 sub-regions
- Exploratory “inside-out” assessments by national experts (5 country/regional notes)
- Based on a structured questionnaire (scale, composition and terms, impact, benefits and costs/risks, perceptions, policy implications, future research)
 - Complemented by expert notes for major partner perspectives (China, EU, India, Russia, U.S.)
- Overview report: a preliminary assessment of current state and policy implications of BRI, and an agenda for future research
- Limited quantitative information
 - more information for Kyrgyz Republic than for other countries
- Great differences across countries
 - different BRI engagement across countries (more in CA, less in SC)

AGREEMENT ON BASIC ASPECTS OF BRI

- **Connectivity is critical** for future growth and prosperity of CASC and for greater economic integration of Asia-Europe
- **BRI supports increased connectivity** and economic growth for CASC, but risks exist
- A key factor determining success: effectively **integrate BRI investments** in national plans and priorities and their execution
- Engagement with other **partners** would help, esp. IFIs
- More **transparency** and information sharing about BRI investments needed

SIGNIFICANT POTENTIAL BENEFITS

- Short-term **macroeconomic** stimulus, but limited (KYR)
- **Transport:** reduced travel times and costs (WB study), but benefits depend on other factors also (KYR; CAREC)
- **Energy and mining:** greater resource utilization and energy security, but rent sharing uncertain (KYR, TKM)
- **Fiscal resource gains** (resource rents, transit fees, etc.) (KAZ, KYR)
- **Agriculture, industry, services:** expansion in production and employment, technology transfer, but little focus on business environment
- Access to **education, training, knowledge** networks (KAZ, UZB)
- Enhanced **economic growth** and prosperity

BUT ALSO POTENTIAL COSTS/RISKS

- **Macroeconomic:** debt; fiscal management; financial sector
- **Transport:** competition among corridors, excessive/imbanced investment, weak soft infrastructure and business climate
- **Energy and mining:** lack of diversification, unfair rent sharing, lack of transparency, environmental and climate risks
- **O&M:** lack of attention and of capacity
- **Employment and technology transfer:** too limited
- **Governance:** lack of transparency, low priority investments, corrosive impact on domestic politics and bureaucracy

“DOGS THAT DIDN’T BARK”

- Are there potential **downsides/losers** from greater connectivity? (loss of productive capacity, spillover of “bads”)
- How to go beyond transit corridors to **economic corridors**?
- What’s the role of BRI in the critical **water** sector?
- How will BRI work in the **ICT** sector?
- How about the **quality** of Chinese investments?
- What role for the **private sector** in driving investments?
- What role for **regional cooperation and regional institutions**?
- Is there (perception of) “**predatory**” engagement?



3. Implications for policy

IMPLICATIONS FOR POLICY (1)

(FOR BRI COUNTRIES, CHINA AND THE WBG)

- Integrate BRI investments with **national and regional plans**, and justify by rigorous **cost-benefit analysis**
- **Balance connectivity infrastructure** along corridors, across hard and soft infrastructure (logistics, border management, etc.), and with investments in secondary and tertiary infrastructure
- Balance new investments with strengthened **O&M capacity and finance**
- Address **social and environmental impacts** and related concerns of population for all BRI investments in infrastructure, mining, industry, services and agriculture

IMPLICATIONS FOR POLICY (2)

(FOR BRI COUNTRIES, CHINA AND THE WBG)

- Focus on improving **business climate**, creating **local jobs**, facilitating **technology and knowledge transfer**, building **institutional capacity**
- Provide **transparent planning/design, procurement, implementation, monitoring and reporting** of investments. All relevant information in public domain, especially when public resources or liabilities involved
- Monitor and respect **macroeconomic constraints** (especially debt sustainability)
- Work **with neighbors** to ensure regional coherence, learning and leverage
- Work **with other international partners** (multilateral and bilateral) in implementing BRI-related activities
- Strengthen, effectively use **regional institutions** in support of BRI investments



4. Potential next steps in our work

POTENTIAL NEXT STEPS

- Publication of book in fall 2019 (OUP)
- Consultation with stakeholders in the region and in China
- Dissemination in OECD countries
- Follow-up research on selected issues