Belt and Road Economics
Potential Effects, Complementary Reforms, Risk Mitigation

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I. A World Bank Group study on the BRI

• This study compiles data and provides evidence to inform discussions
• The goal is to help participating countries to maximize the gains and minimize the risks
• The focus is on connectivity and economics
The Belt and Road Initiative

Focus: 71 economies located along the Belt and the Road (in blue)

- Over ¼ of BRI projects are on transport infrastructure

On aggregate, BRI economies accounted for close to 40% of global trade and 35% of FDI inflows in 2017

But large disparities persist across regions and countries

- “missing” trade and investment for BRI economies are estimated to be 30% and 70%, respectively
II. Connectivity gaps in BRI economies
Transportation infrastructure provision and quality tend to be low in BRI countries relative to advanced economies.

BRI economies’ average score of perceived quality of transport infrastructure is 2.7 out of 5; G7 average score is 3.9.

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)

Policy Gaps

Border delays and trade and FDI policy barriers are significant in BRI economies; trade agreements are shallow and fragmented.

### Time to Import in BRI countries against G7

- **Sub-Saharan Africa**
- **Middle East and North Africa**
- **South Asia**
- **East Asia and Pacific**
- **Europe and Central Asia**
- **G7**

- **Bars**:
  - Time to import

### MFN Applied Average Tariffs in BRI and G7 countries, 2016

- **Audience**:
  - South Asia
  - Sub-Saharan Africa
  - Middle East and North Africa
  - Europe and Central Asia
  - East Asia and Pacific
  - G7

- **Bars**:
  - Simple average

**Data Source:**
- **Tariffs**: TRAINS (WITS).

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The graphs illustrate the time taken to import goods in BRI countries compared to G7 countries, and the applied average MFN tariffs in BRI and G7 countries for the year 2016.
III. Effects of BRI transport infrastructure
BRI-related Transport Projects: A Database

Source: Reed and Trubetsky (2018).
Travel times for BRI economies could decline by 12% along economic corridors and by 3% with the rest of the world, thus reducing trade costs.

The analysis assumes all projects are fully implemented.

Individually, some infrastructure is estimated to be of little value (risk of stranded infrastructure).

Source: de Soyres, Mulabdic, Murray, Rocha and Ruta (2018).
Note: For each country, the aggregate proportional decrease is computed as the average of proportional shipping time decrease with all other countries in the world.
Improved integration could increase global real income between 0.7 and 2.9% and real income for BRI economies between 1.2 and 3.4%.

- Real income gains are above 5% for countries like Pakistan, Kyrgyzstan, Thailand, Cambodia, Bangladesh.

Accounting for the costs of infrastructure investment, however, may lead some countries to have negative welfare effects.

Source: de Soyres, Mulabdic and Ruta (2018) and Maliszewska and van der Mensbrugghe (2018).
IV. Complementary policies and institutions
Policies to Promote Integration and Corridor Development

Real income gains for BRI economies are estimated to be between 2 and 4 times larger if reforms that reduce border delays and trade restrictions are implemented.

Along corridors, travel times fall by up to 25% if border delays are reduced by half.

In landlocked countries in Central Asia, reduction in border delays boost income gains by several order of magnitudes (from less than 1 to 9% for Uzbekistan).

Source: Maliszewska and van der Mensbrugghe (2018).
Reduction in trade costs can lead to labor displacement and rising spatial inequalities.

- For example, barriers to labor mobility exacerbate spatial inequalities in terms of future opportunities in Kazakhstan

Specific reform options:

Reducing direct and indirect constraints to internal labor mobility – e.g. addressing distortions in land and housing markets

Policy options to deal with adjustment such as social security and labor policies (e.g. education and training)

Source: Lall and Lebrand (2018).
V. Managing the risks
Fiscal Risks

External debt from Non-Paris Club, including China, is historically small in BRI economies. But it has increased in countries at higher risk of debt distress, particularly Low Income Developing Countries (LIDCs)

Source: Bandiera and Tsiropoulos (2019).
The estimated BRI debt financing is expected to be significant in some countries that have already debt vulnerabilities.

Debt financed investment is expected to help achieve higher growth. But in many BRI countries, the growth required to stabilize the debt ratio is much higher than historical/projected growth.

Source: Bandiera and Tsiropoulos (2019).
Managing Fiscal Risks

Enhance transparency on terms and conditions of BRI projects

China has yet to engage in a cooperative framework with other creditors for debt restructuring, posing a risk to China and BRI recipient countries

Terms of loans from Chinese government and banks should be carefully assessed to limit fiscal risks for BRI recipient countries

• Comprehensive fiscal frameworks with proper reporting of government operations, adequate monitoring and management of fiscal risks, multi-year budgets

• Collateralized borrowing (estimated at 1/3 of Chinese infrastructure loans) poses significant risks, including for debt restructuring

• Most BRI countries would benefit from improved PPP and procurement regulatory frameworks
Governance Risks

Public procurement
The limited available data indicate that Chinese firms account for the majority of BRI procurement contracts
• Hard to assess how aligned such practices are with internationally accepted good practices due to lack of data/information

Moving towards international good practices (e.g. open and transparent public procurement) essential to select most efficient provider in BRI projects

Corruption
Corruption risk associated to large infrastructure projects; it varies across BRI countries and correlates closely with the quality of domestic institutions

Good governance at the heart of corruption mitigation: need for mechanisms addressing problems of monitoring, reporting, and enforcement (e.g. feedback surveys)
Environmental and Social Risks

Social risks include resettlements and influx of workers associated to transport projects.

Direct environmental impacts include:
- Ecosystem – e.g., habitat and ecosystem services losses (figure shows BRI projects in relation to Conservation International’s Biodiversity Hotspots).

Indirect environmental impacts include:
- E.g. emissions due to changes in economic activity – analysis shows that effects are low for the world, but possibly large for individual countries.

Adopt international good practices + Strategic Environmental Assessment (SEA) at the corridor level.

VI. Advancing the Belt and Road Initiative

• Realizing the gains from BRI will require complementary actions on the parts of all participants in the BRI
• It will also require managing the substantial risks that large projects entail
• Improved transparency, multilateral cooperation and domestic reforms are needed
THANK YOU!

For more information, visit:
