



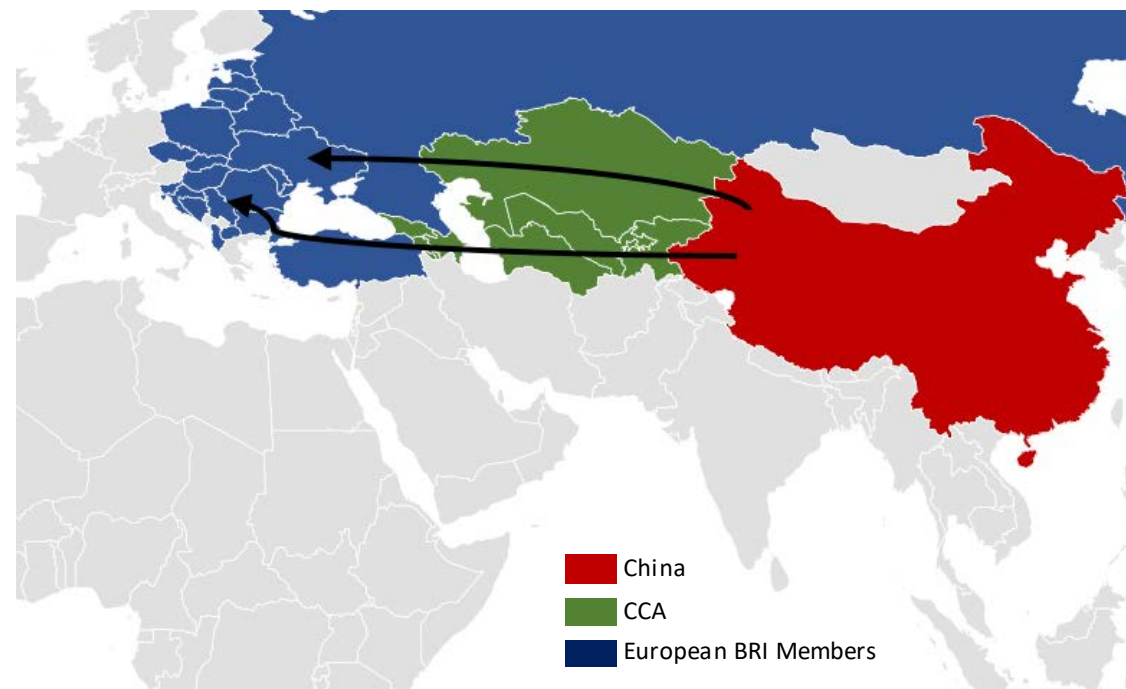
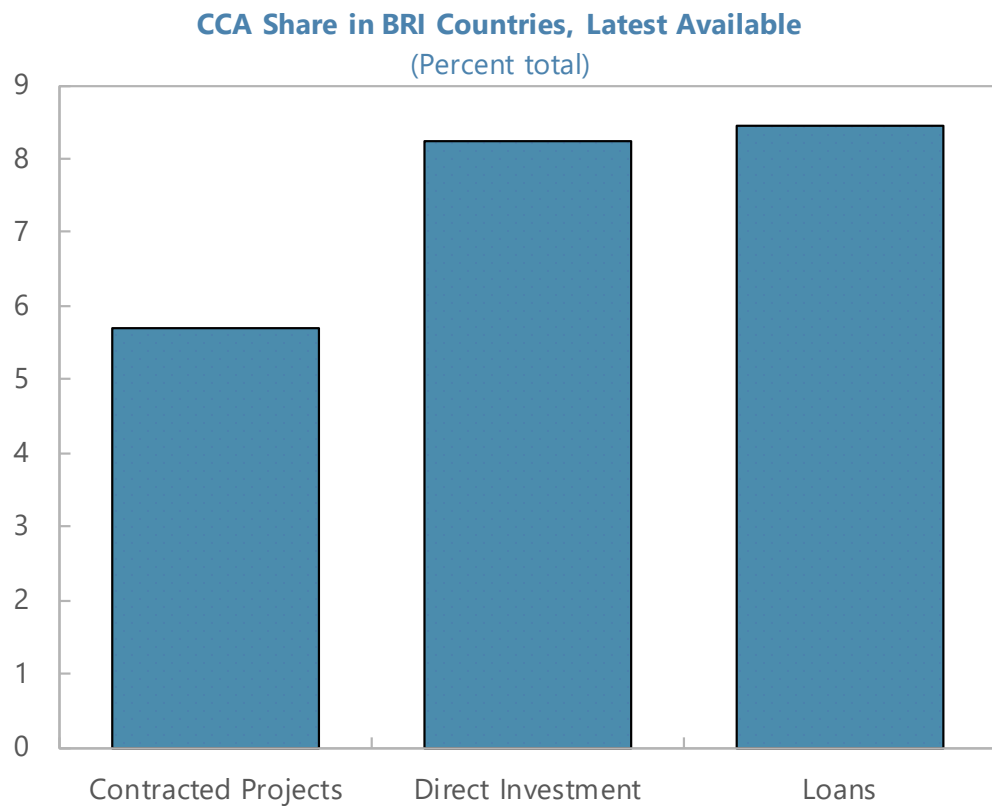
How to Maximize the Benefits of BRI for the CCA Region while Minimizing Risks?

Emerging Markets Forum
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Gerzensee, Switzerland, January 2019

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The CCA region is a small part of China's exposure to BRI countries...

...but a crucial link between China and Europe



Sources: CEIC, MOFCOM, and IMF staff calculations.

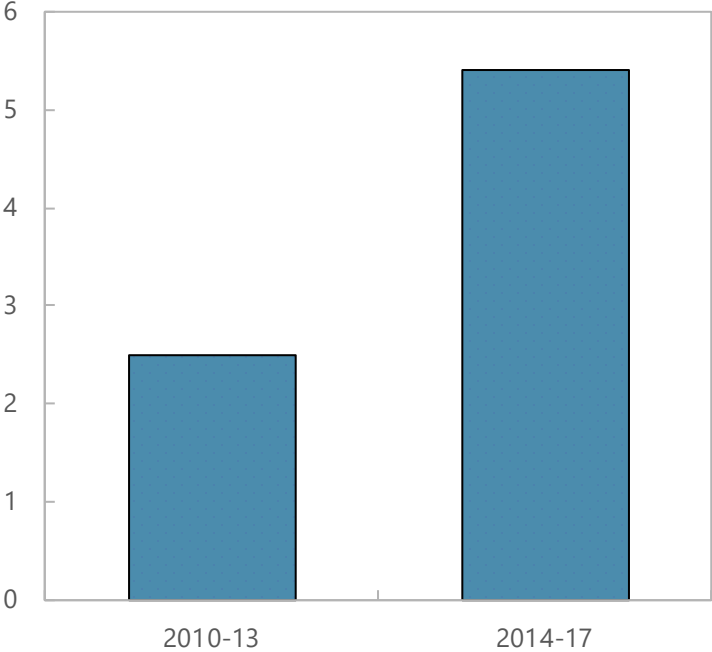
The BRI has strengthened economic ties with China

Higher direct investment...

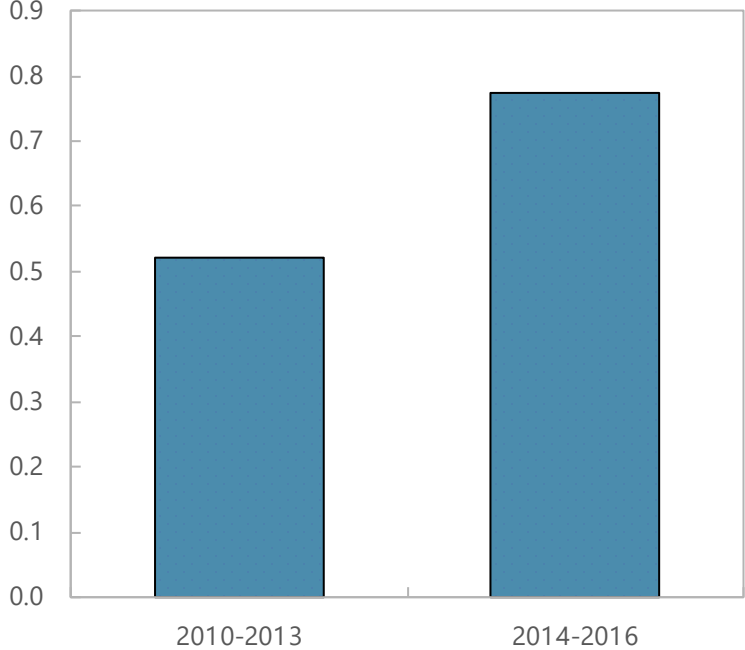
more loans...

and more trade

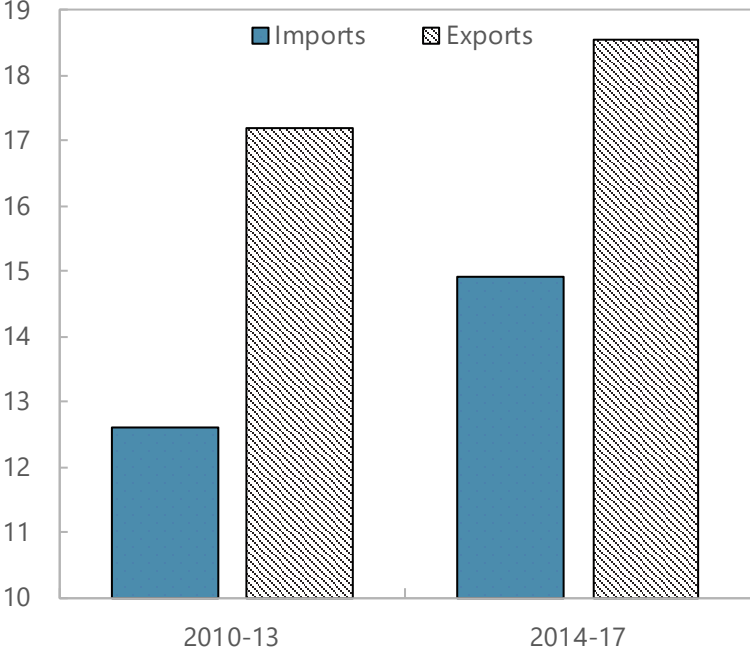
Direct Investment from China
(Average stock in percent GDP)



Bilateral Loans from China
(Percent GDP, four year average)



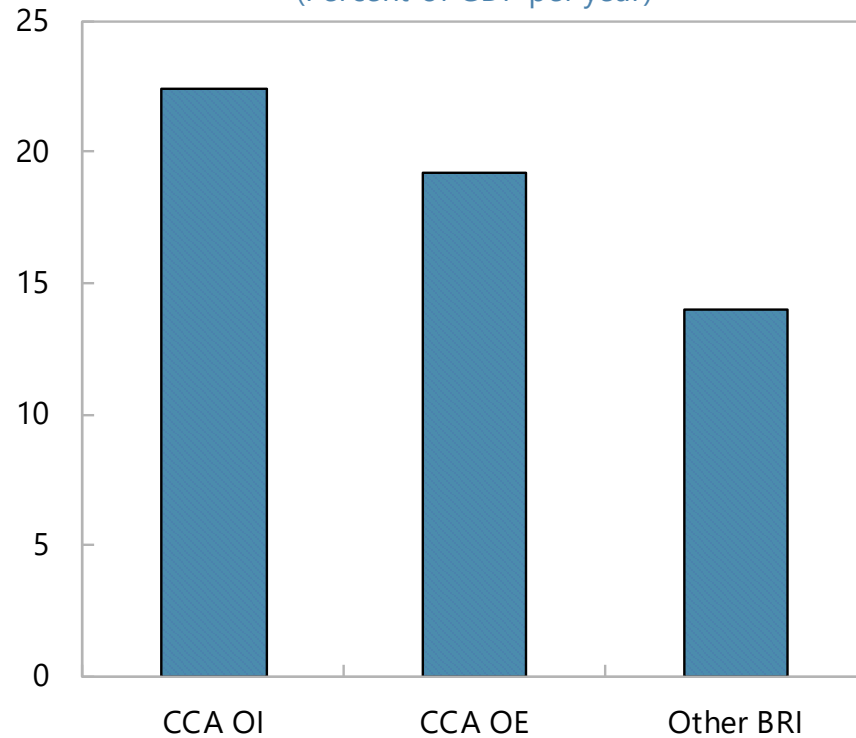
China Share of Total CCA Imports and Exports
(Percent)



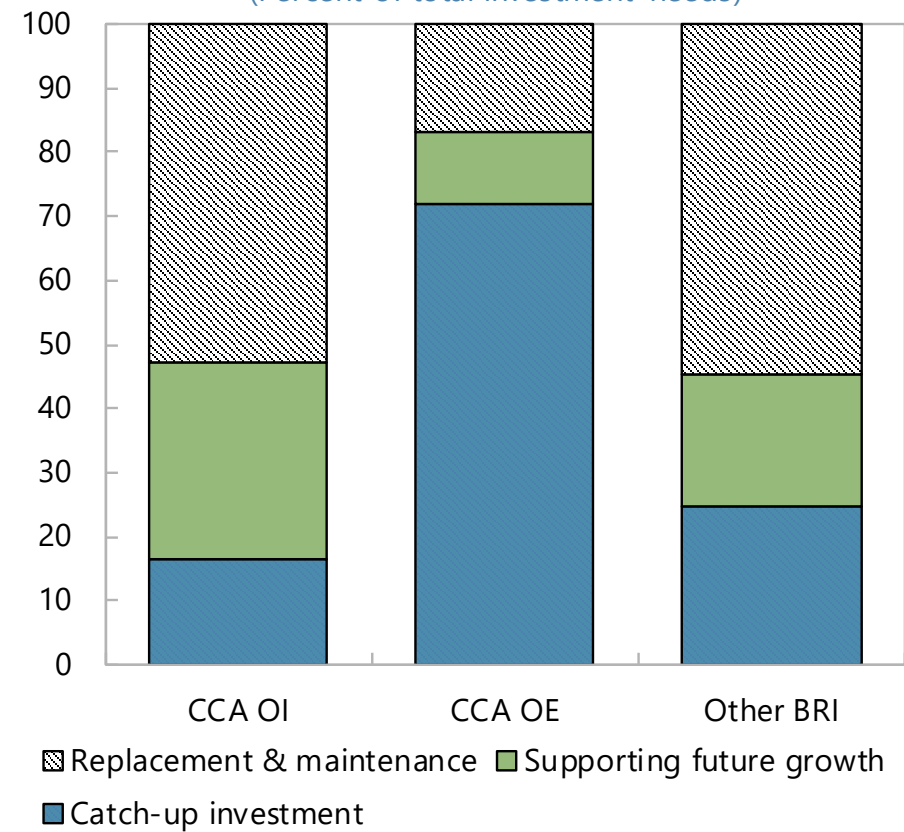
Note: China's share of total CCA imports and exports excludes Tajikistan.
Sources: CEIC; IMF *World Economic Outlook*; and IMF staff calculations.

The BRI helps CCA economies meet significant infrastructure needs...

Total Investment Needs, 2018-22
(Percent of GDP per year)



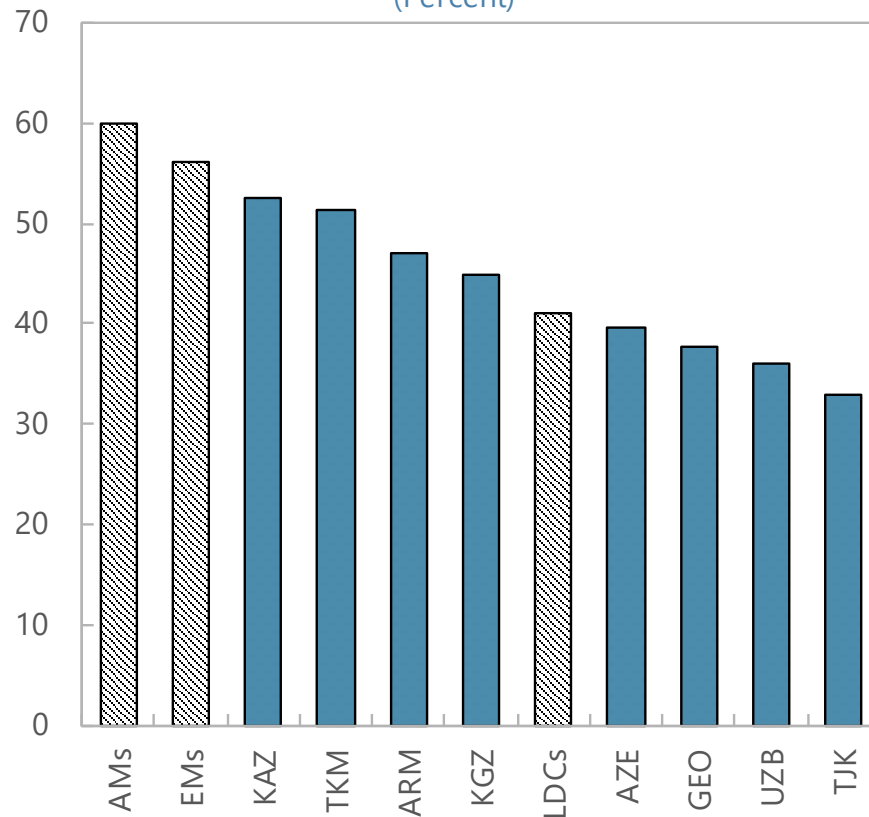
Breakdown of Estimate Infrastructure Needs
(Percent of total investment needs)



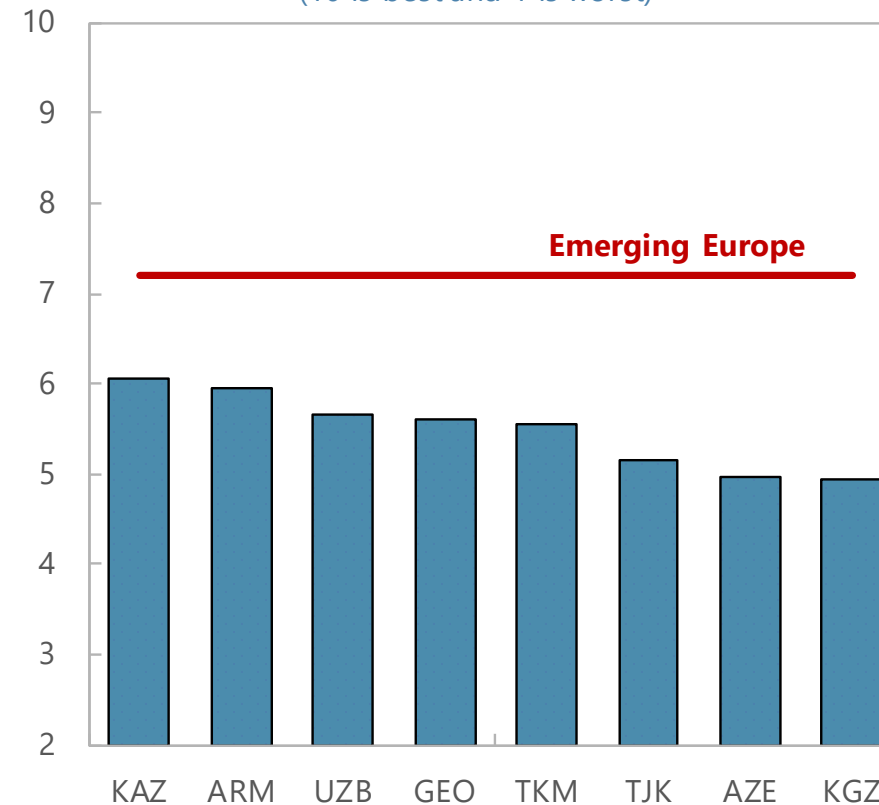
Sources: EBRD *Transition Report 2017-18, Sustaining Growth*, and IMF staff calculations.

...promotes integration into global supply chains, and makes growth more inclusive

Global Value Chain Participation Rate
(Percent)



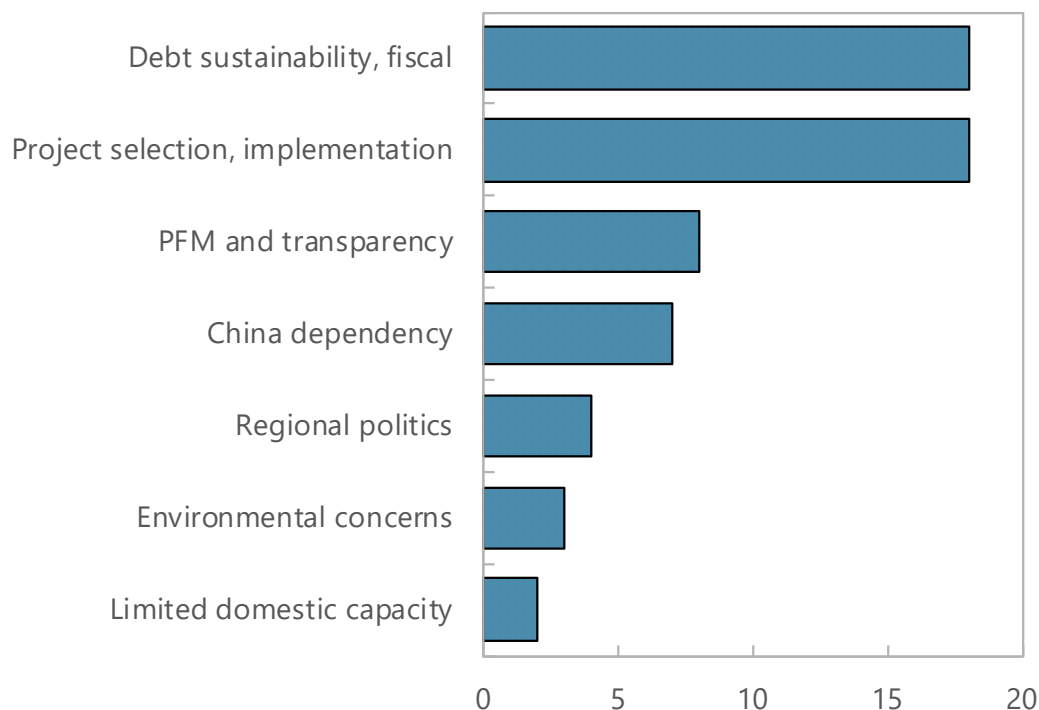
Inclusiveness
(10 is best and 1 is worst)



Sources: Lenzen M, Kanemoto K, Moran D, and Geschke A (2012), UNCTAD-Eora GVC Database, EBRD *Assessment of Transition Qualities 2018*, and IMF staff calculations.

The BRI also carries significant risks.

BRI: Risks to Recipient Countries
(Main risks reported by country desks)



Risks Perceived by the Private Sector

Difficulty absorbing capital flows: capital controls, lack of FX and other financial market development.

Increase in foreign sector liabilities: lack of hedging facilities, local currency bonds.

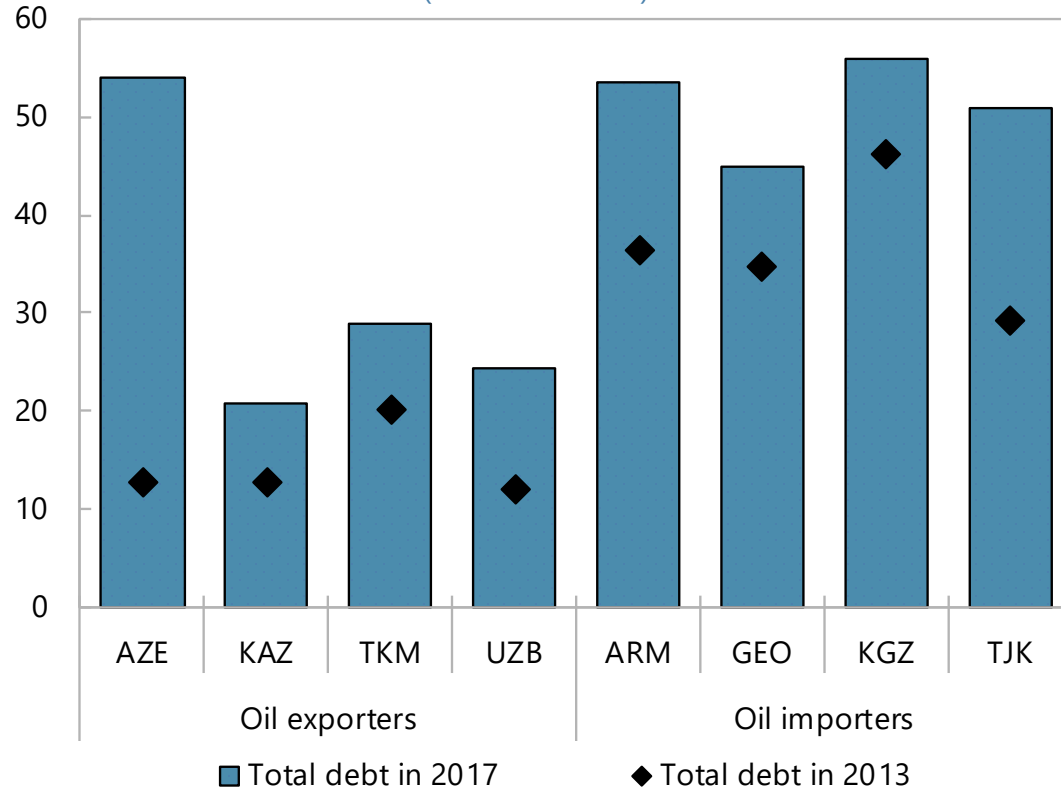
Cross-border risks: project selection process, legal issues surrounding PPP contracts, investment protection mechanisms.



Source: IMF

Fiscal risks: debt sustainability, weak governance

Gross General Government Debt, 2017
(Percent of GDP)



Areas of Weakness in Fiscal Governance

Oversight of aggregate fiscal risks from public sector entities

Transparency, competition, and procurement

Multi-year perspective in fiscal planning, expenditure policy, and budgeting



Source: National authorities, and IMF staff calculations.

Maximizing the Benefits while Minimizing Risks Requires Action by All

China

Clear and transparent BRI framework

- Recently established International Development Cooperation Agency could help coordination

CCA

Control fiscal risks

- Strengthen fiscal frameworks
- Ensure debt sustainability

China

Co-finance with other development partners

- Strong interest in participation given compatible goals
- Assurances of project quality

CCA

Strengthen public investment management

- Find projects that contribute to growth the most

China

Support capacity development in recipient countries

- China-IMF Capacity Development Center
- Four training events outside China annually

CCA

Help attract private sector participation

- Improve legal framework (PPP, procurement, investor protection, business environment)



How to Ensure BRI does not Compromise Debt Sustainability?

- Concessional support
- Foreign direct investment rather than lending
- Increase public saving to make room for additional investment



How to Strengthen Fiscal Frameworks to Ensure BRI Success?

- Adopt a medium-term perspective.
- Make budgets comprehensive and transparent.
- Ensure that fiscal plans and rules are consistent with debt sustainability.
- Identify and analyze fiscal risks, and enhance risk management.



How can the IMF Help?

- Improve analytical tools to assess debt sustainability and macroeconomic implications of BRI projects.
- Convey the analysis and encourage policy change through:
 - Surveillance
 - Programs
 - Capacity Development
- CCA regional technical assistance center



Source: IMF

