


The Belt and Road Initiative and its effect on Central Asia

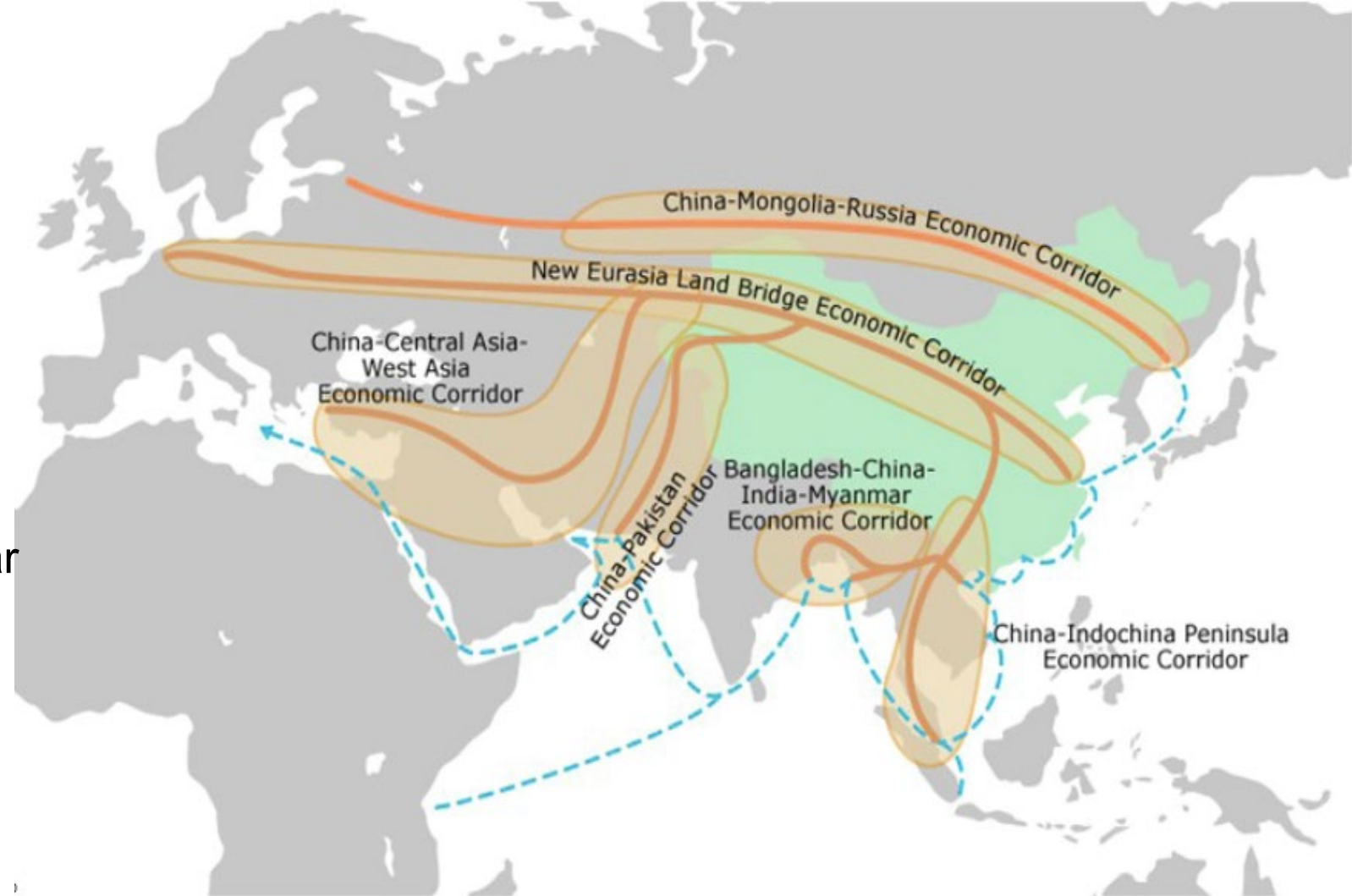


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BRI has the potential to reorient trading routes, with China at the center, but with impacts in Central Asia

Projected Trade Routes:

- China-Mongolia-Russia
- New Eurasian Land Bridge
- China-Central Asia-West Asia
- China-Indochina Peninsula
- China-Pakistan
- Bangladesh-China-India-Myanmar



BRI: Challenges and opportunities

Opportunities

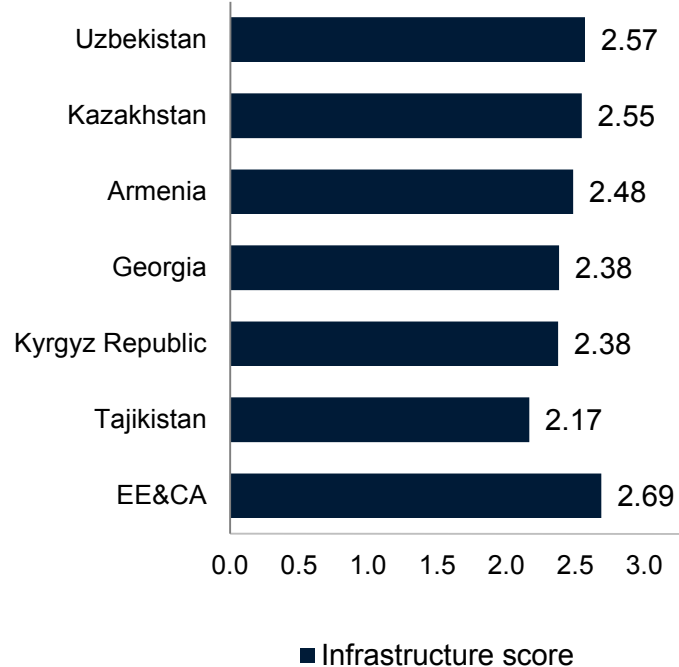
- Improving cross-border infrastructure and their management;
- Reducing trade costs, improving trade rules, boosting trade flows and GVC participation;
- Improving investment climate and boosting cross-border investment;
- Improving growth and employment and reducing poverty;
- Developing lagging and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

Challenges

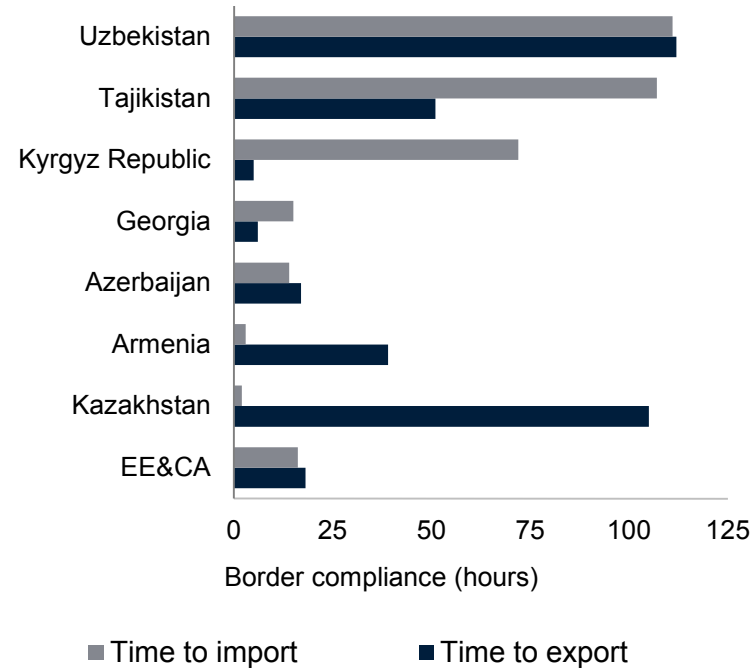
- Ensuring that investment is efficient, in the face of high uncertainty;
- Coordinating infrastructure investments, lack of data and transparency;
- Managing environmental, social and governance risks;
- Ensuring openness and transparency in public procurement;
- Sustaining public debt.

Central Asian countries experience higher barriers for international trade.

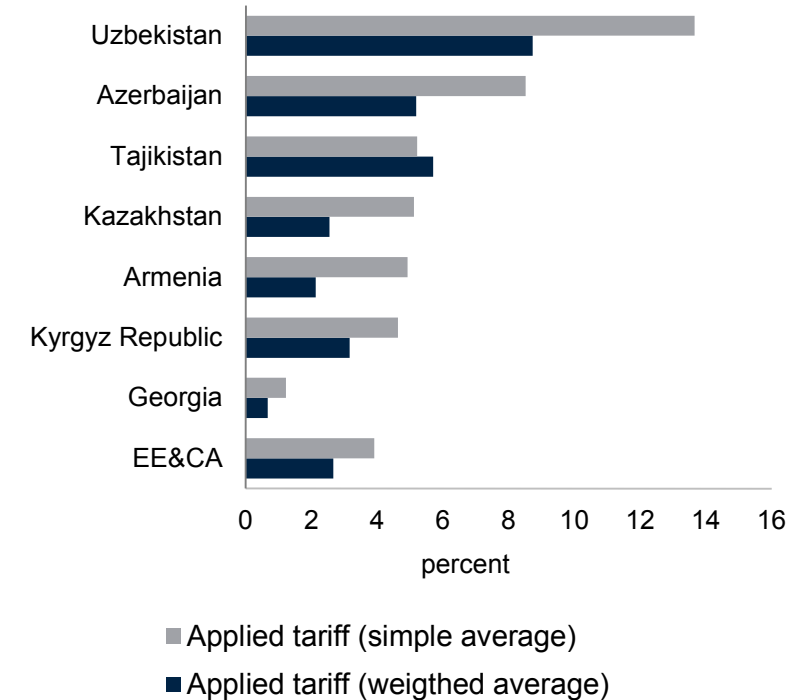
A. Score of perceived quality of transport infrastructure, 2018



B. Time to import and export

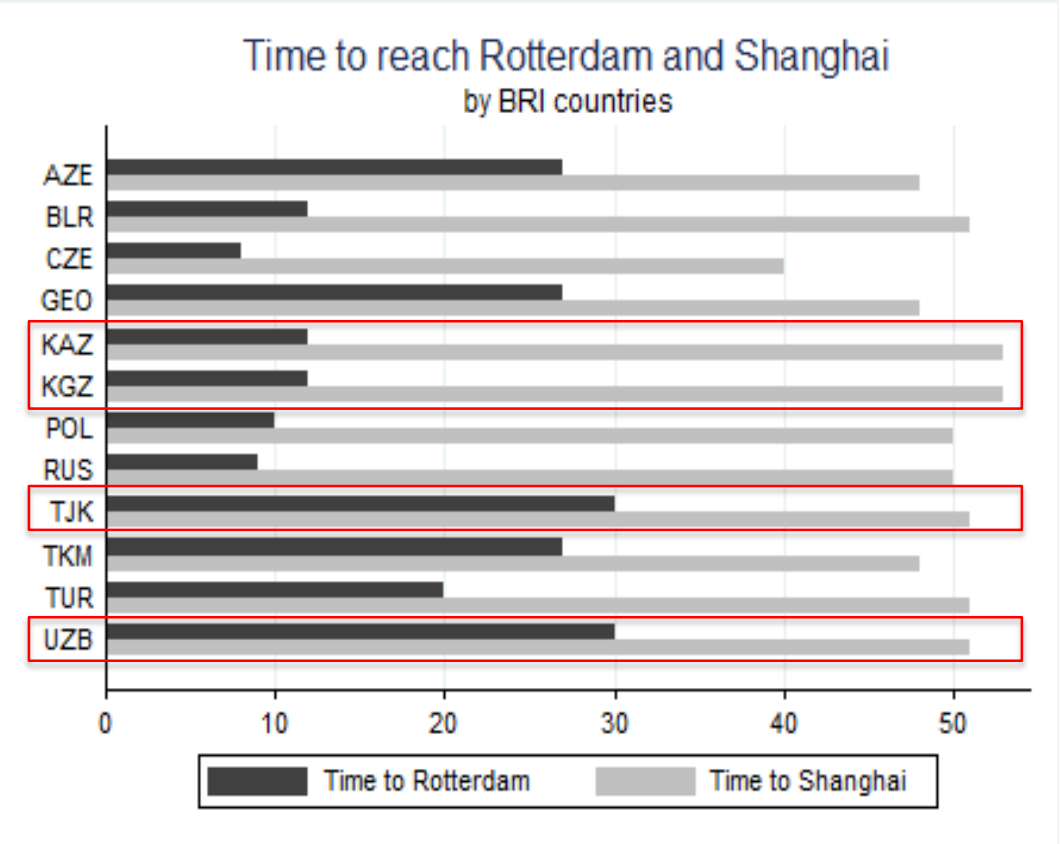
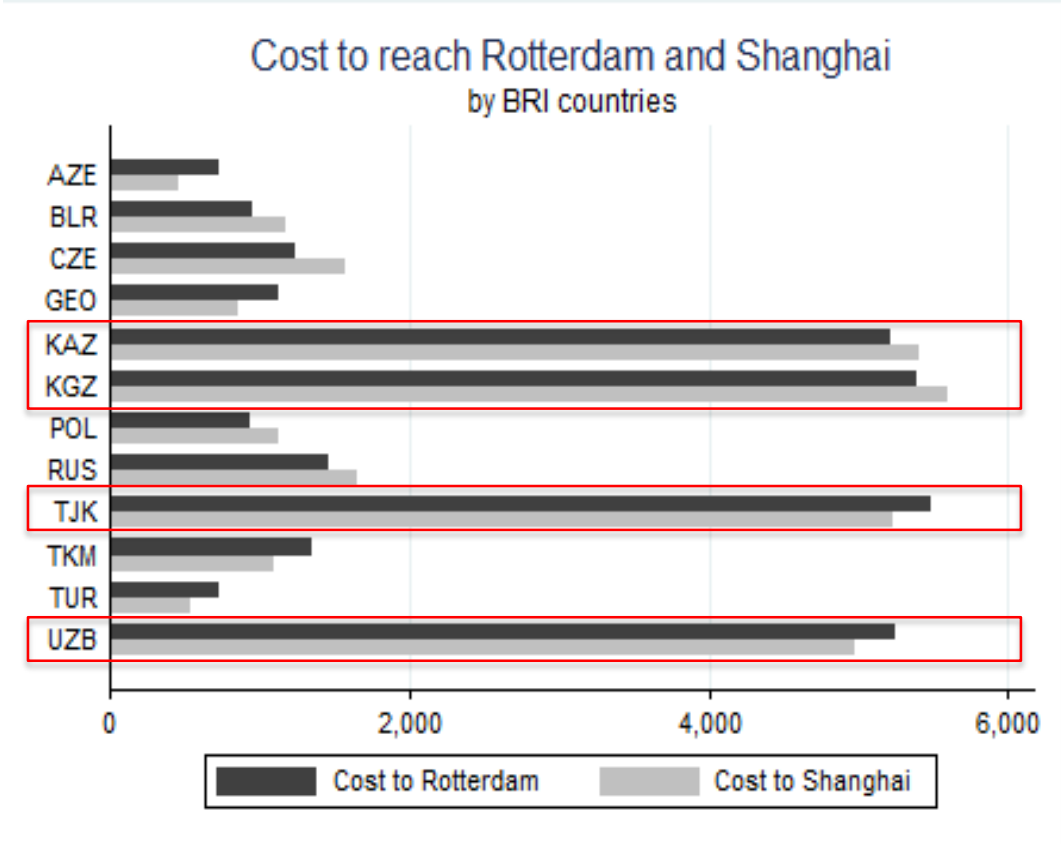


C. Applied average tariffs, 2016



Source: A. World Bank Logistics Performance Index (LPI); B. World Bank's Doing Business 2019; C. TRAINS and staff calculations. Notes: Data for Azerbaijan not available in panel A. South Asian indicators are simple averages of country-specific measures. In panel C, applied tariff rate (weighted average) for each country is computed as the weighted average of the tariff rates of all 6-digit level products, using the country's 6-digit level import values as weights. EE&CA is the average for Eastern Europe and Central Asia.

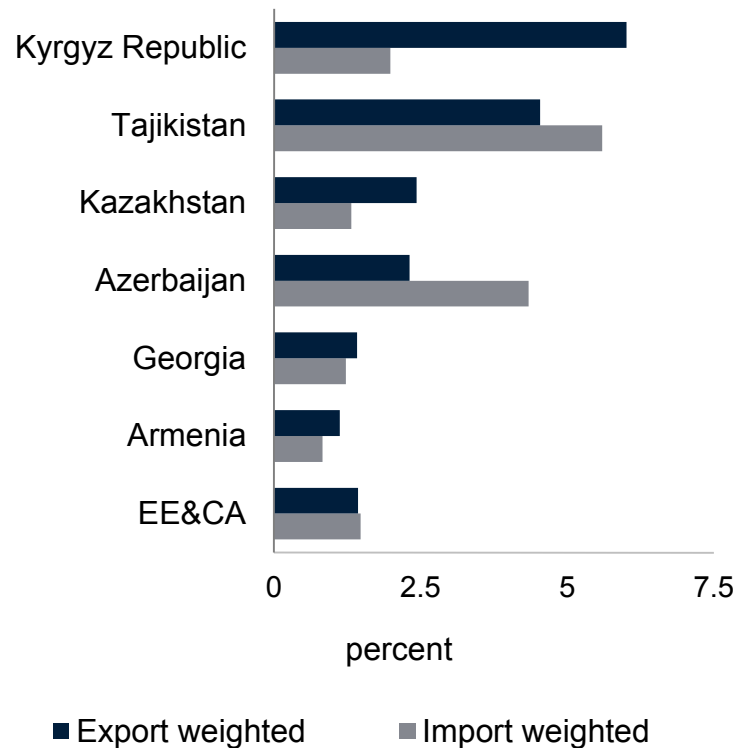
Cost (and time) for a container to reach Rotterdam and Shanghai are very high for most Central Asian countries



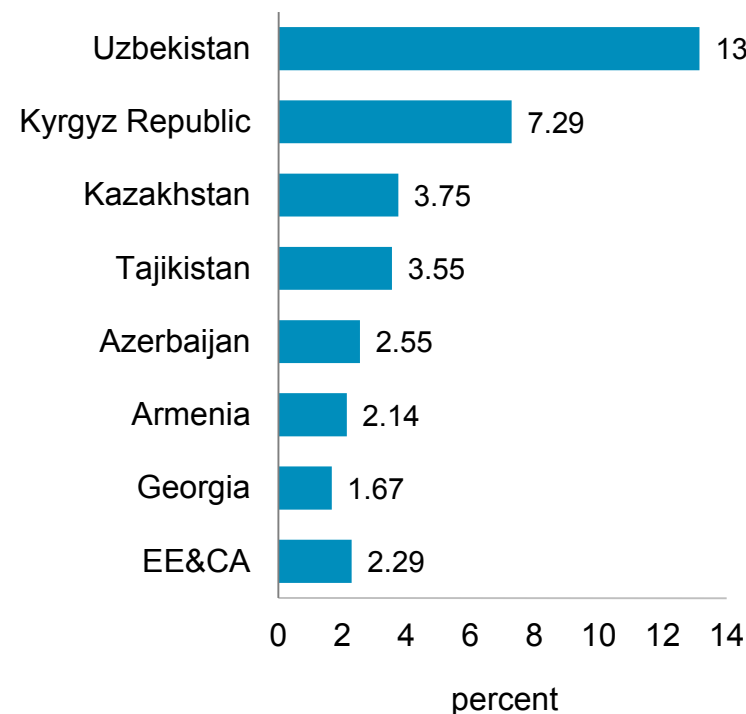
Source: World Bank staff estimates.

Estimated Impact of BRI on Central Asia and South Caucasus: Effects on trade and FDI

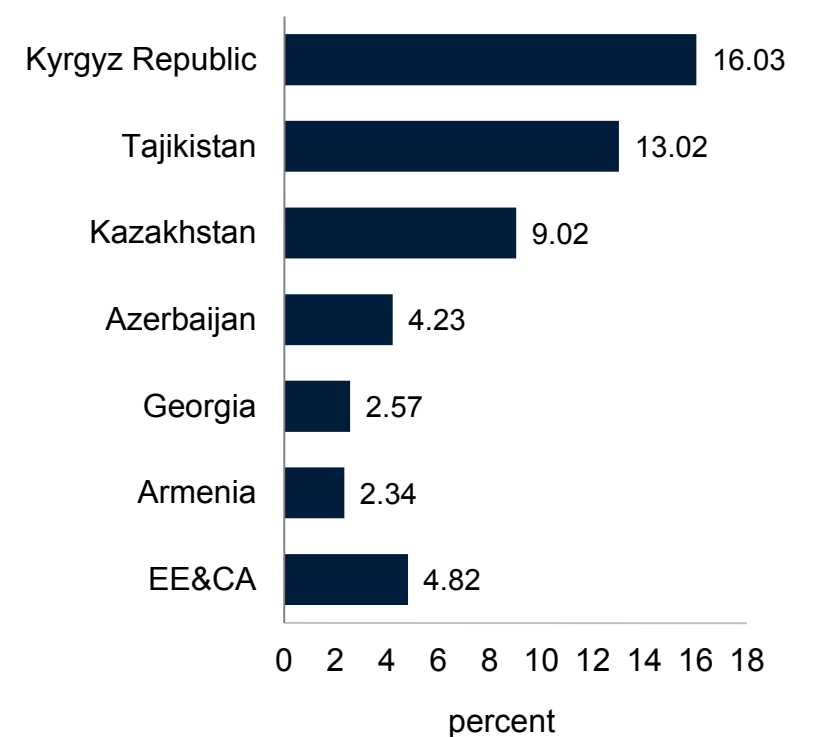
A. Trade Cost Reduction



B. Increase in Goods Trade



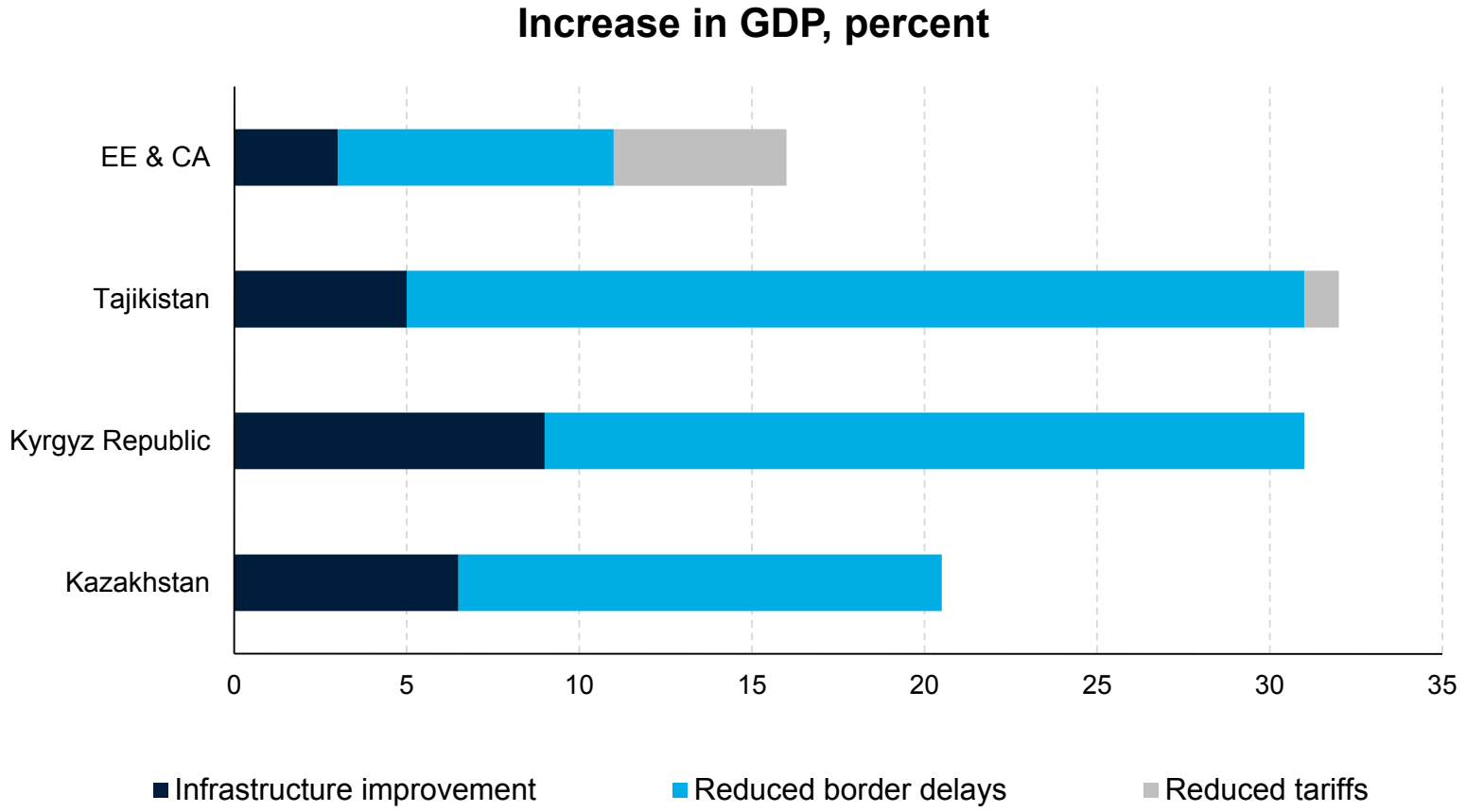
C. Increase in FDI



Sources: de Soyres, Mulabdic, Murray, Rocha and Ruta (2018); Baniya, Rocha and Ruta (2018); Chen and Lin (2018)

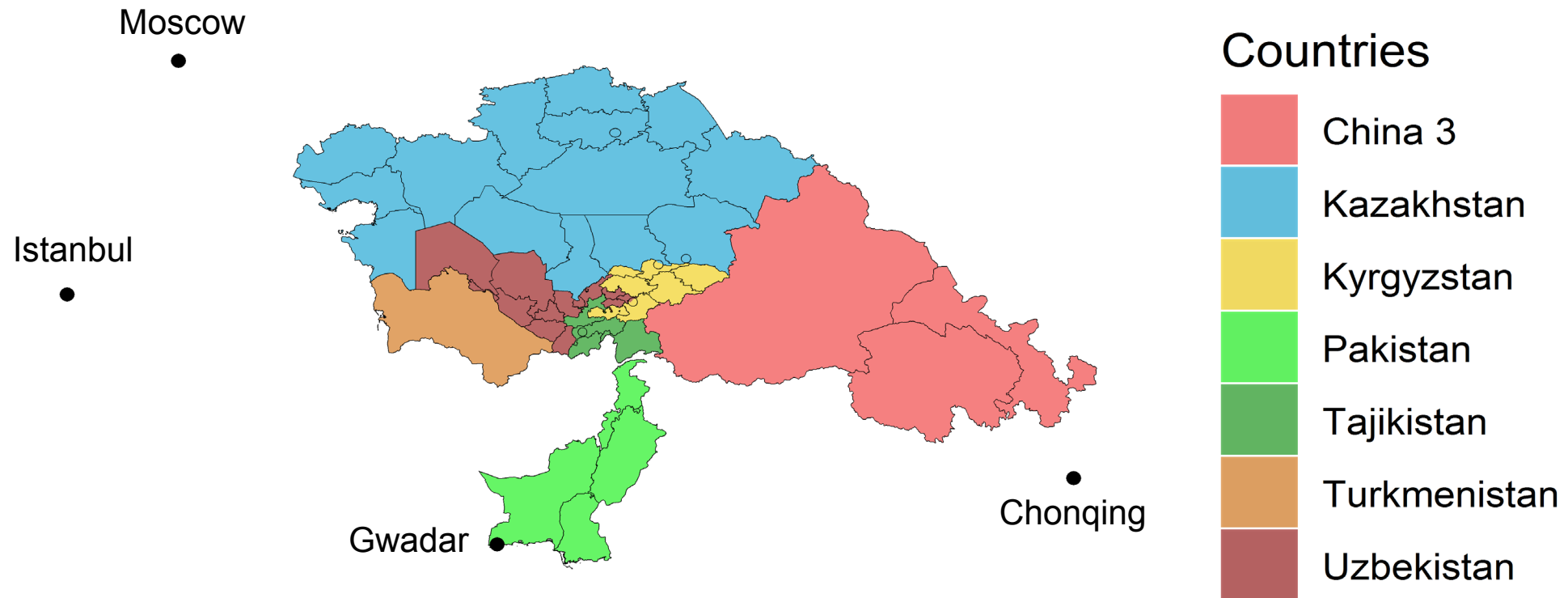
Note: The analysis here applies the gravity models widely used in international trade. Data for Uzbekistan are unavailable except in the middle panel. EE&CA is the average for Eastern Europe and Central Asia.

BRI can bring significant income growth, but to realize it, Central Asian countries should adopt complementary reforms



Source: de Soyres, Mulabdic and Ruta (2018)
Note: Data for Uzbekistan are unavailable. EE&CA is the average for Eastern Europe and Central Asia.

Economic gains in “Greater Central Asia”

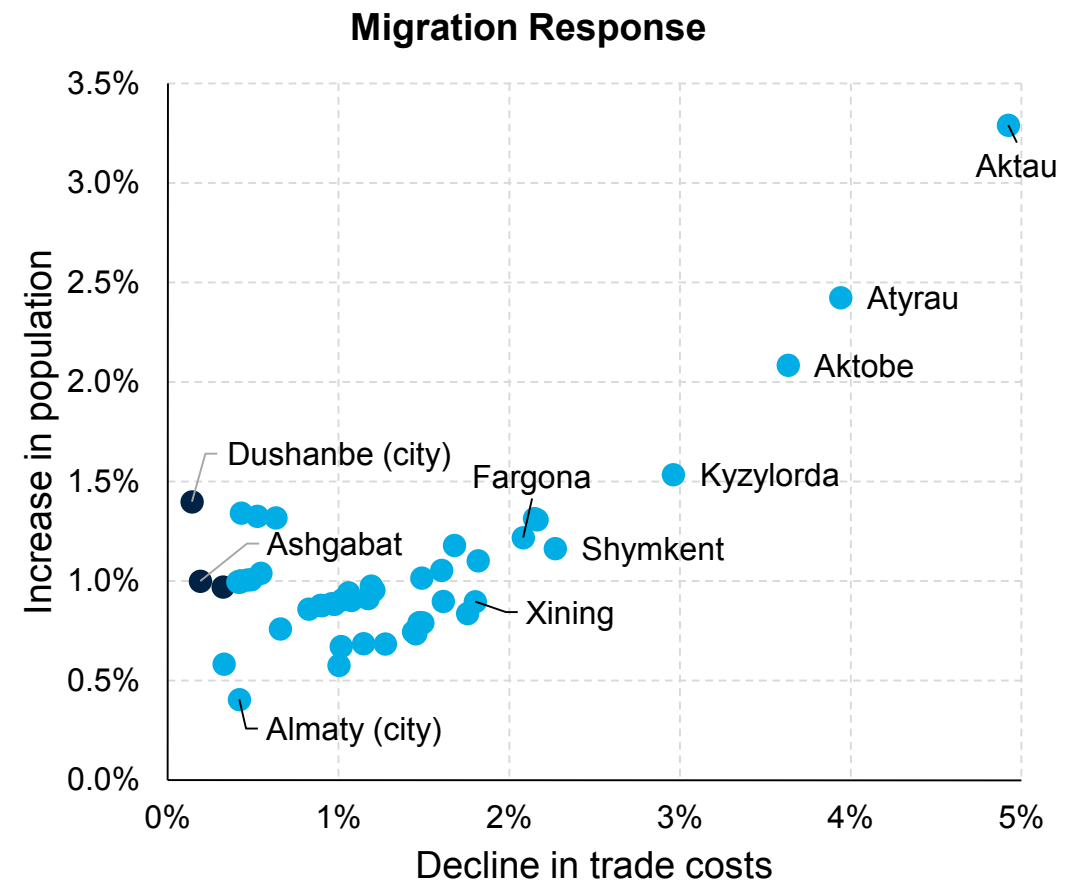
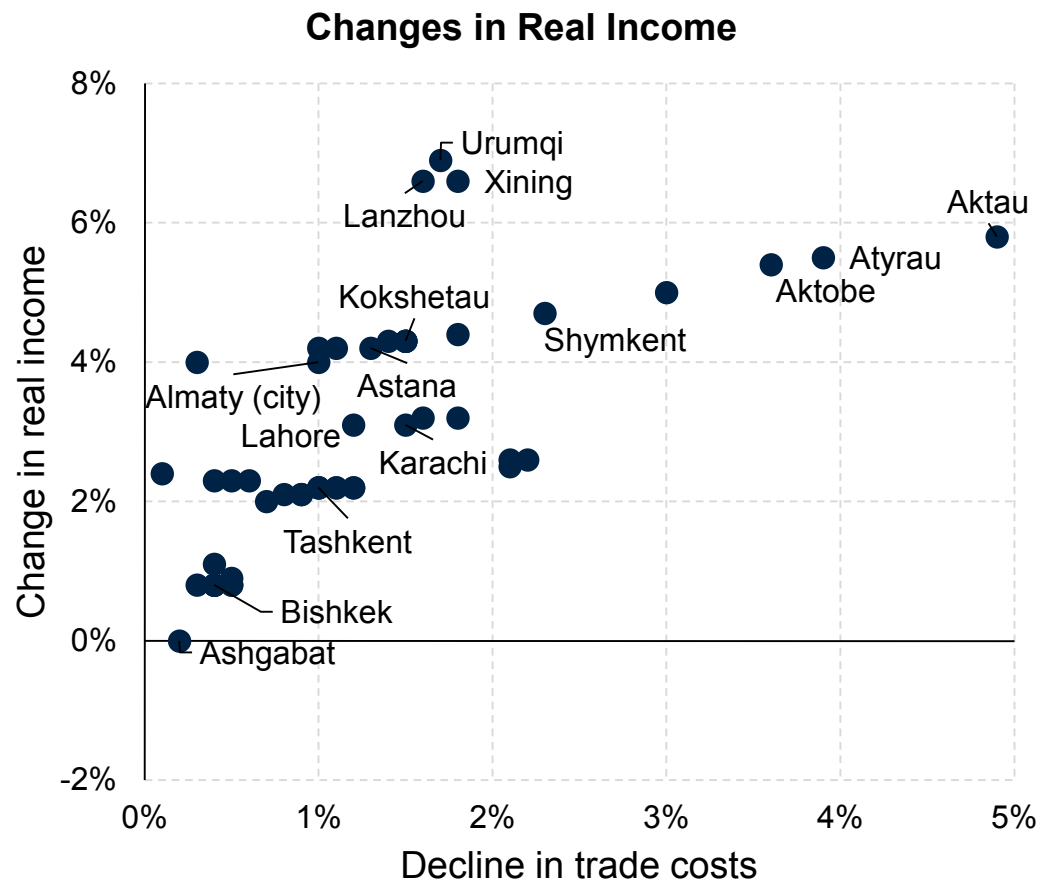


Source: Bird, Lebrand, and Venables (2018): “*The Belt And Road Initiative: Reshaping Economic Geography in Central Asia?*”

Note: “Greater Central Asia”: Western China, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan

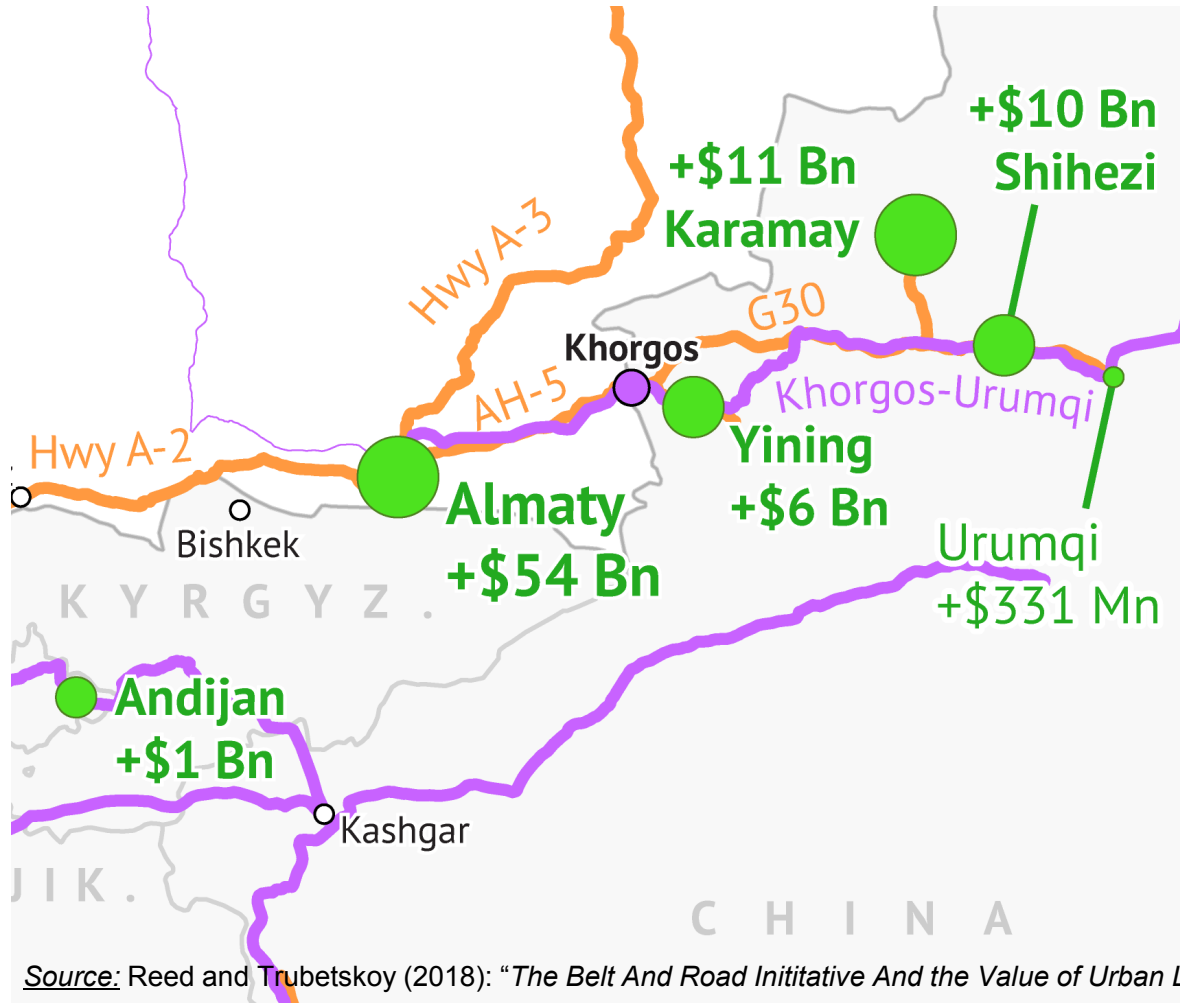
Gains are larger in places more directly affected by trade cost reductions...

...But additional reforms are needed to address spatial inequality and labor immobility



Higher land rents along transport corridors: enhanced market access and migration can amplify agglomeration economies

Gains in value added in the form of increase of land value



Source: Reed and Trubetsky (2018): "The Belt And Road Initiative And the Value of Urban Land"

- Almaty expected to observe the greatest gain
- Urumqi will see modest gains, if any
- Most Chinese cities will not gain
- Unequal distribution of gains among Central Asian regions requires structural and institutional reforms

Countries need to develop an integrated infrastructure plan, as well as appropriate institutional and financing mechanisms

- Economic corridors should be carefully identified to maximize benefits and foster urbanization and in line with national development strategies
- Projects should ensure social and economic cohesion; job creation
- Fiscal and debt sustainability should be addressed
- Private sector financing and PPP arrangements need to be developed
- Adopting international conventions on freedom of transit, cross border telecommunication networks, customs, and trade facilitation
- Institutional setup for corridor management and performance monitoring need to be addressed
- O&M requirements should be assessed ex-ante

BRI imposes a number of risks to Central Asian countries

- **Environmental risks**
 - Major direct *environmental effects* (wildlife, pollution) from construction/operation and indirect effects (habitat, water quality, erosion) from land-use change
- **Raising spatial inequality**
 - High likelihood of persistence of lagging areas within countries and lagging regions in Central Asia
 - Likely negative effects, as a result of greater trade and market integration, and no compensatory mechanisms (à la EU)
 - Barriers to labor mobility exacerbate special inequalities while dampening overall returns
- **Increased governance risks**
 - Corruption and public procurement
- **Debt sustainability risks**
- **Investment and policy coordination failures**
 - Could lead to lost opportunities for hubs and cities with increased market potential

Conclusions

- **BRI will potentially have a large effect on Central Asia**
 - Increase in real income and FDI inflows over the long run, infrastructure improvements
- **But BRI may fail to meet expectations due to failures related to institutional, governance, and market inefficiencies.**
 - Need to reduce border delays, trade barriers and FDI restrictions
 - Address spatial inequality and mobility
 - But also boost investor protection, open public procurement, ensure private sector participation
- **Participation in BRI should be in line with countries' national development agenda and an integrated infrastructure plan at the regional level**
- **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 risks