

# **AN ECONOMIC PERSPECTIVE ON BRI: SIX YEARS AFTER ITS LAUNCH**

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# OUTLINE

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1. Introduction
2. BRI globally – Current status and prospects six years after its launch
3. BRI in Central Asia and the South Caucasus – an “inside-out” perspective
4. Findings on BRI in sub-Saharan Africa
5. Reforms to BRI announced at the 2<sup>nd</sup> Belt and Road Forum (April 2019)




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# 1. Introduction

# UNIQUE FEATURES OF EMF STUDIES

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- Focus on economics, not geopolitics
- “Inside-out” perspectives
- How to maximize benefits, avoid pitfalls
- Review of 8 countries in the Central Asia and South Caucasus region and 6 countries in sub-Saharan Africa, within context of global evolution of BRI



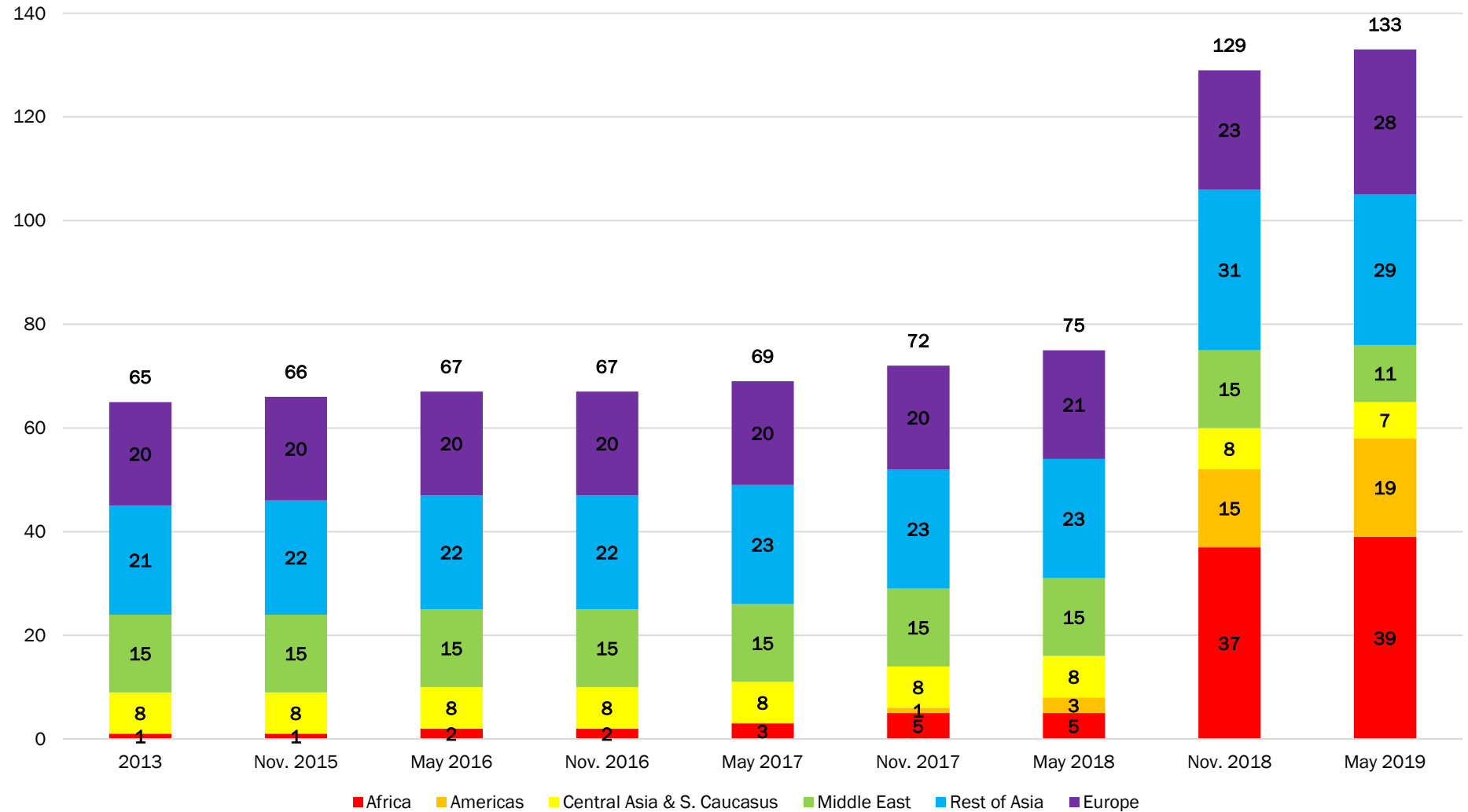
## 2. BRI globally – status and prospects six years after its launch

# BRI AT SIX YEARS: WHAT WE KNOW AND DO NOT KNOW?

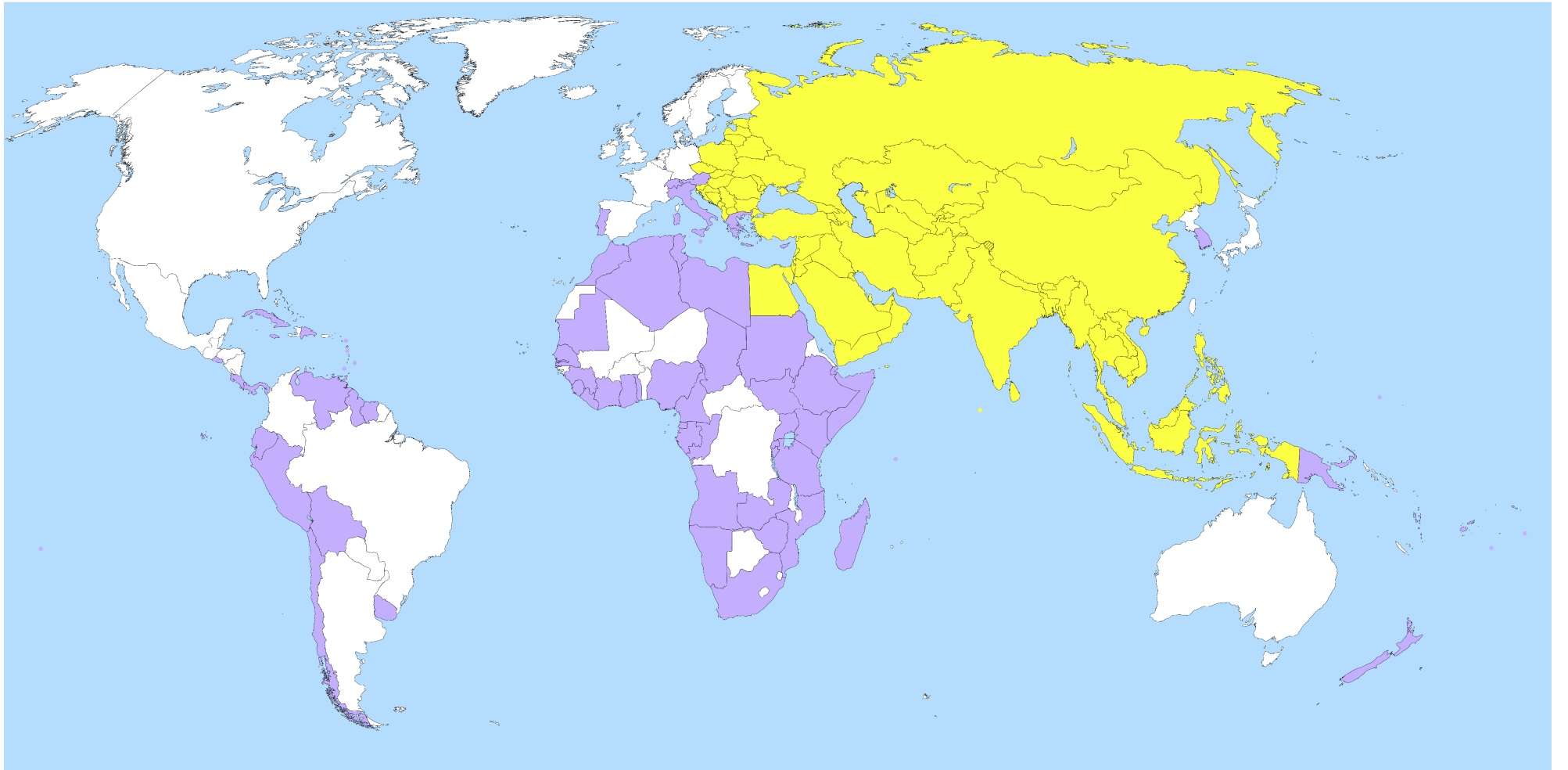
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- Massive undertaking — from 65 to 133 countries in 6 years (60% of global population)
- China is placing a **huge bet** on future prospects of BRI countries
- **No known master plan** or central list of projects
- **No official data on investments** (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 Republic*)

# MAJOR EXPANSION IN 2018 INTO AFRICA, LATIN AMERICA



# BY NOW, ALMOST A GLOBAL INITIATIVE





# CONCLUSIONS FROM EXTERNAL DATA ON BRI INVESTMENTS

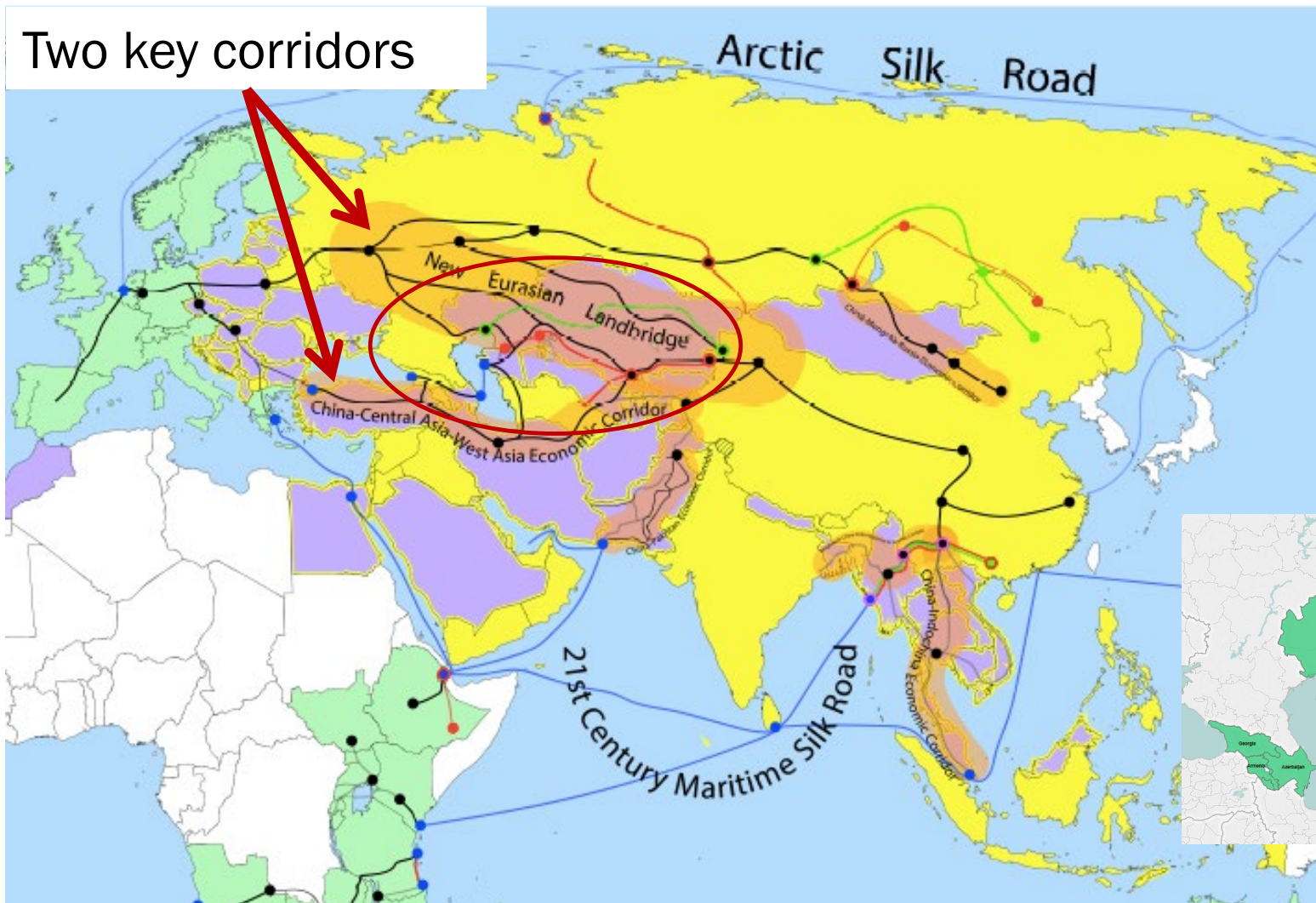
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- Total Chinese exposure (equity and loans) to BRI countries is very significant; rising through end-2018
- FDI outflows to BRI countries: **\$96.3 billion** (2013-18)
- Total cumulative loan disbursements & commitments by major Chinese banks: **\$580-600 billion**
- For reference, **\$490 billion** lent by WBG, ADB, AfDB, IDB (2013-17)
- Most BRI investments outside traditional Silk Route
- Energy sector received most support; transport next



### 3. 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

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- Eight countries, two sub-regions
- “Inside-out” assessments by national experts (5 country/regional chapters)
- Based on a structured questionnaire (scale, composition and terms, impact, benefits and costs/risks, perceptions, policy implications, future research)
  - Complemented by expert chapters for major partner perspectives (China, EU, India, Japan, Russia, US)

# **POTENTIAL BENEFITS ARE SIGNIFICANT...**

- **Connectivity and productive investments** are critical for the future growth and prosperity of CASC
- **BRI supports increased connectivity and investments** and hence potential **economic growth** for CASC
  - reduced transport cost and time
  - transit revenue and resource rents
  - domestic production, exports and employment
  - technology transfer and skills development
- **Great differences across countries**
  - Different BRI engagement across countries (much more in CA, so far less in SC)
  - More positive assessment for KAZ/UZB than for KYR/TAJ

# ...BUT CONSTRAINTS AND RISKS HAVE TO BE MANAGED

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1. Lack of complementarity with **national and regional plans** (all except KAZ, UZB)
  - integrate with national plans/execution and with regional initiatives (CAREC), and subject investments to rigorous cost-benefit analysis (all countries)
2. Weak **border management, logistics and business climate** (all countries, esp. KYR, TAJ)
  - focus on improvements in soft infrastructure and business climate
3. Lack of focus on **O&M** (all countries)
  - balance investments with O&M
4. Lack of investment in **secondary and tertiary infrastructure** (all countries)
  - focus on economic corridors
5. Limited **employment impact, technology and skills transfer** (KYR, TAJ)
  - more explicit focus on these dimensions
6. Negative **economic, social and environmental impacts** – (KYR, TAJ)
  - increased attention to these impacts
7. **Debt burden** (KYR, TAJ, ARM)
  - assess and manage debt exposure along with improved fiscal management
8. Lack of **transparency and potential for mismanagement and corruption** (all countries)
  - transparent planning, procurement, implementation and evaluation

## ...AND WORK WITH PARTNERS

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- Work **with neighbors** to ensure regional coherence, learning and leverage
- Strengthen and effectively use **regional institutions** in support of BRI investments
- Work **with other international partners** (multilateral and bilateral) in implementing BRI-related activities



## Key Benefits

Lower transportation costs for a largely landlocked region through increased connectivity both within the region and with major markets in Europe and Asia

Increased competitiveness, contributing to higher trade and investment flows

Accelerated growth of the natural resource, manufacturing, agriculture, and tourism sectors

Enhanced fiscal revenues, royalties, and transit fees from rising domestic and international commerce

Greater inflows of Chinese capital (in excess of those provided by traditional official or private sources)

Increased technology transfer from Chinese companies to local firms

More human capital development

Higher long-term economic growth and living standards for people

## Key Risks

Higher fiscal vulnerabilities and unsustainable debt accumulation, which could cause macroeconomic instability

Insufficient attention to improvements in soft infrastructure

Unfair benefit sharing in natural resource projects

Inadvertent environmental degradation

Excessive competition between major transport corridors

Underestimation of potentially significant operations and maintenance costs over the longer term

Limited domestic job creation due to excessive use of imported labor

Loss of domestic productive capacity through increased foreign competition caused by greater connectivity

Public distrust caused by poor transparency

Threats to diversification of local economies

Few opportunities to benefit locally from transport corridor infrastructure

## Policy Recommendations

### National Level:

Integrate BRI projects into national plans and priorities

Conduct rigorous cost-benefit analysis to ensure economic, financial, environmental, social viability of projects

Focus on developing secondary and tertiary infrastructure

Accelerate soft infrastructure reforms within countries

Prioritize operations and maintenance and allocate necessary resources

Promote greater transparency in all decisions related to the BRI

Ensure competitive procurement and construction contracting

Build independent domestic institutions to formulate and implement adequate policies in each area mentioned above

### Regional Level:

Accelerate regional cooperation and integration

Leverage the support of international financial institutions and other partners

Create a high-level regional platform to coordinate the BRI

### China and Multilaterals:

#### China:

- Open the BRI to multilateral cooperation
- Implement decisions announced at the Second Belt and Road Forum

#### International Financial Institutions:

- Work with China to multilateralize the BRI
- Assist the countries in assessing the impact of the BRI on their economies

# A SUMMARY

- We have pulled together the key benefits, risks and policy recommendations in a single framework for ready reference (see Policy Paper)






## 4. Findings of further research on BRI in six sub-Saharan African countries

(Cameroon, Djibouti, Ethiopia, Ghana, Kenya, Zambia)

# COMPARING CHINESE PROJECTS IN CASC AND SSA

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- CASC and SSA studies produced similar findings
- In-depth reviews of mega-projects in E. Africa (Nairobi-Mombasa SGR, Addis Ababa-Djibouti railway) concluded that projects are technically well designed and executed
- **But**, many are unlikely to generate revenues capable of servicing the debt
- SSA countries started with more serious macroeconomic and institutional weaknesses, lower debt and fiscal sustainability
- Due to poor ex ante project feasibility reviews, SSA countries selected some unaffordable (but technically sound) mega-projects



## 5. Reforms to the BRI announced at the Second Belt and Road Forum (April 2019)

# IMPROVEMENTS ANNOUNCED BY THE CHINESE AT THE 2<sup>ND</sup> BRI FORUM, 2019

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- China will:
  - Conduct and take into account the results of debt sustainability analyses (DSA) in its future lending decisions and encourage recipient countries to publish the results
  - Ensure economic/financial viability of future BRI projects through rigorous due diligence
  - Ensure that BRI projects are environmentally and socially sustainable
  - Increase consultations with local communities to ensure they benefit from BRI projects
  - Share more project information and not tolerate any corruption in BRI projects
  - Partner with IFIs to multilateralize the BRI
  - Encourage its companies and banks to co-finance projects with IFIs and the international private sector
- These improvements should help allay the problems and concerns raised by the study