The Economics of the Belt and Road Initiative

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Roadmap

I. The Belt and Road Initiative (BRI)

II. Connectivity gaps in BRI economies

III. Assessing the economic effects of the BRI

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I. The Belt and Road Initiative
The Belt and Road Initiative: What is it?

The BRI is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale.

The BRI consists primarily of the Silk Road Economic Belt and the New Maritime Silk Road, with 6 economic corridors being identified.

For this study, we focus on 71 economies located along the Belt and Road.

- BRI economies account for over 30% of global GDP, 60% of population, 40% of world trade, and 75% of known energy reserves.
**The Belt and Road Initiative: Challenges and Opportunities**

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<th>Opportunities</th>
<th>Challenges</th>
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<td>• Improving cross-border infrastructure and their management;</td>
<td>• Ensuring that investment is efficient, in the face of high uncertainty;</td>
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<td>• Reducing trade costs, improving trade rules, boosting trade flows and GVC participation;</td>
<td>• Coordinating infrastructure investments, lack of data and transparency;</td>
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<td>• Improving investment climate and boosting cross-border investment;</td>
<td>• Managing environmental, social and governance risks;</td>
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<td>• Improving growth, employment and poverty reduction;</td>
<td>• Ensuring openness and transparency in public procurement;</td>
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<td>• Developing lagging and isolated regions.</td>
<td>• Sustaining public debt.</td>
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II. Connectivity gaps in BRI economies
The share of BRI exports in global exports increased from 21% in 1995 to 37% in 2015 driven by a surge in global value chains.

But large disparities persist across regions and countries.

A gravity model shows that BRI economies under-trade with each other by 30%.

Source: Boffa (2018)
There are substantial transport and energy infrastructure gaps in developing economies

- McKinsey (2016) finds that the world needs $3.3 trillion in infrastructure annually; according to ADB (2016), developing Asia only requires $1.7 trillion per year in infrastructure

BRI economies’ average score of perceived quality of transport infrastructure is 2.7 out of 5, pointing to important gaps

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 policy barriers are significant in BRI economies

**Time to Import in BRI countries against G7**

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

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

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


Data Source: TRAINS (WITS).

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**Note:** The diagrams illustrate the comparison between BRI countries and G7 countries in terms of time to import and applied average tariffs. The data is sourced from the WB Doing Business Survey, 2013, and TRAINS (WITS) for the year 2016.
III. Economic effects of the BRI: opportunities and risks
BRI-related Transport Projects: A Database

Source: Reed and Trubetskoy (2018).
BRI and Time to Trade

BRI projects will reduce trade times by 2.5% for the world and by 3.2% for BRI economies, thus reducing trade costs.
A gravity model predicts that BRI projects increase trade among BRI economies by 4%. Industries that value time more experience the largest effect on trade.

- Differences across countries reflect both the extent of improved connectivity and the export structure of the country.
- Sectoral effects reflect different time-sensitivity of products (direct effect) and time sensitivity of inputs (indirect effect).

Welfare Effects: A General Equilibrium Analysis

Reduction in trade costs due to the BRI boost trade, increasing welfare by up to 1.32% for BRI economies and 0.71% for the world

- Welfare gains are up to 10% in countries like Lao PDR and Cambodia

Source: Maliszewska and van der Mensbrugghe (2018).
Other Effects

Effects of the BRI are larger when accounting for within country/region efficiency gains and impact through increased FDI

Results from a structural trade model

BRI transport projects on GDP of BRI economies through trade

- Low income
- Upper middle income
- High income
- Lower middle income

Source: De Soyres, Mulabdic, Ruta (2018).

And from analysis of growth through FDI

BRI transport projects on GDP growth of BRI economies through FDI

- Low income
- Lower middle income
- Upper middle income
- High income

Source: Chen (2018).
External debt from Non-Paris Club, including China, is historically small in BRI economies. But it has increased in higher risk countries.

Source: World Bank and staff estimates.
Conclusions

BRI will potentially have a large effect on trade and welfare for many countries
- All countries in the world experience a decrease in trade costs
- Not all sectors/countries will gain but potential aggregate effect is largely positive

But many policy barriers still remain in place. Potential gains of BRI would be enlarged by complementary reforms
- Need to reduce border delays, trade barriers and FDI restrictions
- But also boost investor protection, open public procurement, ensure private sector participation

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 challenges
THANK YOU!

For more information, visit: