NEWSLETTER

Issue No. 54 | September – October 2018

How can Belarus benefit from the Belt and Road Initiative?

Since the announcement of the Belt and Road Initiative (BRI) in 2013, the role of Belarus as an important transport gateway that links China with the EU became even more pronounced. How can the country benefit from the initiative and what are the implications for the economy?

In a nutshell, BRI primarily offers financing in the form of loans and foreign direct investment that can be channelled into infrastructure and production projects – both having direct and indirect impacts on the economy. Over the period 2013-2020, BRI induced investments in Belarus are estimated at around USD 3.3 bn or roughly 0.9% of GDP p.a.

With ca. USD 2.5 bn, the main share of financing is used towards expanding production capacities. Thus, BRI is expected to have a sizeable impact on output and employment in Belarus. Moreover, a reduction in transport costs and times is promising to result in a significant increase in transit and bilateral trade with EU and China – at basically no additional costs.

So far, the risk of unsustainable debt dynamics is rather low, as direct investments constituted the main part of BRI capital inflows to Belarus.

The Belt and Road Initiative (BRI) and Belarus

The Belt and Road Initiative is an ambitious Chinese project that aspires, amongst others, to create multiple transport routes between China and 65 other countries in Asia, Europe and Africa. Belarus, lying on the "New Eurasia Land Bridge Economic Corridor" that connects China and Europe, is an important node of the initiative. Thus, the question arises: how can the country benefit from BRI?

Overall, Belarus stands in a good spot to profit from BRI. For once, an improved transport infrastructure can reduce transport costs and times and thus lead to an increase in trade. Moreover, increasing transit volumes, expansions of production facilities and inclusions of Belarussian companies in international value chains will have a direct impact on economic growth.

However, there are also substantial risks: an excessive usage of state-guaranteed loans provided through BRI bears the risk of pushing public debt, which already increased over the last few years, to an unsustainable level. As such, a careful assessment of chances and risk in the context of BRI is needed.

BRI as a source of funding

One of the major channels through which the Belt and Road Initiative affects participating countries is the provision of financing in the form of loans and foreign direct investment (FDI). Official announcements regarding the overall funding available through BRI are very ambiguous: total amounts are ranging from USD 900 bn to USD 8,000 bn. In reality, projects completed under the BRI umbrella amounted to approximately USD 55 bn in the period 2013-2017.

In order to estimate the available financing volumes in Belarus, one has to look at three dimensions: already invested amounts (capital inflows from China to Belarus), planned investments (official project announcements) and available credit lines.

During 2013-2017, USD 1.3 bn of capital inflows were directed from China to Belarus, with the majority constituting FDI. On top, official announcements suggest that another USD 2.0 bn will be invested until 2020. In total, BRI investments in Belarus are estimated at USD 3.3 bn or roughly 0.9% of GDP p.a. during 2013- 2020.

Additionally, two Chinese credit lines with a total amount of USD 8 bn are available to Belarus. However, only a small part of the money was utilised so far: with current interest rates at around 8% p.a., commercial FX bank loans at below 6% p.a. are more attractive. On top, a required quota of 50% Chinese inputs makes the loans even less attractive, as the quality and costs of Chinese labour and equipment are not always competitive. With most of the available lending being state guaranteed, the credit lines should be used with caution in order to maintain a sustainable level of public debt. However, the credit lines do offer long term money (duration up to 15 years) without imposing any reform conditions.

Availability of BRI induced financing

Time period	Invested or planned amount	
	Total	Per annum
2013 – 2017 (already invested)	USD 1.3 bn	USD 0.3 bn
2017 – 2020 (planned)	USD 2.0 bn	USD 0.4 bn
2013 – 2020 (total volume)	**USD 3.3 bn**	**USD 0.4 bn**
Available credit lines	**USD 8.0 bn**	

Sources: Belstat, National Bank, Reconnection Asia database, own analysis

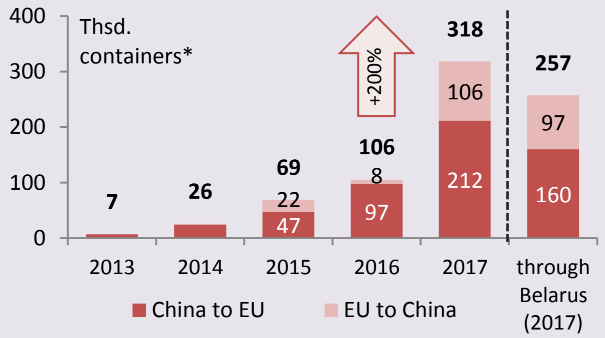
Out of the USD 3.3 bn planned BRI investments until 2020, around USD 2.5 bn are used towards expanding production capacities. Most of it can be attributed to the Great Stone Industrial Park, which is a multinational project and an important catalyst for other investments not related to BRI. A prominent example of non-Chinese FDI is Duisport, a German company that became a shareholder of the industrial park in 2018. The remaining USD 0.8 bn are put into typical transport infrastructure projects such as the improvement of roads and electrification of railways.

Economic effects expected from BRI

With the main share of financing used towards production, BRI is expected to have a significant impact on output and employment in Belarus. The direct impact, however, is reduced by a large import share: typical for BRI investment, a "buy Chinese" clause is attached to most funding, requiring the use of Chinese equipment and contractors.

Beside a potential increase in bilateral trade with the EU and China in the mid- and long-term, the reduction in transport costs and times can be expected to give a significant boost to transit income in the short-run. Currently, 80% of the 318 thsd. containers transported via rail from EU to China and vice versa go through Belarus. With the long-term potential forecasted at 2 m containers, Belarus is set to benefit as long as it can maintain its transit market share.

EU – China rail transit volumes



Source: Eurasian Development Bank, Belarus Rail Annual Report
*Note: *Twenty Foot Equivalent Unit (TEU)*

It is important to note that Belarus also benefits from infrastructure improvements in other countries alongside the "New Eurasia Land Bridge Economic Corridor" – at no additional costs. Moreover, there is a high potential of Belarussian firms using the momentum and becoming part of international value chains.

Conclusion

Belarus is in a good spot to benefit from the Belt and Road Initiative. In the short-term, an increase in transit income can be expected, as transport costs and times are reduced and the transit volumes between EU and China continue to grow. In the medium- to long-term, this promises a significant boost to exports, which are still far away from their pre-crisis value of 2012. Moreover, as the main share of BRI induced investments goes towards expanding production capacities, there is good reason to expect a sizeable impact on output and employment.

However, BRI loans should be used with caution, as the lending terms are not always favourable and can easily push public debt beyond a manageable level. So far, the risk of unsustainable debt dynamics is rather low, as direct investments constitute the main part of BRI-related capital inflows. Additionally, the initiative seems to provide a boost to other (non-Chinese) funding sources, with investors such as Duisport setting up logistics and production facilities in Belarus.

Authors

Dmitry Chervyakov, chervyakov@berlin-economics.com

Editor

Robert Kirchner

Subscribe / unsubscribe newsletter

A more comprehensive analysis is provided by the Policy Briefing PB/06/2018 "Belt and Road Initiative (BRI) in Belarus - assessment from an economic perspective".

German Economic Team Belarus

www.get-belarus.de

GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.

BE Berlin Economics GmbH | Schillerstraße 59 | 10627 Berlin
+49 30 / 20 61 34 64 - 0 | info@berlin-economics.com | Impressum