Belt and Road Initiative (BRI) in Belarus - assessment from an economic perspective

Jörg Radeke, Dmitry Chervyakov

German Economic Team Belarus

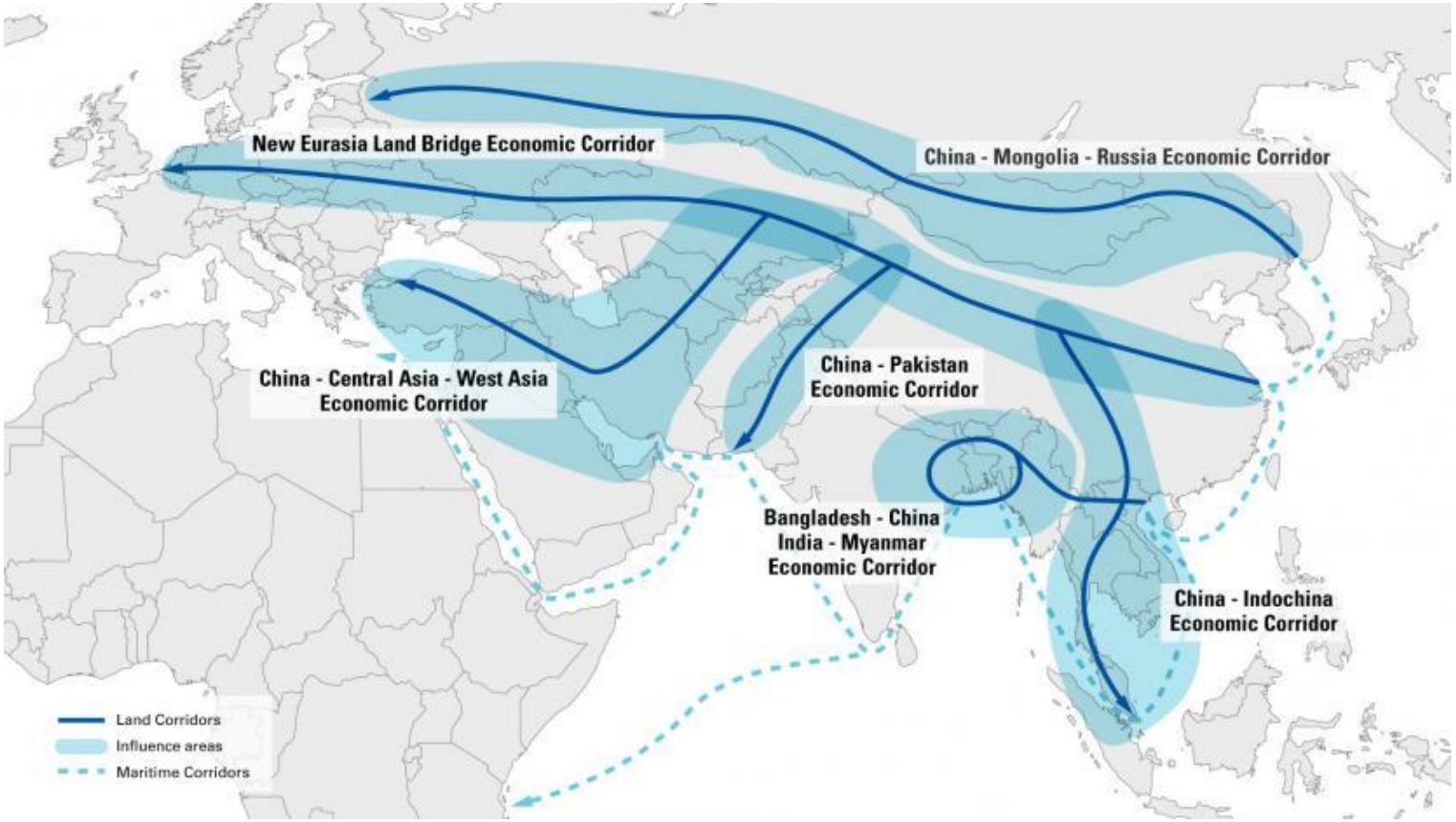
Berlin/Minsk, September 2018

Structure

1. Introduction
2. How much financing is available through BRI in Belarus?
3. What is the financing used for? Investments resulting from BRI
4. Economic effects expected from BRI
5. Overall assessment

Contacts

1. Introduction



Source: International Road Transport Union

- BRI is a Chinese initiative to create multiple transport routes
- Belarus: lies on the "New Eurasia Land Bridge Economic Corridor"

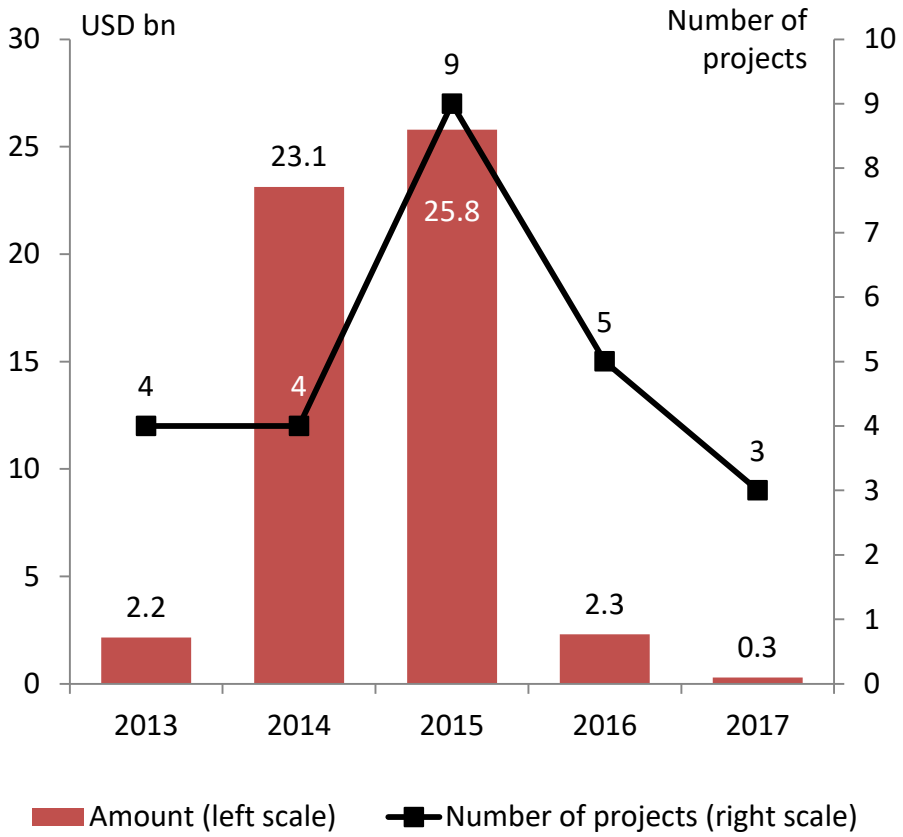
➢ **Question:** To what extend can Belarus benefit from BRI?

BRI – a short description

- Comprises 65 countries in Asia, Europe and Africa
- Multiple transport routes via land (“Belt”), sea (“Road”) and mixed routes
- Frequent rebranding: “Silk Road”, “One Belt One Road” (OBOR), now “Belt and Road Initiative” (BRI)
- Official announcements suggest significant funding through BRI:
  - USD 900 bn to USD 8,000 bn
- In reality, available funding volume lower due to double counting, frequent re-branding, large share of unrealised projects

2013-2017: USD 55 bn of funding under BRI umbrella

Completed projects under BRI



Source: Reconnecting Asia Database, Nation Reform and Development Commission of China

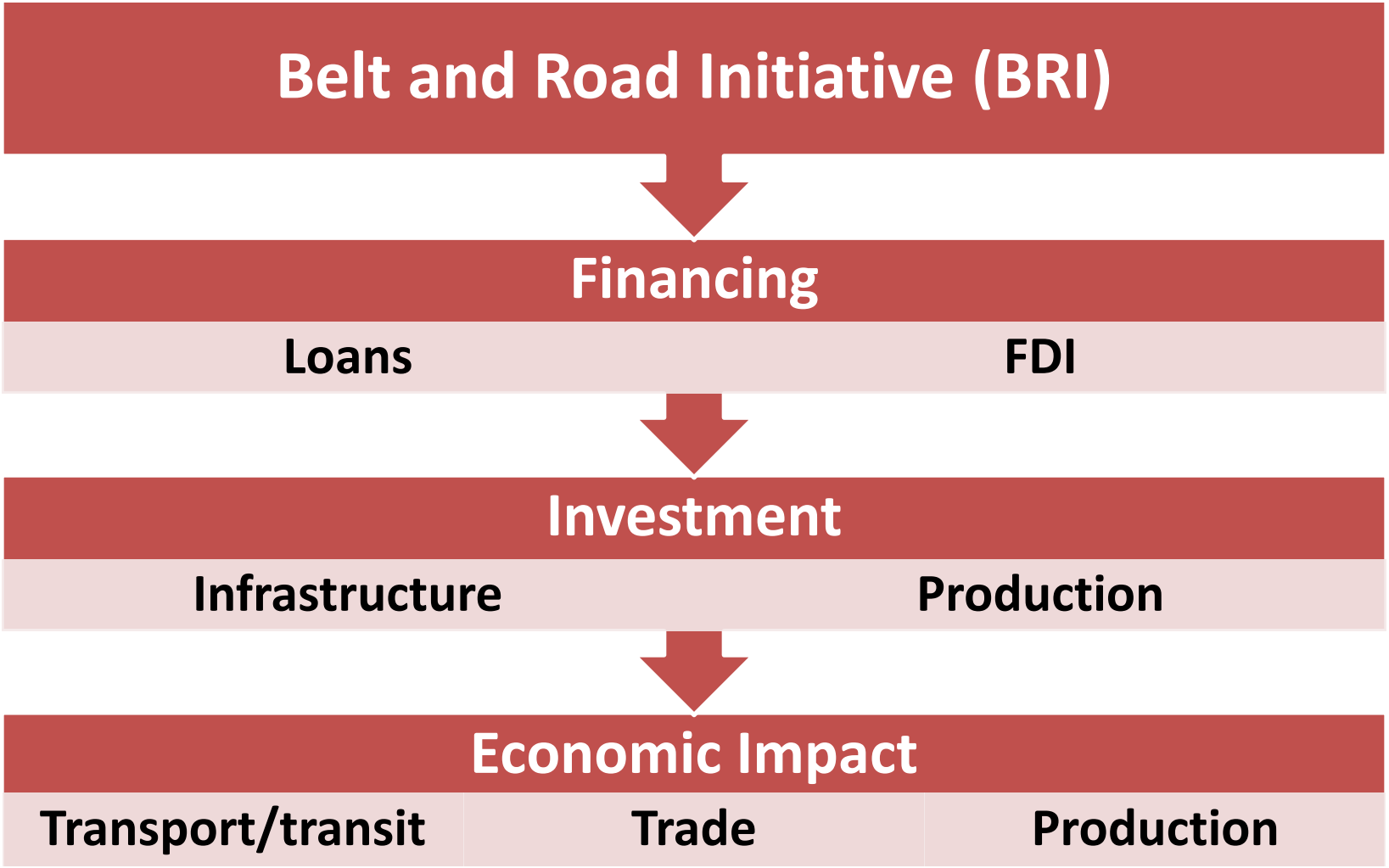
Funding volumes

- Approximately USD 55 bn of funding
- 31 major projects completed under BRI umbrella

Type of projects

- Rail: 86%
- Road: 4%
- Dry and sea ports, logistics: 10%

Possible impact channel of BRI in Belarus



Careful assessment of chances and risks of BRI needed

Chances

- Improved infrastructure
- Reduced transport cost and transport time
- Increased trade
- More transit, growth of transport economic activity
- Potential: increased role of Belarussian companies in international value chains

Risks

- Increase of debt including state-guaranteed debt
- Debt sustainability

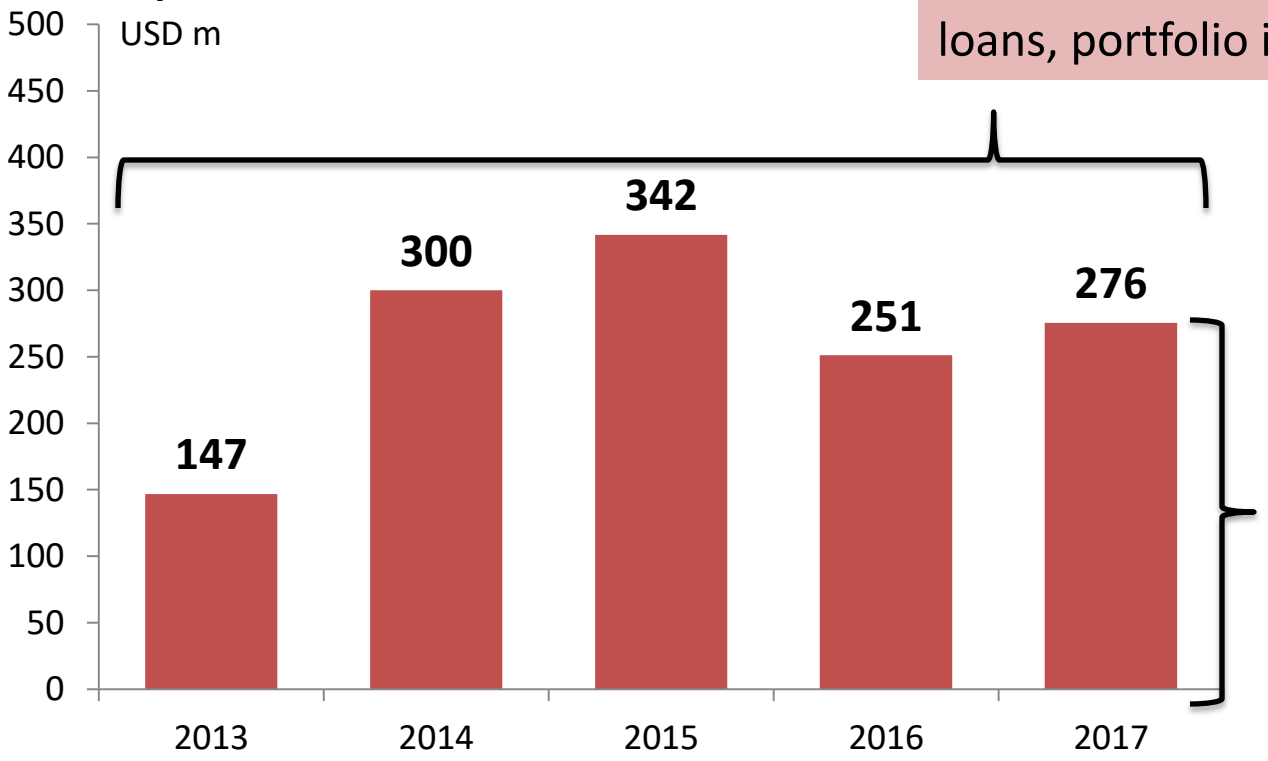
2. How much financing is available through BRI in Belarus?

1. Analysis of **balance of payments** foreign investments from China
2. Official **announcements** of projects within BRI / with Chinese financing contribution
3. Review of available **credit lines** from Chinese banks to Belarus

Estimate of available **financing volumes** through BRI projects in Belarus

2013-2017: USD 1.3 bn financing received from China

Capital inflow from China to Belarus



USD 1.3 bn of direct investments, loans, portfolio investment

2017: 3% of total foreign investments

Source: Belstat, National Bank of Belarus

Announced Chinese and multinational projects in Belarus

Name	Type	Funders	Planned time horizon	Status	Amount (USD m)
China-Belarus Great Stone Industrial Park	Infrastructure, logistics and production	Various sources from China, Belarus and international	2015 – 2020 (stage 1)	Under Construction	2,500 (stage 1)
Electrification of Molodechno-Gudogay-State Border Line	Rail	Exim-Bank of China	2015 - 2017	Completed	76.4
Electrification of the Gomel-Zhlobin-Osipovichi Section	Rail	Exim-Bank of China	2012-2015	Completed	80.7
Electrification of the Zhlobin - Kalinkovichi Section	Rail	Exim-Bank of China	2018 - ???	Preparatory works	Unknown
Bobruisk-Zhlobin Highway	Road	Exim-Bank of China	2014 - 2016	Completed	322.0
Zhlobin-Gomel Road	Road	Exim-Bank of China	2012 - 2014	Completed	340.0
Total planned amount	**about USD 3.3 bn - of which about 0.8 bn infrastructure**				

Source: Reconnecting Asia

Available credit lines under BRI

- **Since 2015**, two credit lines are provided by China to Belarus
- Purpose: investment in transport, infrastructure, industry and SMEs in the context of BRI:

1. **Through the Belarusian government (mainly for transport and infrastructure):**
   - Up to USD 3 bn, preferential government loans **in CYN**
   - Up to USD 4 bn, commercial terms, state guaranteed
2. **Through Belarusian banks (mainly for industry and SMEs):**
   - Up to USD 700 m through the Development Bank of Belarus
   - Up to USD 300 m through Belarusbank

➢ Financing of **USD 8 bn** available through Chinese credit lines

➢ However, only small part utilised. Why?

BRI financing conditions not that attractive

Financing conditions (example: Development Bank credit line)

- Interest rate of 5.5% plus 6 months LIBOR (currently about 2.5%)
- **Thus currently interest rate of about 8% p.a.**
- In comparison: commercial FX bank loan available for below 6%
- Additional requirement: 50% Chinese inputs have to be bought from Chinese companies resulting in higher investment costs
- Loan duration of up to 15 years

- BRI lending terms not always very favourable
- Borrowing at commercial terms in order to pay for Chinese workers
- Explains sluggish take up
- **However:** BRI offers long term money without any reform conditions

Summary: How much BRI funding is available in Belarus?

Time period	Invested or announced 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 planned volume)	**USD 3.3 bn**	**USD 0.4 bn**

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

- BRI investments up to 2020 is expected to amount to **USD 3.3 bn** - roughly **0.4 per annum**
- However, only 0.8 bn of total amount planned for infrastructure
- Overall, **USD 8 bn** in loans could be obtained through Chinese credit lines
- But careful assessment needed as loan terms not very favourable

3. What is the funding used for? Investment resulting from BRI

BRI induced investments

Transport infrastructure

- New / upgrade of transport infrastructure considered main objective of BRI
- What is the demand transport investment in Belarus?

Production capacity

- Financing also available for industry and SMEs
- Opportunity to expand productions capacities of domestic and international companies

Capacities of the Belarusian infrastructure

- Main routes (both road and rail) are in relatively good condition
- But: overall infrastructure performance ranked below average
- E.g. compared to Kazakhstan (that also lies on the "New Eurasia Land Bridge"), Belarusian trade and transport infrastructure does not seem to have significantly improved since 2014

The Logistics Performance Index (LPI), ranking out of 160 countries

Country	LPI rank		Customs		Infrastructure		Logistics competence	
	2014	2018	2014	2018	2014	2018	2014	2018
Belarus	99	103	87	112	86	92	118	85
Kazakhstan	88	71	121	65	106	81	83	90
Latvia	36	70	35	49	51	49	42	81
Lithuania	46	54	44	46	39	66	57	54
Poland	31	28	32	33	46	35	33	29
Russian Federation	90	75	133	97	77	61	80	77
Ukraine	61	66	69	89	71	119	72	61

Source: World Bank

➢ **Investment need exists, but rather outside typical "BRI routes"**

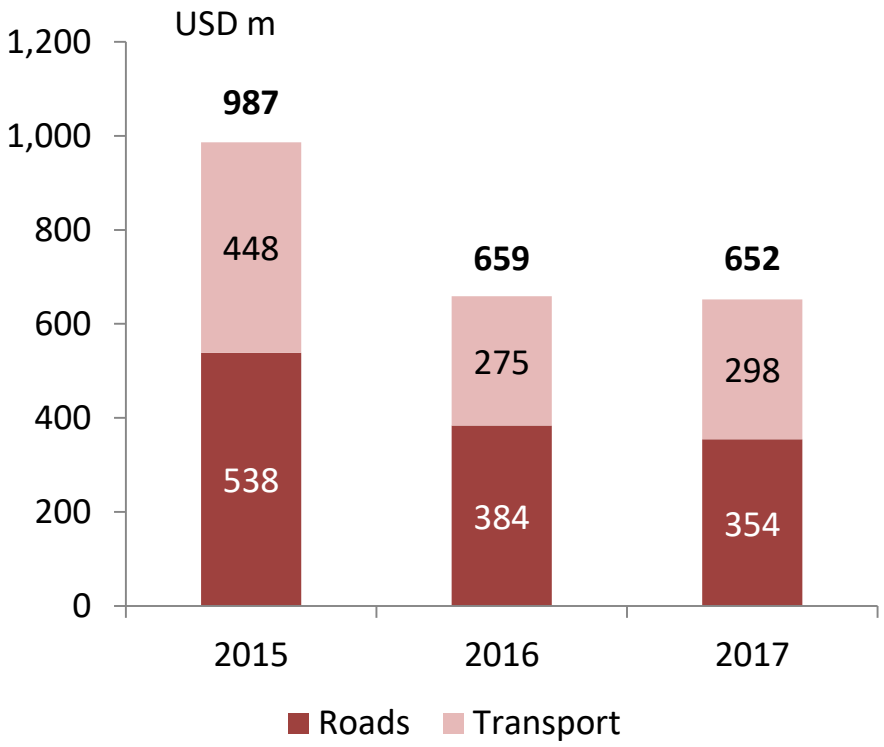
Transport infrastructure investment demand

EBRD Transition Report 2017/2018	National Investment Strategy (NIS)
Estimates investments needed for: • Repair & maintenance • Upgrade of infrastructure to level of advanced economies • Extension to support economic and population growth	• National Infrastructure Strategy 2017-2030 • Estimate of transport infrastructure investments • Note: mainly road infrastructure
Transport infrastructure investment need • 2018- 2022: USD 18.5 bn • USD 3.7 bn p.a.	Transport investment need • 2017 - 2020: USD 5.6 bn • 2021 – 2030: USD 17.4 bn • Ca. 1.7 bn p.a.

➢ **Annual transport infrastructure investment demand of USD 1.7 bn – 3.7 bn p.a.**

Substantial investment gap; but little use of BRI money

Budget expenditure for roads and transport*



Source: Ministry of Finance Belarus; Budget lines "transport "and "roads" may also include some current expenditure*

- 2017: USD 0.6 bn road and transport* expenditure
- Significantly below estimated investment need

➢ **Investment gap USD 1 bn – USD 3 bn p.a.**

But:
2013-2020 only USD 0.8 bn of infrastructure investments under BRI umbrella

BRI enabled significant investments in production capacity

- **2015-2020: USD 2.0 - 2.5 bn**
- **Until 2018: USD 1.3 bn**
  - USD 350 m infrastructure,
  - USD 1 bn of investment by park residents
- Important: **multinational projects** (of 37 park residents, 16 are Chinese)
- Despite logistic also electronics, machinery, big-data and chemical
- Diverse funding sources: BRI credit lines, other commercial Chinese banks, FDI, IFIs

GREAT STONE industrial park

- **Thus:** BRI offers significant funding outside infrastructure projects
- Catalyst for other investments not related to BRI

Result: BRI funds mainly used for production

BRI induced investments

Transport infrastructure	Production capacity
ca. USD 0.8 bn	ca. USD 2.5 bn

GREAT STONE industrial park

ca. USD 3.3 bn

4. Economic effects expected from BRI

BRI Economic Impact

Direct	Indirect
Demand and employment during construction phase (modernisation and extension of infrastructure)	Growth of **transport and transit** economic activity (rail, road transport, storage)
	Increase of **external trade** (exports and imports) due to reduced transport costs
	Potential for firms to become part of **international value chains**

Direct economic impact reduced by large import share

- Total investment of USD 2 bn announced for 2017-2020 period
- Equal to about **BYR 1 bn** per year until 2020
- 5% of total annual capital expenditure
- 1% of GDP

➢ **Significant impact on the Belarusian economy**

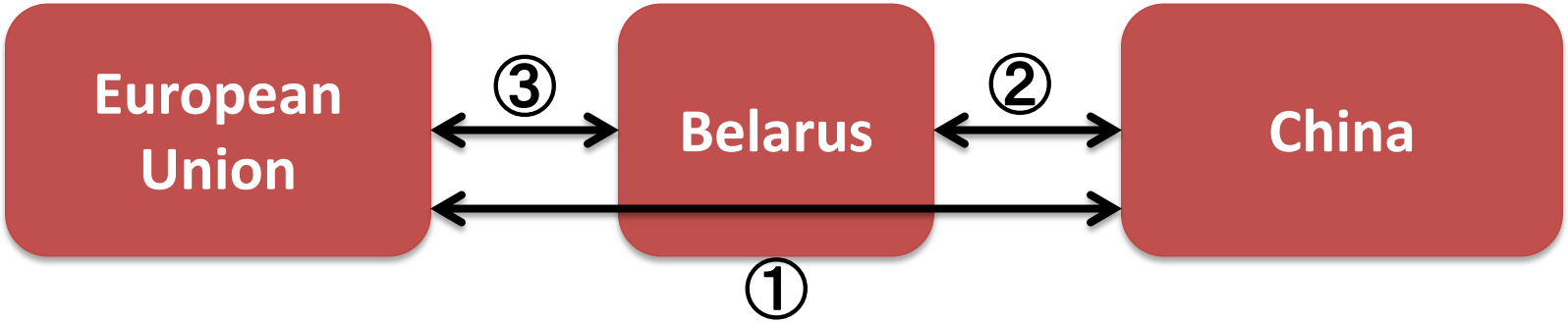
- But: high import share expected due to “buy Chinese” clause
- About 75% of contractors are Chinese
- Use of Chinese equipment and materials

Impact on transport and trade

- Belarus vital part of China-EU transit corridor

Source: Washington Post

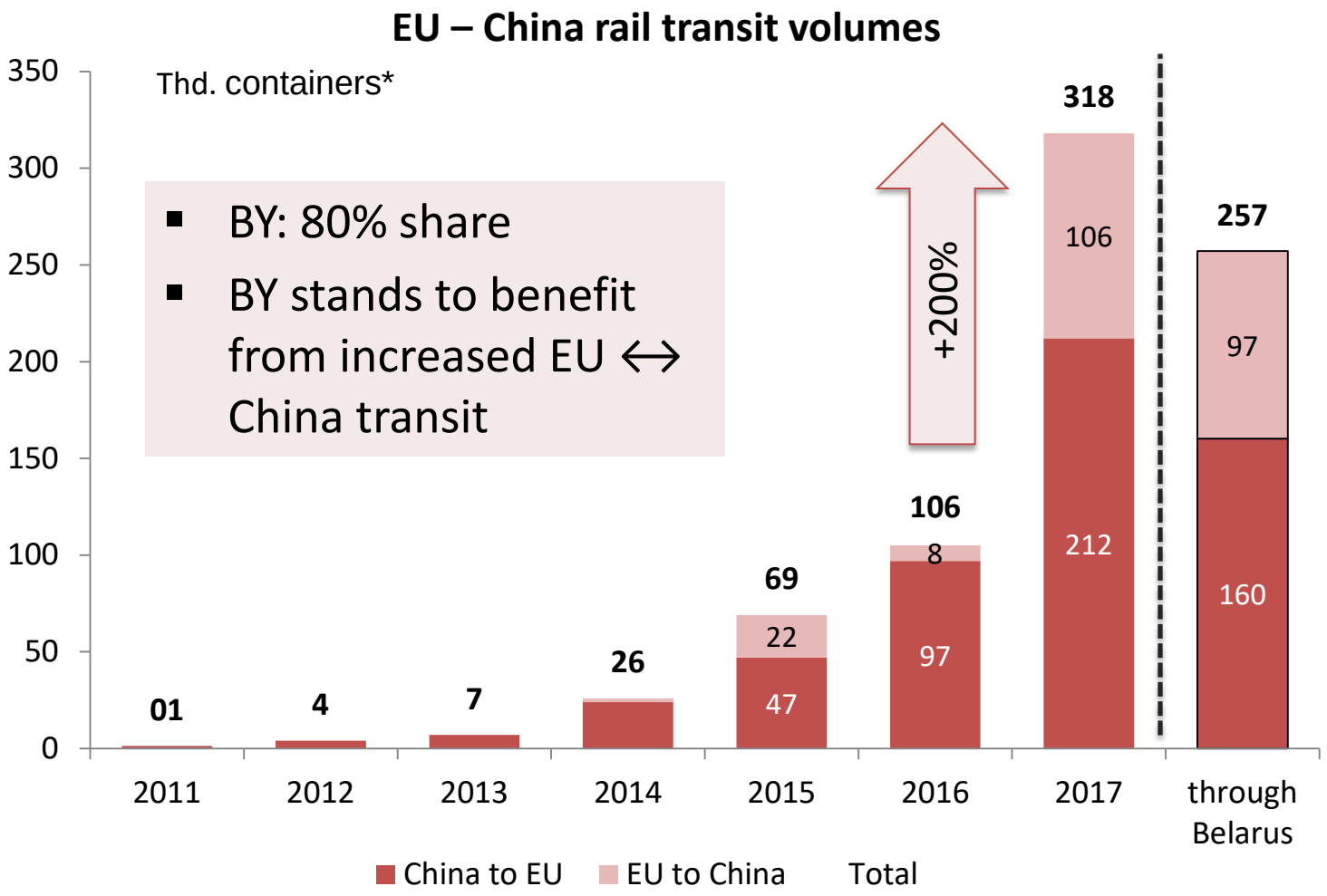
Which impacts on trade and transport can be expected?



Impacts of BRI on transport and trade:

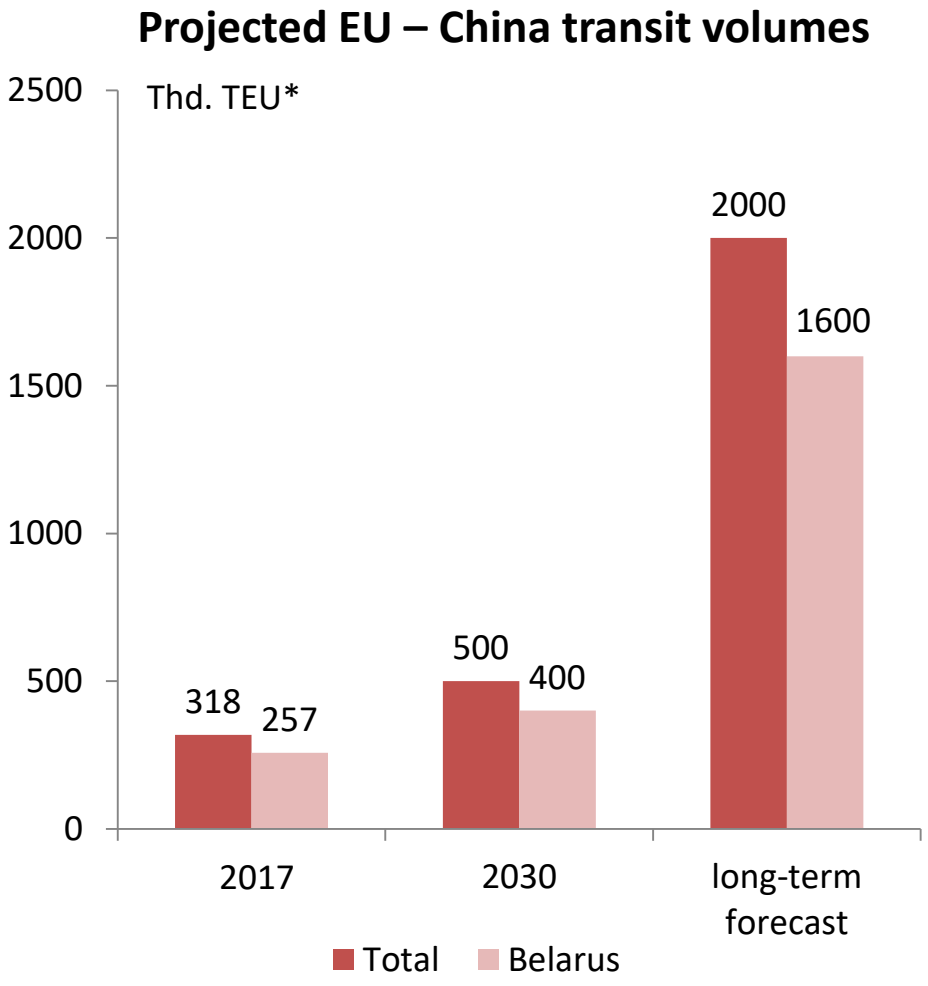
1. Increased transit through Belarus → transit income
2. Increased bilateral Belarus-China trade → economic growth
3. Increased bilateral Belarus-EU trade → economic growth

80% of EU-China transit goes through Belarus



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

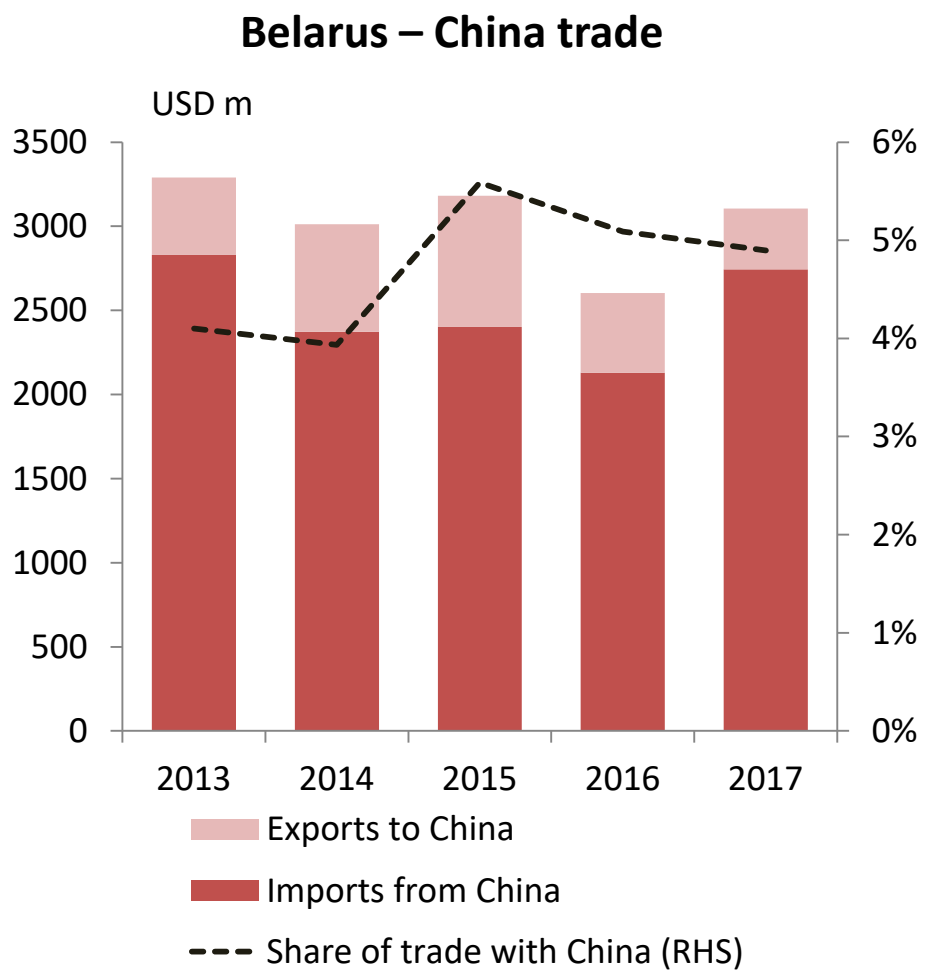
Further dynamic growth expected



- Increase of EU-China transit to 500 thd. TEU expected by 2030
- Long-term potential of 2 m TEU
- Main driver: time sensitive online shopping, increased share of higher value electronic products in exports
- Belarus set to benefit if transit market share can be maintained

*Source: Eurasian Development Bank, * Twenty Foot Equivalent Unit*

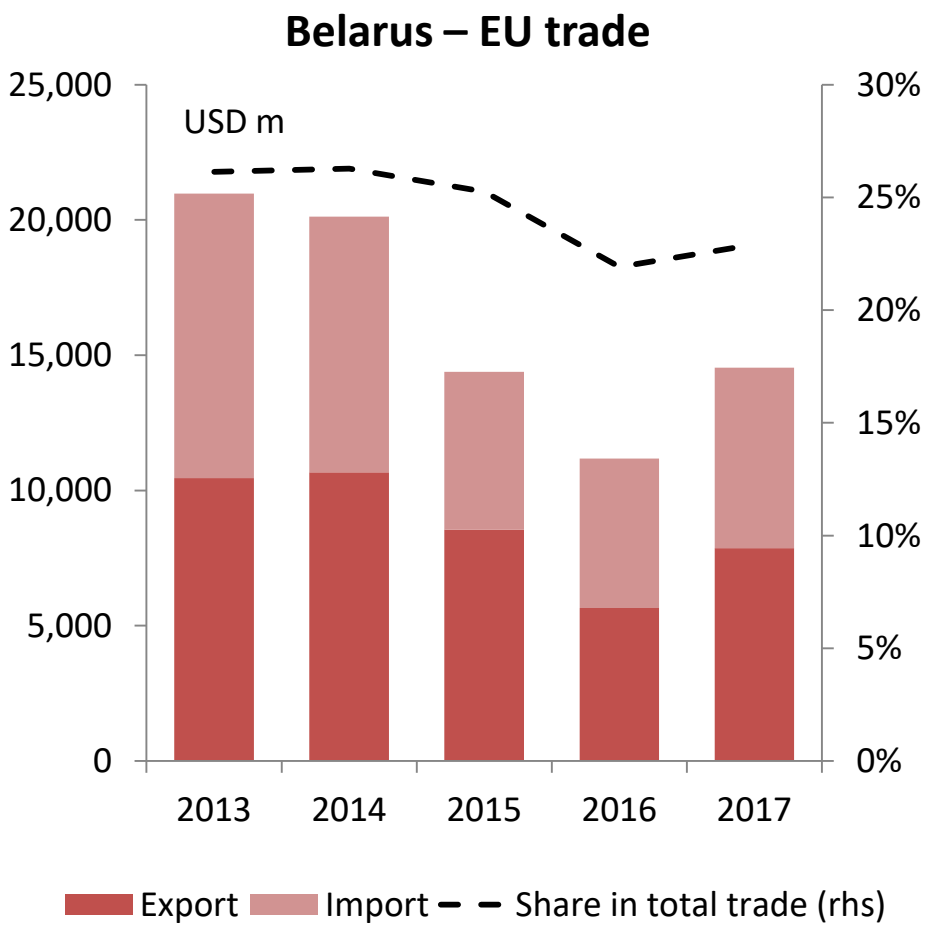
China accounts for 5% of total trade



Source: Belstat

- Trade with China in 2017 amounted to USD 3.1 bn
  - Exp. → China: USD 0.3 bn
  - Imp. ← China: USD 2.7 bn
- Overall trade share of 5%
- Lower transport costs and transport times to result in increase of bilateral trade

EU accounts for 23% of international trade

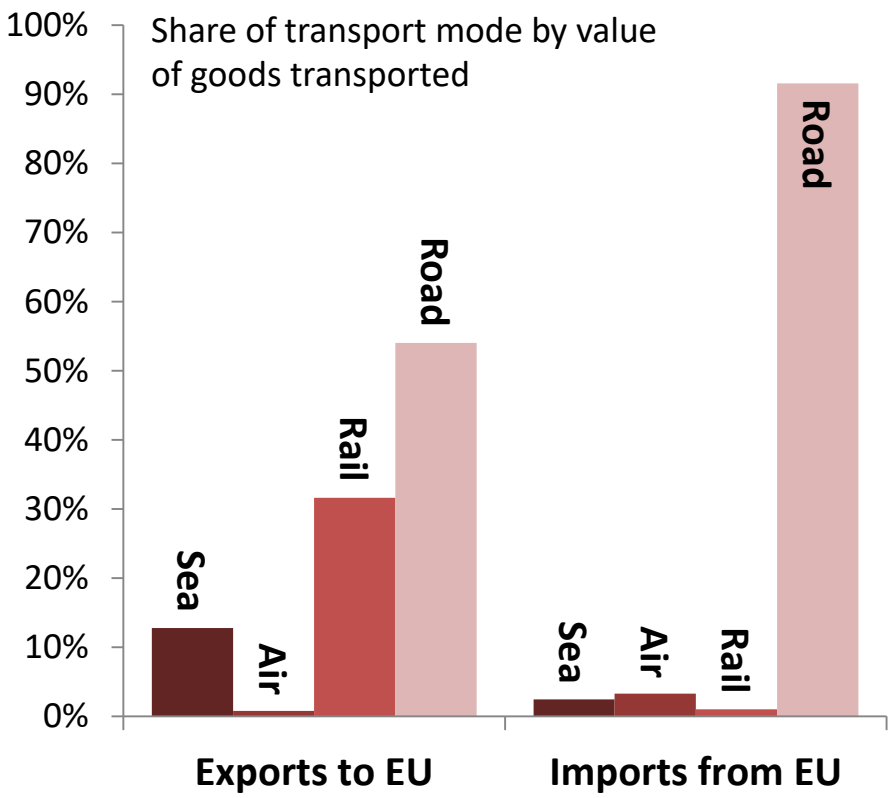


- Total trade with EU was USD 14.5 bn in 2017
- EU accounts for 23% of total trade
- Declining importance due to past economic slowdown, but recently recovery
- Can BRI induce growth in BY – EU trade?

Source: Belstat

Belarus exports reach EU mainly via rail or road

Belarus EU trade by mode of transport



Source: Eurostat

- Chart shows by which means of transport goods are transported between EU and Belarus
- Imports from EU: 92% of imports (by value) are transported by road freight
- Exports to EU: Road (54%) but rail (32%) also important

➢ Due to focus of BRI on rail infrastructure good reason to believe that exports to EU could increase

Significant potential for increase transport cost fall

- Significant link between transportation costs and volumes of trade transported with that transport mode

A 10% reduction in transport cost leads to…	
Rail	**2%** increase of trade volumes
Air	**5.5%** increase of trade volumes
Sea	**1.1%** increase of trade volumes

Source: Bruegel Herrero and Xu 2016

- Example scenario: 30% reduction in trade costs

➢ Trade with EU: increase by about 8% or USD 700 m p.a.

➢ Similar effects can be expected in BY-China trade

5. Conclusions (1/2)

Overall assessment: BRI likely to be beneficial for Belarus

- **Additional investments of USD 3.3 bn** announced or already invested since 2013
  - Roughly USD 0.4 p.a. or 0.9% of GDP
  - With USD 2-2.5 bn main share of investments actually in production not in transport infrastructure

- **Additional financing** of up to USD 8 bn available
  - But: lending terms not always favourable
  - Thus: use of BRI loans only with caution
  - BRI seems to provide a boost to other (non-Chinese) funding sources

5. Conclusions (2/2)

Main economic effects

- **Transport and trade to increase**
  - Reduced transport cost and transport times to EU and China (at no additional cost)
  - Rail transit already witnessed increase, further growth expected
  - Significant increase in bilateral trade with EU and China due to decline in transportation costs

- **New production facilities**
  - Direct investments in production facilities main use of BRI funds
  - About USD 1.3 bn of investments in production facilities attracted
  - Increase in production output and employment

- **So far no risk of unsustainable debt as direct investments constituted main part of BRI capital inflow**

Contacts

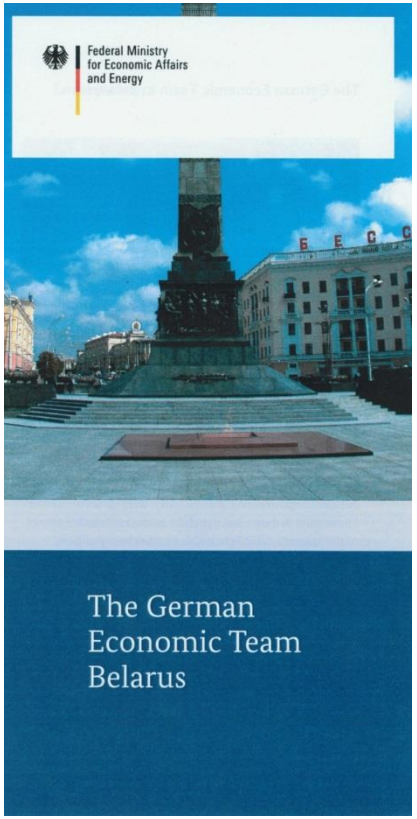
Jörg Radeke

radeke@berlin-economics.com

Dmitry Chervyakov

Chervyakov@berlin-economics.com

German Economic Team Belarus
c/o BE Berlin Economics GmbH
Schillerstraße 59, 10627 Berlin
Tel: +49 30 / 20 61 34 64 0
www.get-belarus.de
Twitter: @BerlinEconomics
Facebook: @BE.Berlin.Economics



Berlin Economics