



# **ESTIMATING THE POTENTIAL ECONOMIC BENEFITS OF THE BELT AND ROAD INITIATIVE**

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# Main messages

- Potential economic welfare/output gains, across all BRI corridors, are estimated to be sizeable, at \$86-\$372 billion or between 1% and 3.5% of total output across all corridors.
- Estimated country-level output increases vary significantly, between 2% and 17%.
- Despite large benefits, economic risks are also notable.
- Further research is needed to assess social impacts and environment implications of BRI.

# **1. Estimating potential economic benefits**

# A computable general equilibrium approach

- CGE model is often used to estimate the *ex-ante* impacts of multilateral agreements on key economic variables
- Database: Global Trade Analysis Project (GTAP)
  - A linearized and static CGE model, with perfect competition
  - Household, corporate and government sectors, with international trade
  - 140 countries
  - 57 industries
  - Base year 2015

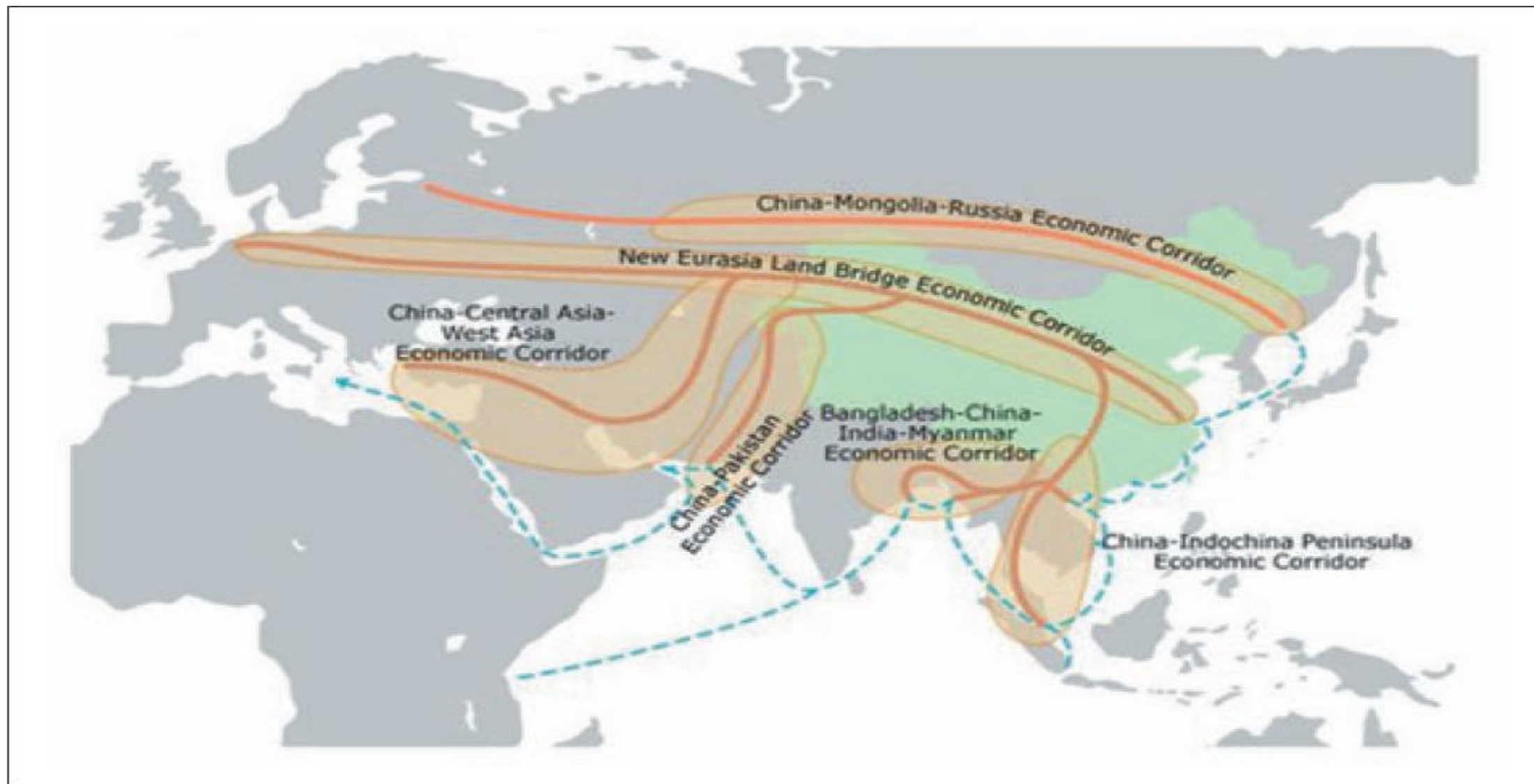
# Simulation assumptions

- Conceptually, BRI could affect an economy through various channels
  - Trade: access to markets, inputs and technology
  - Investment/connectivity: building networks of transport, energy and ICT
  - Movement of people: migrant workers, tourism
  - Financial cooperation: availability of financing to undertake projects
- Assuming changes in 5 GTAP CGE model parameters
  - Lower import tariff rates
  - Lower cross-border transport and transaction costs
  - Higher economy-wide productivity (3 parameters)

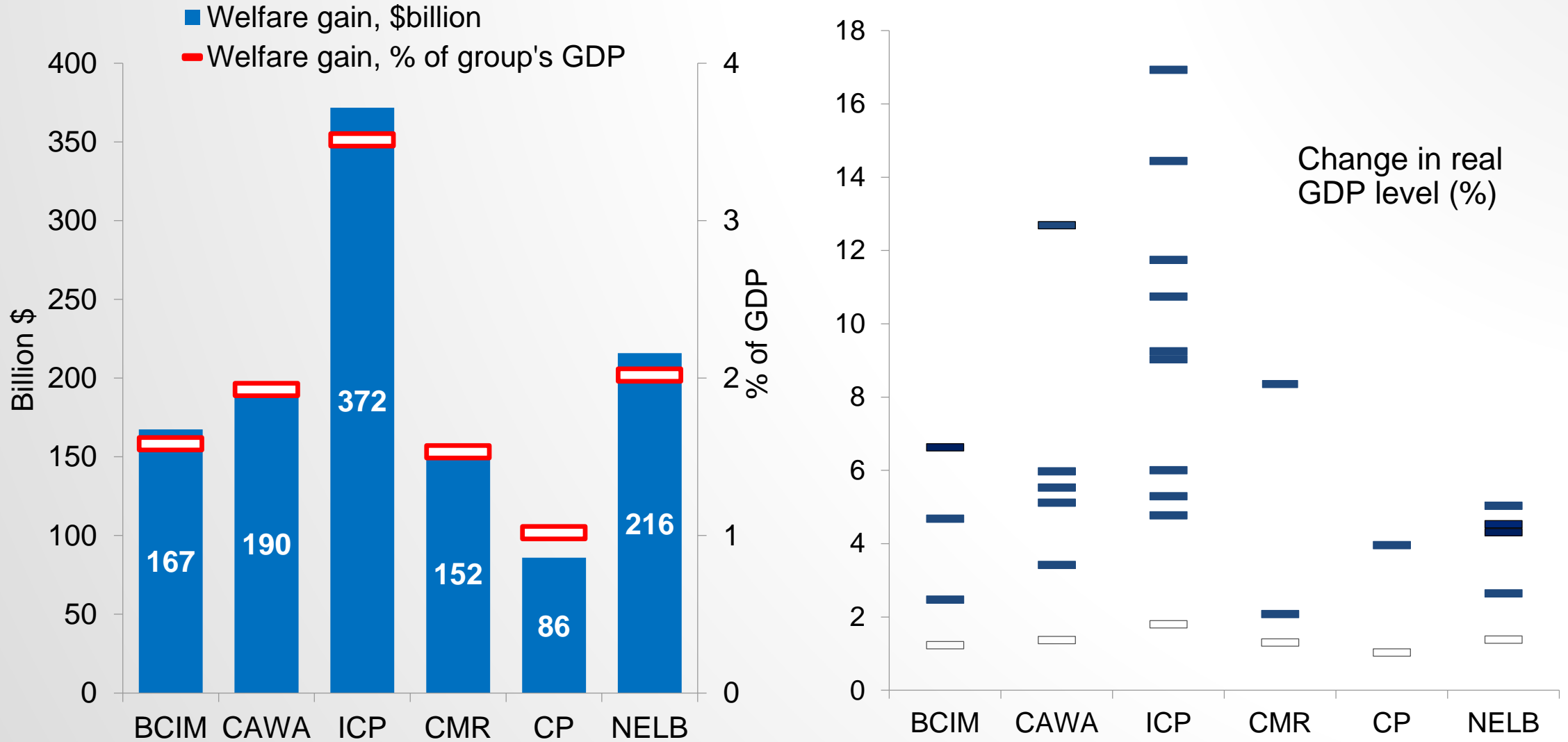
# Three simulation scenarios

GTAP parameter	Low-case scenario		Base-case scenario		High-case scenario	
Tariffs on bilateral imports	-15%		-30%		-40%	
Transaction cost in bilateral trade	-10%		-30%		-40%	
	Large economies	Small economies	Large economies	Small economies	Large economies	Small economies
Factor input productivity	+0.25%	+0.75%	+0.5%	+1%	+0.75%	+1.5%
Technological change in shipping	+0.25%	+0.75%	+0.5%	+1%	+0.75%	+1.5%
Value-added productivity	+0.25%	+0.75%	+0.5%	+1%	+0.75%	+1.5%

# Estimating economic impacts in 6 BRI corridors

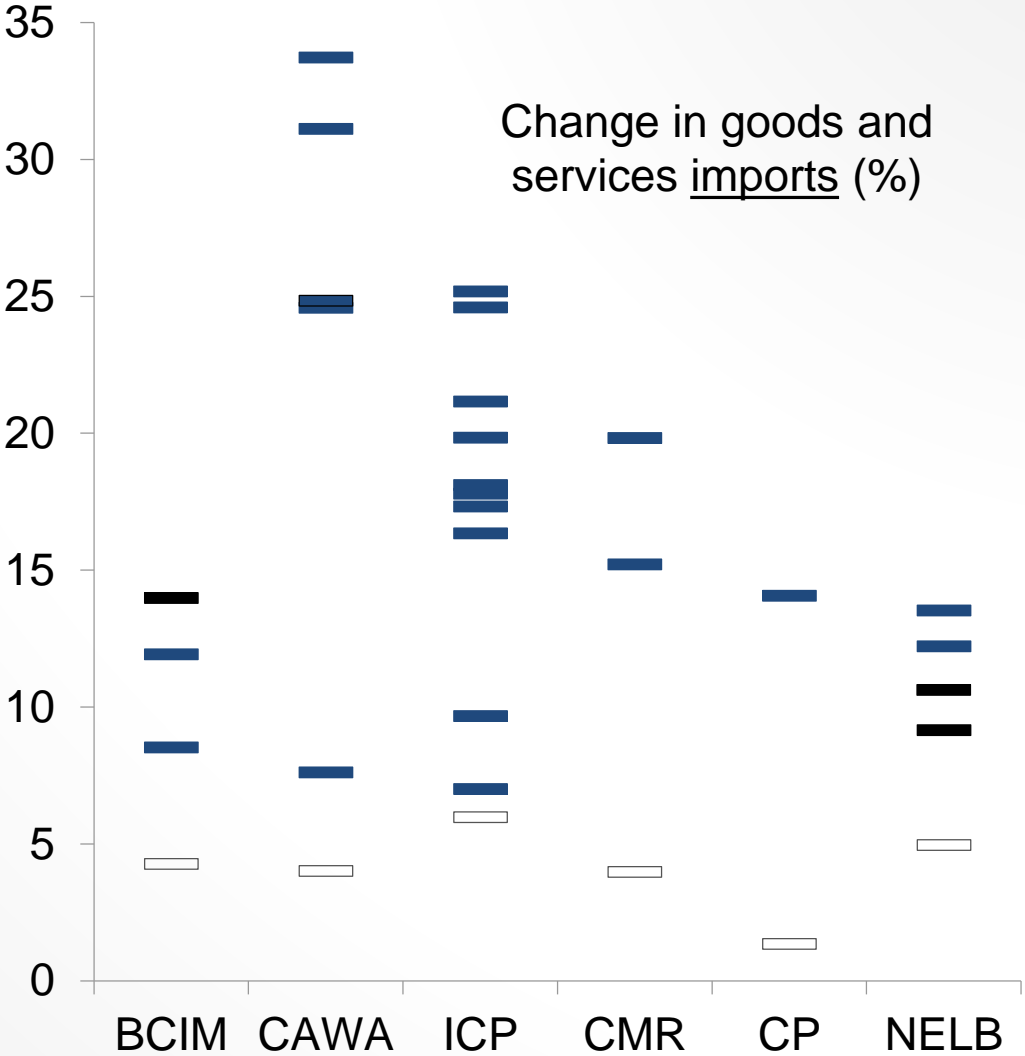
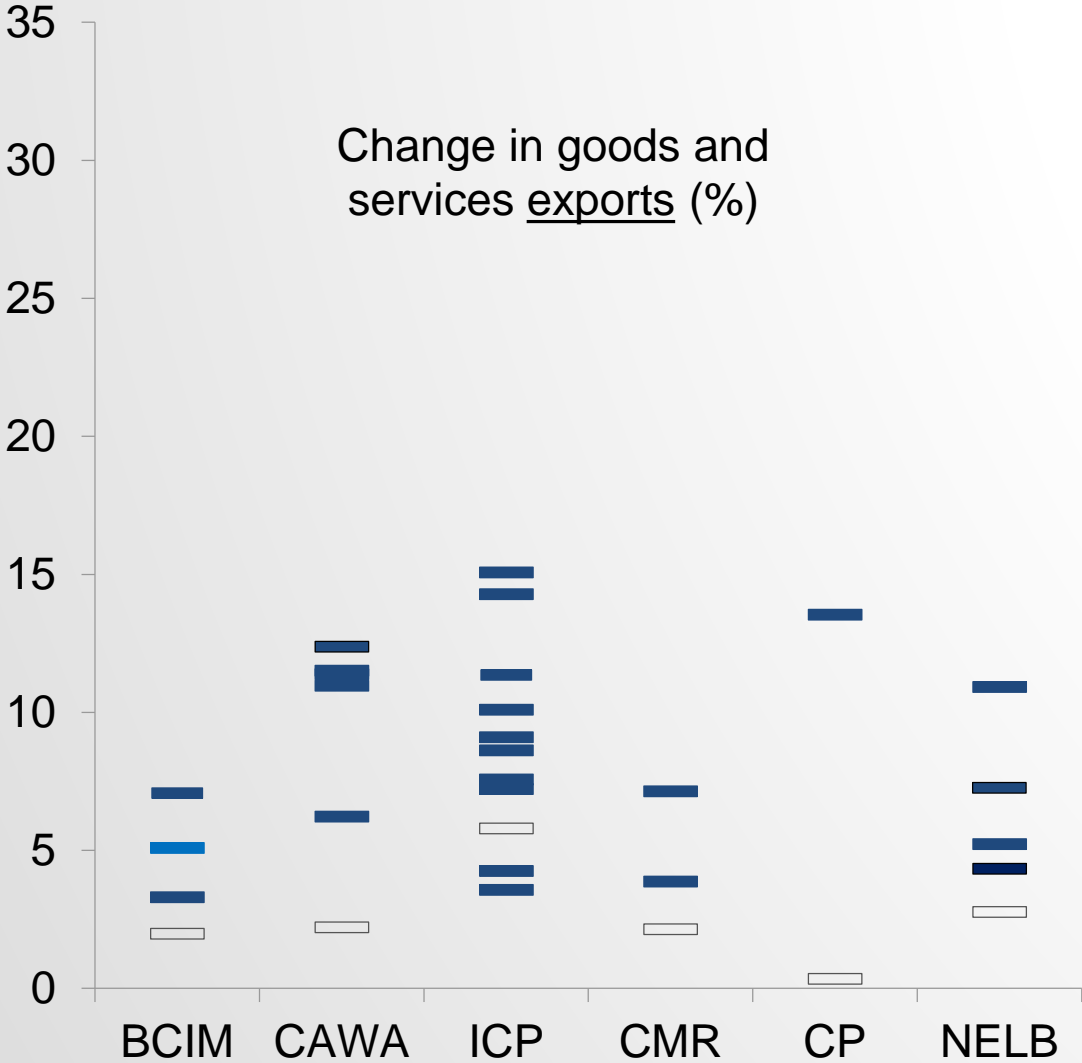


# Output gains across all BRI corridors

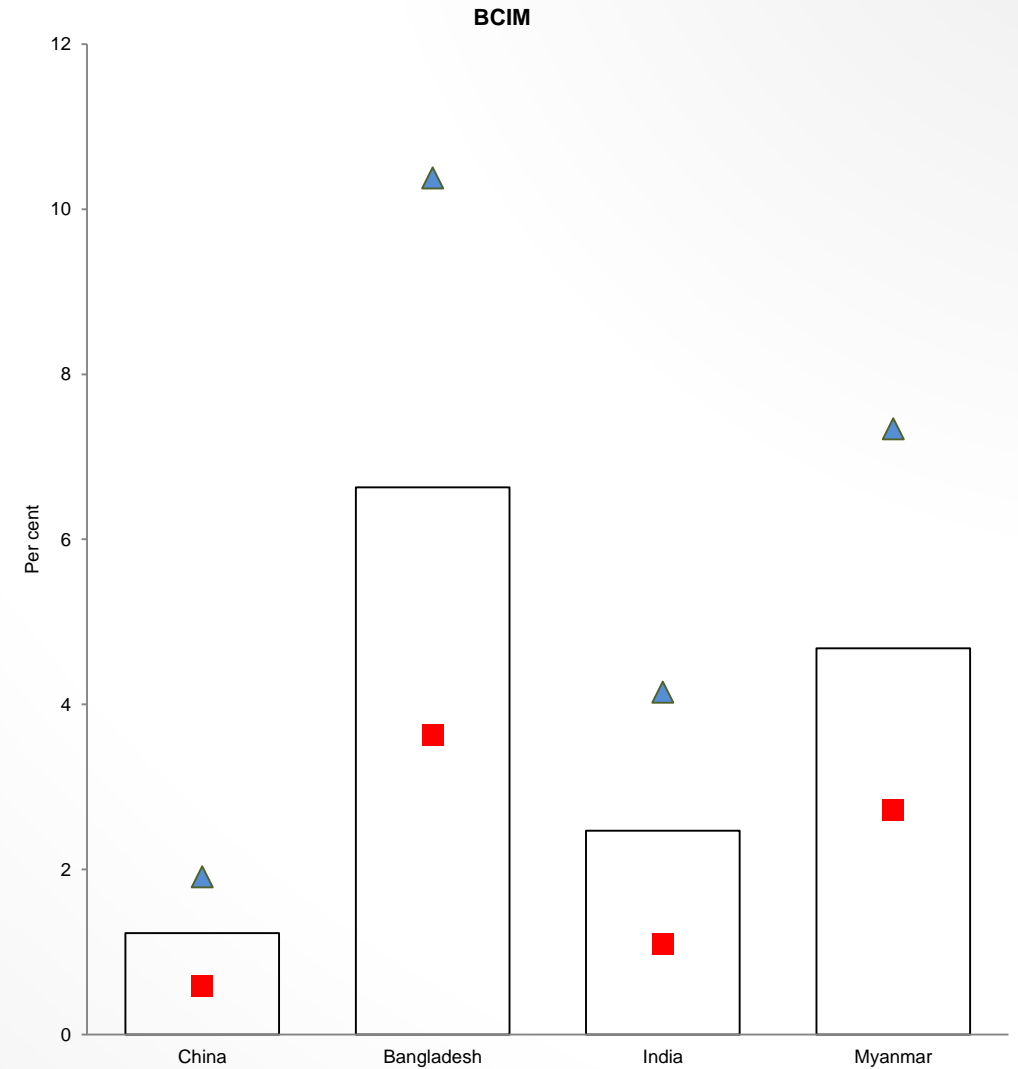
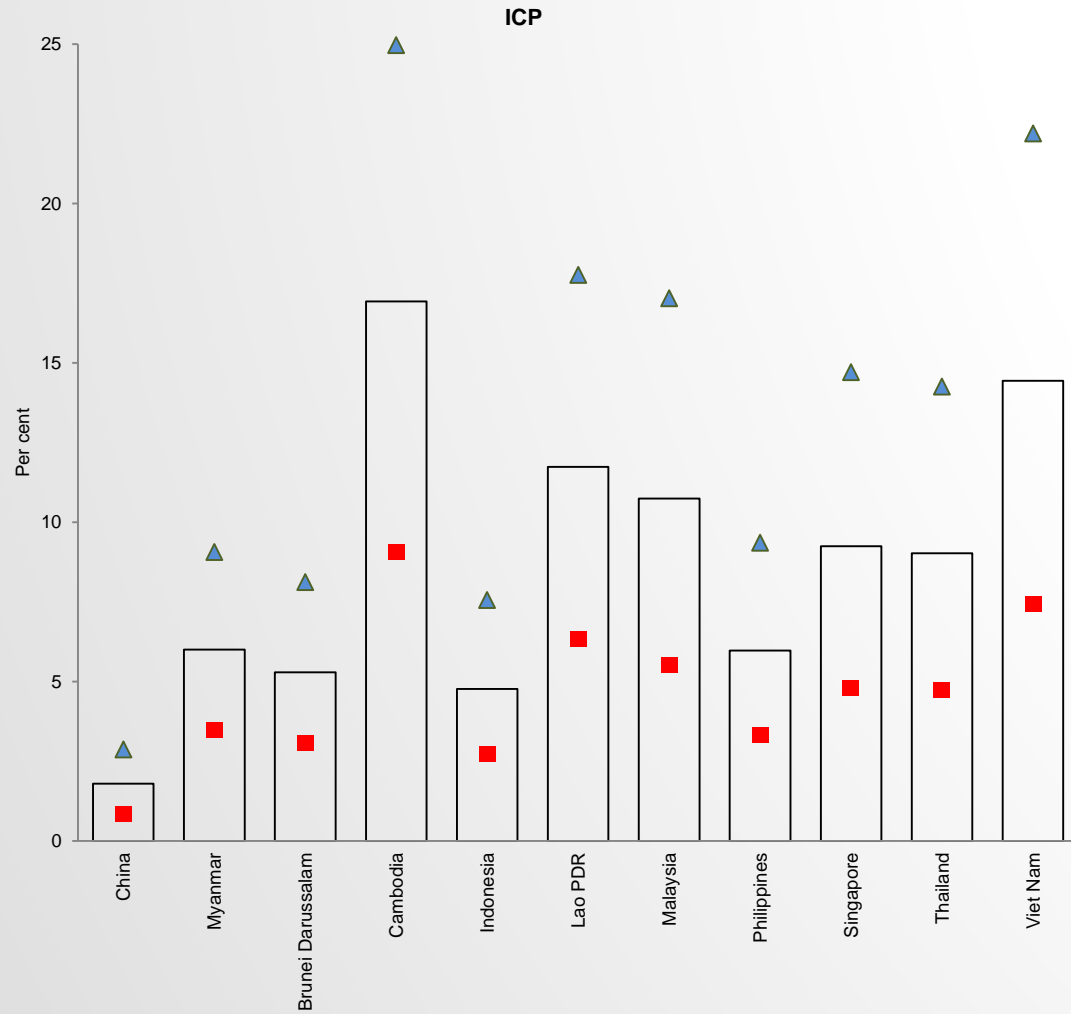




# Imports tend to rise more rapidly than exports



# Output gains: examples of ICP and BCIM



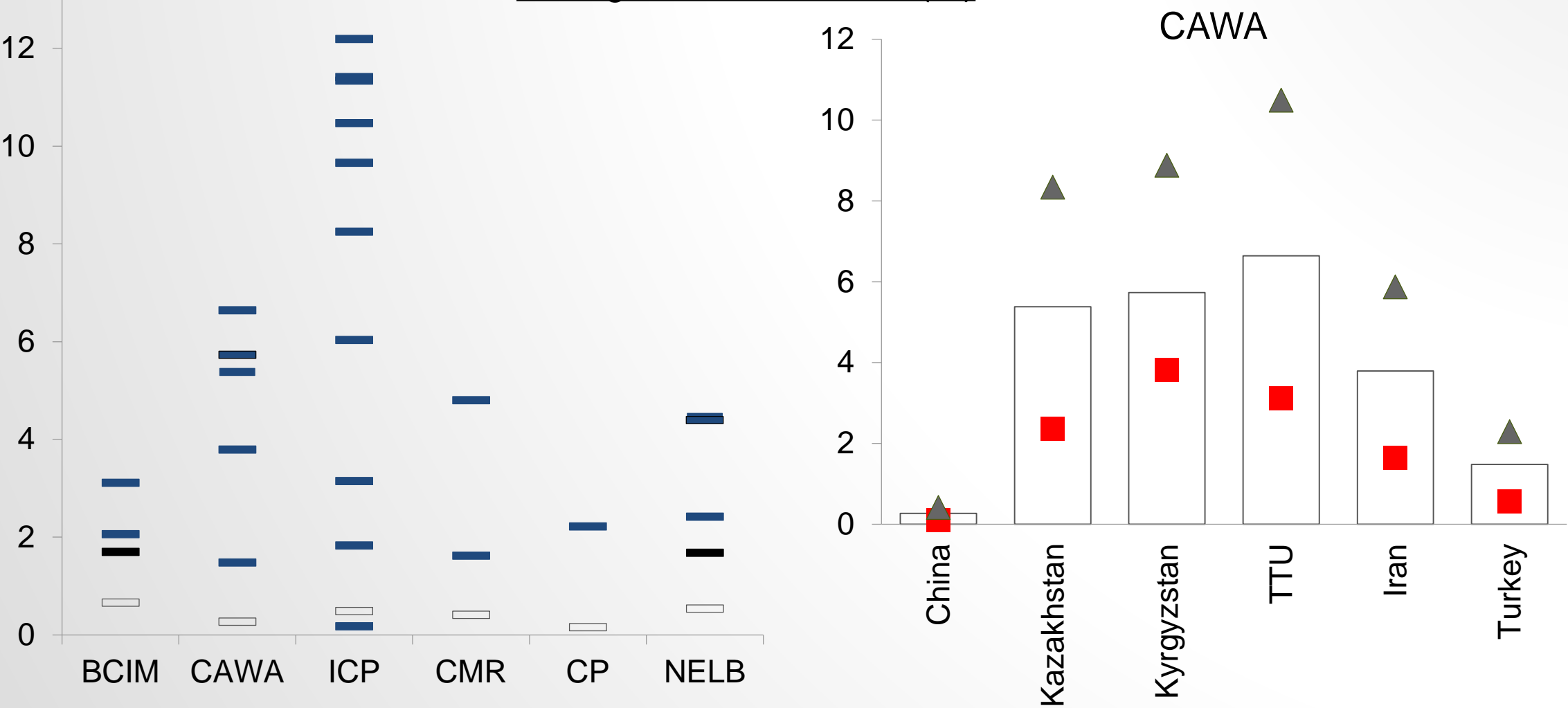
## **2. Potential economic risks**

# Risk of balance of payments instability

- BRI investments are large relative to economy size
  - China-Kazakhstan deal is roughly \$37 billion (over 20% of Kazakhstan's GDP)
  - Kazakhstan's external account indicators are rather weak
    - Current account deficit = 6% of GDP in 2016
    - External debt > 80% of GDP in 2015
- Macroeconomic stability can be undermined by (a) deteriorating trade balance, and (b) eased access to large foreign loans
  - Higher risk in small economies with underdeveloped financial markets, less effective debt management

# Rapid economic growth could push up inflation

Change in GDP deflator (%)



# **3. Possible future research areas**

# Possible future economic research on the BRI

- More detailed economic/social/environment impact analysis
  - Sectoral employment
  - Poverty and income distribution
- Making economic gains inclusive
  - Linking in-country BRI hubs with rural areas
- Meeting large investment and financing requirements
  - Cross-border public-private partnerships
  - Domestic capital market development

**Thank you**

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