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## **Working Paper**

# COVID-2019 and the Future of the Belt and Road Initiative

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**Abstract:** The Belt and Road Initiative (BRI), a very large-scale Chinese initiative supported by more than 130 countries around the globe, is by its very nature a cross-border phenomenon. Thus, it is easily affected by the coronavirus-induced economic crisis. In this article, I analyze various challenges of COVID-19 on the BRI for cross-border movement of goods and people, debt and fiscal sustainability of recipient countries, risks of diminishing availability of financial resources, risks for the emerging multilateralization of the BRI, etc. Based on that, I formulate a number of policy recommendations. I end up with a plea to look beyond the immediate effects and limitations faced in the heat of the battle against the coronavirus-induced crisis. The BRI community should perceive and treat the BRI as a truly long-term policy.

## **As a cross-border phenomenon, the BRI faces challenges in the COVID-19-induced crisis**

The rapid spread of COVID-19 has led to uncertainty and loss of confidence unseen since 2008. The market volatility has also risen extremely fast to a level unseen over the last decade. Even against this unfavorable environment, there are sectors that have taken a disproportionate hit, including tourism, passenger transportation, airlines, hotels – practically everything that has a built-in key cross-border dimension.

Infrastructure, as a rule, is not among the most vulnerable sectors, quite the contrary. It has an inherent long-term dimension. While a cross-border component is important, most basic infrastructure is strictly national. However, the 2020 trends for the Belt and Road Initiative might not fit this general pattern. The BRI intends to build up basic infrastructure across the globe, with a particular focus on Greater Eurasia to the South, West, and North of China. Under the helm of this very large-scale initiative, hundreds of billions of dollars are mobilized and disbursed. A notable percentage of BRI projects possess an explicit cross-border nature – mostly automobile corridors and railroads, but also electric power generation and distribution projects. The BRI is by its very nature a cross-border phenomenon. Thus, there are challenges in the coronavirus-induced economic crisis.

132 countries that are partners in the Belt and Road Initiative account for 35% of global GDP, 43% of global trade in goods, and 60% of the world's population. A recent comprehensive study estimates the amount of disbursed FDI at \$100 bln, and that of committed and disbursed loans \$600 bln. Loans to low-income and lower-middle income countries are often concessional – e.g., for Kyrgyzstan and Tajikistan, two low-income countries immediately bordering China, a typical repayment period of

around 20 years, an effective interest rate of 2% per annum, and a grace period of 5–12 years.

### **Effects of COVID-19 on the BRI**

There are a number of direct and indirect consequences that the current crisis might exert on the flawless and efficient implementation of the Belt and Road Initiative's projects. Let us try to compile a tentative list.

First, cross-border travel and transportation currently face multiple constraints. Since the BRI is, to a large extent, about the expansion of cross-border movement of goods, services, and people, it will take a direct hit through multiple channels, including the contraction of trade, investment, and passenger transportation. A heavy damage currently done to the global value chains adds to the impact of the cross-border movement of goods.

Second, there are reasons to be concerned with the countries' debt and fiscal sustainability. Many of the recipient countries are low and lower-middle income economies with unstable economic growth. For this reason, China's plans, announced at the Second Belt and Road Forum in Beijing in April 2019 to analyze the debt sustainability of each country in cooperation with international financial institutions, deserve applause.

Third, there is the worry that there will be less financial resources available to finance the BRI projects. BRI projects are not only capital-intensive but also require concessional financial ('long and cheap money'), in particular in the low and lower-middle income economies across Eurasia and the world. Since the relevant countries need much of its financial might to stimulate its own national economy in the short term, will the financial resources be there for the long-term BRI projects? These worries are still to be addressed.

Fourth, many BRI projects involve Chinese contractors abroad and, consequently, tens of thousands of Chinese workers working abroad. Such a large external working force would now face multiple hurdles in terms of their deployment and cross-border movement.

Fifth, the multilateralization of the BRI had only begun to unfold in 2019, with the first material results to be expected in 2020 and 2021. Under the multilateralization process, many well-funded international financial institutions were expected to enter the game (e.g., the World Bank, ADB, IsDB, AIIB, NDB, IADB, EFSD). International financial institutions provide project financing based on signed and ratified international treaties that do not depend on local legislative changes, which helps to mitigate certain risks. Under crisis conditions, the international financial organizations deploy both their financial and human resources to fight the crisis, thus stripping much-needed resources from long-term infrastructure projects.

**Fighting against the 'common microbial market' calls for closer international cooperation rather than anti-globalization**

Globalization and economic integration are multi-faceted phenomena. Even their sincere and active proponents, myself included, should realize that everything is a 'double-edged sword'. Globalization can also create opportunities for illegal activities, such as drug or human trafficking and the movement of people across borders for the spread of diseases. Compare the spread speed of early infectious diseases with the rapid spread of avian flu and the most current example of COVID-19 turning pandemic within two months. **In order to contain the global microbial market, international cooperation is called for. However, in practice it can be used in this context to restrict economic linkages between countries and as justification for protectionism.**

In our 2012 book, 'Eurasian Integration: Challenges of Transcontinental Regionalism', we put forward a main hypothesis that advancing towards continental Eurasian common markets, based on the development of common infrastructure, brings significant economic benefits. At the same time, we highlighted that the fight against common threats, most importantly, drug trafficking, human trafficking, and trans-border epidemics (under the nametag 'a common microbial market') should accompany a positive integration agenda.

Overall, the 'double-edged sword' of globalization raises important issues for the region and challenges a number of key policies. Much attention has been devoted to emerging problems; after the 9/11 terrorist attacks, for instance, drug and arms trafficking became areas of relentless public debate, and there have been several epidemiological threats in Eurasia in the last decade – from SARS to EHEC. Nevertheless, decision-making by public agencies has often been hampered by misconceptions and lack of appropriate information. Very often, the line between actual and potential threats is a very fine one. The degree of international cooperation is often inadequate; although all countries recognize the importance of these issues (at least, rhetorically), they are often unable to respond appropriately because their administrative bureaucracies fail to function efficiently. A very typical reaction to trafficking, illegal migration, and epidemics is to tighten border controls. This, however, restricts economic ties, with potentially disastrous consequences. The problem is not only that a potential factor for growth has been restricted, but also that by limiting the economic links between Eurasian countries, the prospects of successfully tackling the 'darker side' of regionalization, of fostering economic development and alleviating poverty in the poorest parts of the continent, become ever more distant. **The COVID-19 crisis demonstrates very vividly that it is time to strengthen this dimension of international cooperation, both within the World Health Organization and in smaller formats.**

### **Policy recommendations to the PRC and its partner countries**

Let us formulate several applied suggestions that might be considered by the PRC and its partner countries in defining their attitude towards the BRI projects facing the current crisis.

**First, look past 2020. The BRI is a very long-term and a truly strategic initiative.** In order to build basic infrastructure in a consistent and efficient mode, one has to stick to a long-term vision that can weather multiple crises along the way. The Belt and Road has a chance to become a classic initiative of

this sort: It intends to qualitatively raise the level of infrastructure around the globe and, in particular, to connect the Greater Eurasian landmass in a way it has never been connected before. This view is particularly pertinent for cross-border infrastructure. Apart from long-term financing, it entails a shared strategic vision of international economic cooperation. Such a vision is difficult to formulate and very difficult to negotiate. Once agreed upon, it should be durable long-term.

**Second, China, its partner countries, and partnering institutions should pay great attention to the issues of debt and fiscal sustainability.** In fact, the current crisis will already test the limit of sovereign debt sustainability around the globe. In some BRI partner countries, 40 – 45% of their external public debt is accounted for by BRI-related financing (granted, much of which comes on concessional terms, which in most cases alleviate sustainability concerns). We applaud the 2019 decision, announced at the 2nd BRI Forum in Beijing, to improve debt sustainability analysis in cooperation with the multilateral financial organizations. In the extreme case, should the COVID-19 crisis prove to be longer and tougher than currently expected, some restructuring might be necessary for some recipient countries.

**Third, keep the export-related railway subsidies for trans-Eurasian transit and do not slash them, at least in the active phase of the current crisis.** Since 2013, the formerly negligible volumes have mushroomed to more than 400,000 containers a year. This spectacular rise is based on the interplay of three factors: Chinese subsidies for the outbound container trains from central provinces; serious efforts by Kazakhstani, Russian, and Belarusian railways and authorities to streamline procedures and eliminate bottlenecks; and realization of the land-based routes' advantage of delivering goods from central China to Central Europe within 15 – 17 days, as against 35 – 40 days by sea. The first factor was probably the decisive one, at least to jump-start the trans-Eurasian routes. However, it would be advisable to start moving towards lower levels once the current crisis is past its acute phase and the durability of trans-Eurasian transit is restored. In the longer term, my recommendation would be to at least partially retain export subsidies and, importantly, to provide more transparency about their level. In the absence of such guidance, infrastructure, transportation, machine-building producers, and logistics companies would face uncertainty about underlying conditions, and, thus, refrain from investing.

**Fourth, and perhaps, most importantly, BRI partner countries would be well advised to contain the expression of negative sentiments.** Facing a crisis, it is very tempting for national governments to revert to protectionist policies and to slash long-term initiatives that feature a low margin and will reveal most of their positive effects in the long-term future. This recommendation might concern the recipient countries more than China itself.

I end with a plea to look beyond the immediate effects and limitations faced in the heat of the battle against the coronavirus-induced economic crisis. The BRI community should perceive and treat the BRI as a truly long-term policy. Let us look past 2020 while assessing the impact and effectiveness of the BRI. It is too valuable to be discouraged by the coronavirus hit.

### Expert Biography:

Evgeny Vinokurov, Asian Financial Think Tank Fellow, is Chief Economist of the Eurasian Fund for Stabilization and Development. His job responsibilities include analysis of global and regional economic trends; macroeconomic analysis of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan with particular attention to debt and fiscal sustainability; economics of infrastructure; development of partnerships with international financial organizations. Before that, he served as founding Director of the Center for Integration Studies at the Eurasian Development Bank. He holds a Master's Degree from the University of Göttingen, PhD in economics from the University of Grenoble II, and Dr. Hab. in economics from IMEMO, Moscow. He authored and co-authored ca. 150 publications. His most recent books are: Introduction to the Eurasian Economic Union (2018, London and New York: Palgrave Macmillan), and Re-Evaluating Regional Organizations: Behind the Smokescreen of Official Mandates (together with A. Libman, 2017, London and New York: Palgrave Macmillan).

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