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Economy in Command
Unpacking the Domestic Politics of China’s Belt and Road Initiative

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ABSTRACT

China has become a world leader in financing development projects, mostly through south-south cooperation. The announcement in late 2013 by the Chinese government to create the Belt and Road Initiative (BRI) to accelerate development in Central and Southeast Asia enhances and solidifies this leader status in the international community. Since the announcement, BRI has attracted considerable scrutiny in both developing and developed countries regarding China’s external ambitions. However, politicians and researchers alike have paid insufficient attention to the domestic historical and political context of BRI. Domestic actors created BRI, domestic dynamics shaped the early implementation of BRI, and it will be domestic economics that decide BRI’s future external impacts. This report fills this gap in research by examining three domestic factors of BRI: origins, governance, and early implementation. This report finds that despite foreign concerns regarding the rise of China’s external power, the Chinese state is primarily focused on economic growth as opposed to consolidating international clout. Also, while observers worry about a strengthening of autocratic power in Beijing as a result of BRI, the Chinese economy remains largely in command of BRI, as it is driven by market-oriented, commercial actors as opposed to government held reigns.

Keywords

Belt and Road Initiative; AIIB; Xi Jinping; infrastructure diplomacy; politics of globalisation
Introduction

In late 2013, Chinese political leadership launched the Silk Road Economic Belt and the 21st Century Maritime Silk Road, officially known as the Belt and Road Initiative (BRI). As BRI enters implementation and emerges as a major “national strategy” (guojia zhanlue 国家战略) under the current leadership, it has raised attention and suspicion in the United States and the target regions. The focus has been on whether and how the Chinese strategy will challenge US leadership in global governance as well as whether and how China’s outbound investment will affect industrialisation and stability in the receiving regions. However, few have studied the domestic politics of the new strategy, posing questions such as: Who were the domestic actors behind its creation? How is the Chinese state governing the initiative? And what are the dynamics of its implementation? Only by unpacking the domestic context of China’s BRI can we evaluate whether it is a sustainable national strategy; anticipate its effects both domestically and abroad; and come up with feasible responses to it.

Despite extensive scholarship on the subject, this article is the first to analyse BRI based on empirical research of the domestic politics that drove the creation and implementation of the strategy. Over the course of four field trips (summer 2014, January 2015, summer 2015, and summer 2016), I conducted 20 in-depth interviews with key officials in various bureaucracies; 30 interviews with representatives from local governments and companies; and 25 conversations with leading scholars in foreign policy and economics. I also compiled an extensive list of archives of Chinese print and online published materials. While the interviews contributed greatly to the analysis herein, to protect the anonymity of my informants the article draws primarily on Chinese archives. Interviews are referenced only where no archival substitute could be found and where the information is crucial to the argument. In these cases, I refer to the sources as “insider informants.”

The analysis begins by looking at the origins of BRI, demonstrating a strong continuity in the diplomatic, economic, and strategic interests and aspirations of ruling elites, both predating BRI and under the current leadership. The second section examines the high politics of BRI, unpacking the black box of Chinese governance structure underlying the initiative. The third section delves into data from the early implementation phase of BRI (2015 to 2016), illustrating a strong business orientation on the part of Chinese commercial actors in their interpretation and execution of BRI projects. Driven by a desire to revive internal development, BRI has expedited investment inside of China. Moving forward, BRI is likely to bring about further economic change in Chinese markets.

I. Fragmented State: Domestic Origins of the Belt and Road Initiative

President Xi Jinping’s Belt and Road Initiative was not conceived from a blank slate. Rather, BRI was Xi’s response to, and incorporation of, three separate efforts by different government agencies. These proposals drew on years of Chinese external engagement and sought to more effectively realise the country’s foreign policy agenda. The first such effort, associated with diplomatic agencies, involved practices and proposals similar to BRI, including infrastructure diplomacy and an earlier version of the Asian Infrastructure Investment Bank (AIIB). The second proposal, termed China’s “Marshall Plan”, was associated with the central economic agencies and argued for increased investment in overseas infrastructure as a way of relieving domestic overcapacity. Finally, the “China goes West” proposal, put forth by security specialists and widely circulated in Beijing, recommended a rebalancing of maritime Asia and Eurasia continental diplomacy.

Diplomatic motive: mutual connectivity (hulian hutong 互联互通) in Asia

One of BRI’s signature proposals is “mutual connectivity”, which aims to finance the construction of in-
rastructure connecting China with Southeast and Central Asia. This was not a novel idea for China; the country had conducted this kind of “infrastructure diplomacy” since at least 2008. Prior to BRI, Chinese diplomats proposed mutual connectivity projects within the Shanghai Cooperation Organisation (SCO) in Central Asia and ASEAN Plus Three (APT) in Southeast Asia. However, infrastructure proposals by Chinese diplomats did not go much further. Due to the separation of powers, Chinese diplomats did not have access to project reserves at Chinese banks. Nor did they have the power to orchestrate financing arrangements within the infrastructure proposals as these functions belonged to the National Development and Reform Commission (NDRC) and state banks. Furthermore, China’s complex relationship with its neighbours and tense relations with other countries went beyond the purview of Chinese diplomats.

In 2010, domestic overcapacity began to intensify infrastructure diplomacy. At the China-ASEAN Leaders’ Summit in 2010, former Premier Wen Jiabao pledged that China would: increase trade with ASEAN to $500 billion by 2015 and establish a free trade agreement (FTA) with each member of ASEAN; provide loans to establish a China-ASEAN Infrastructure Cooperation Fund; and open up and integrate the financial markets of China and ASEAN countries. Wen repeated the same message six months later while visiting Indonesia, where he announced that China would disburse $1 billion in concessionary loans and $8 billion in development financing. Indonesia’s strategic importance was clearly on his mind. He espoused a similar message in November 2011 at the APT Summit, where he stated China’s intention to speed up trade liberalisation, improve regional financial cooperation, and increase investment in East Asia mutual connectivity.

Former President Hu Jintao (2002-2012) had also pursued infrastructure diplomacy. At an APEC meeting in Russia in 2012, Hu offered a concrete plan for infrastructure development in Eurasia in a speech titled “Deepening Mutual Connectivity and Realising Sustainable Development.” Hu’s speech provided the justification for BRI, which was to come later, remarking: “First, infrastructure provides the basis for economic development; second, connectivity is critical to trade integration; third, the present investment mechanisms need reform; [and] finally, Asian leaders need to promote communication and cooperation across borders.” President Hu proceeded to launch the China-ASEAN Mutual Connectivity Joint Committee, which held its first meeting in Indonesia in 2012. Member states agreed to hold regular meetings to coordinate infrastructure projects, create an overarching plan for mutual connectivity development, leverage diverse resources in the region, and set up institutions to promote coordination and cooperation.

In the early days of their administration, Xi Jinping and Li Keqiang continued infrastructure diplomacy. Premier Li affirmed the importance of infrastructure development in Asia and China’s commitment to invest in it. In May 2013, while visiting Pakistan, Li announced that China would invest $14 billion in 36 projects covering energy, roads, and telecommunications in the country. At the Boao Forum for Asia (BFA) in May 2013, BFA vice chairman Zeng Peiyan urged, “We must propose [an] Asia Infrastructure Cooperation Initiative (AICI) and work toward, first, coordinating infrastructure programs in the member countries, and two, establishing a specialised multilateral financial institution or an investment fund.” Zeng, former Vice Premier and a long time Minister of the State Planning Commission (predecessor agency of the NDRC) was highly influential among China’s economic technocrats. Prior to BRI, Zeng published multiple articles promoting the idea of AICI and a special infrastructure fund.

2 Wen Jiabao, speech at China-ASEAN Summit, Renmin ribao, 30 October 2010, 1.
3 Wen Jiabao, speech in Indonesia, Renmin ribao, 1 May 2011, 2.
4 Wen Jiabao, speech at ASEAN Plus Three Summit, Renmin ribao, 19 November 2011, 2.
5 Hu Jintao, speech at APEC Summit, Zhongguo xinwen wanglue, September 8, 2012.
6 Hu and Zheng 2015.
7 Li Keqiang, speech in Pakistan, 21st Century Economic Daily, 22 May 2013, 8.
8 Zeng Peiyan, “Yazhou jichu sheshi hulian hutong shizai bixing” (Asian Infrastructure Mutual Connectivity Has to be Done), Boao Review, 13 October, 2013, 38-40.
9 Zeng 2013.
Infrastructure diplomacy was robust before BRI. In 2011, China provided $15 billion in concessionary loans to support 50 projects including highways, railways, water, energy, telecommunications, and electricity linking China and ASEAN. Cross-border rails and highways projects connected border provinces such as Nanning and Kunming with Hanoi and Singapore, respectively. According to Zhu Caihua, Dean of Economic Diplomacy at China Foreign Affairs University, when ASEAN members founded the ASEAN Infrastructure Fund (AIF) in 2012, Chinese diplomats attempted to expand the AIF into an East Asian Infrastructure Fund (EAIF), but were not able to influence Chinese economic planners and financiers. Moreover, Japan and other “unfriendly” nations resisted their efforts to do so. Therefore, the EAIF proposal did not succeed in the context of APT. In Central Asia, Chinese diplomats encountered obstacles in the SCO. Gao Jiangang, the Dean of Economics at Xinjiang University of Economics and Finance, concurred that Chinese political leadership should take charge and devise an “overarching” strategy to manage economic, political, and strategic relations in Central Asia.

These proposals and practices demonstrate how Chinese diplomats supported infrastructure diplomacy well before BRI. Insider informants confirmed that diplomatic agencies played a key role in President Xi’s BRI proposals in late 2013. In addition to diplomatic pressure, economic agencies were also facilitating the creation of BRI as part of their efforts to push Chinese companies to be more active on the global scene. As BRI entered implementation, economic actors became the main players, side-lining diplomatic agencies and strengthening the “economy in command.”

**Economic motive: the Chinese Marshall Plan**

The Chinese “Marshall Plan” proposal was in many ways the predecessor to BRI, as people associated with economic agencies pointed out following the launch of the initiative. The idea for the Chinese Marshall Plan was first laid out in a 2008 Shanghai government report commissioned to study China’s strategic options in the coming decades. Authored by Professor Guo Shuyong of Shanghai Jiaotong University, the report evaluated three options for pursuing China’s global economic and security interests: a comprehensive, grand strategy; a security-oriented regime; and a Chinese Marshall plan. Guo concluded that while the first two options were unfeasible, the third option—which emphasised economic over security cooperation—would be more acceptable to other countries and thus lead to greater stability in the region.

As China’s growth pressure mounted, the Chinese Marshall Plan began attracting more attention from economic technocrats. Zhang Monan, an economist at the Ministry of Industry and Information Technology (MIIT), argued that the 2008 financial crisis exacerbated China’s industrial overcapacity and that a Chinese-style Marshall Plan could help address the problem by shifting industrial surplus abroad. Former Minister of State Administration of Taxation Xu Shanda refined the Chinese Marshall Plan idea and publicly supported it in a speech delivered on 5 August 2009. Mr. Xu argued that “China should learn from post-WWII America to implement a Chinese Marshall Plan”, serving as a medium to long-term strategy to disburse foreign aid and foster international cooperation. Specifically, Xu proposed that China should spend $500 billion to set up a “Harmonious World Plan” by providing aid and loans to Asian, African, and Latin American countries, which would be conditional upon granting preference to Chinese companies in construction and supplying equipment. The Plan, according to Xu, would boost Chinese exports, reduce industrial overcapacity, accelerate renminbi internationalisation, and advance China’s global influence.

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10 Zhu 2013.
11 Ibid.
12 Pan 2015.
13 Gao 2014.
14 Guo 2008.
15 Zhang 2009.
Xu’s proposition, however, was critiqued heavily within China. Media celebrity Qiu Lin, for instance, immediately attacked Xu’s August 2009 speech, complaining that with China’s interior regions hungry for state investment, “Why waste money abroad?” He further cautioned that the Chinese Marshall Plan would increase tensions with Japan and the United States, adding: “If our government has surplus funds, why not implement a Marshall Plan in underdeveloped regions within China, the western and other interior provinces”.

Pan Chengfu, a business professor based in Guangdong, echoed Qiu’s critiques, voicing similar concerns in a business-oriented media outlet.

As a result, the Marshall Plan proposal was set aside, but as economic pressures continued to mount, the proposal re-emerged in 2012. Former World Bank chief economist Justin Lin argued that a new Marshall Plan financing infrastructure development in poor countries would improve the growth potential there, thus helping to alleviate the global financial crisis. Lin argued that, as the world’s second largest economy, China had the potential to become a driver of global development. Other government-affiliated economists echoed Lin’s views. The economic technocrats pushing the Chinese Marshall Plan asked the leadership to set up a special body that could: orchestrate overseas infrastructure investment and financing; provide infrastructure loan insurance; promote the expansion of the renminbi abroad; and offer better intermediary services.

However, the Marshall Plan continued to face a number of challenges. First, as reflected in the media outcry over Xu Shanda’s proposal, the Chinese public remained divided, with many resenting the government’s spending abroad. Second, with the Ministry of Foreign Affairs (MFA) in charge of coordinating with foreign governments and Ministry of Commerce (MOFCOM) controlling external economic treaties, the kind of cross-agency coordination needed for a successful Marshall Plan did not exist; neither the MFA nor MOFCOM was likely to subject itself to outside guidance from economic agencies. Finally, there was a general sense that China was not ready to compete with the US on the world stage. As such, to some the Chinese Marshall Plan appeared too assertive. To end the controversy, Zhou Xiaochuang, governor of the People’s Bank of China (PBC), declared in 2015 that the Silk Road Fund “is not China’s Marshall Plan.” MOFCOM also formally declared that “China does not pursue a Marshall Plan” through BRI.

Strategic motive: China goes West

In 2010, the US “pivot to Asia” policy put a spotlight on China’s contentious relations in maritime Asia. In the South China Sea, militarised tensions were on the rise. And on the multilateral front, the US was excluding China and rallying allies to form the Trans-Pacific Partnership (TPP). As Chinese strategists worried about a geostrategic encirclement by the United States, scholar and strategist Wang Jisi proposed “China goes West” as a way to promote strategic rebalance and prevent a US-China clash in maritime Asia. This proposal became popular among strategists in Beijing before the inception of BRI. Similarities between Wang’s proposal and BRI—which both moved the country toward Eurasian continental diplomacy—led many security scholars to argue that “China goes West” was in fact the precursor to BRI.

17 Qiu 2009.
18 Ibid.
19 Pan 2009.
20 Lin 2012.
21 Jin 2012.
22 Ibid.
24 “Shangwubu fouren zhongguoban maxieer jihua” (MOFCOM Denies China’s Marshall Plan), Beijing shangbao, 22 January 2015, 2.
25 Ye 2015.
26 Wang 2011.
In the US magazine Foreign Affairs, Wang Jisi argued that “it has become imperative for the international community to understand China’s strategic thinking and try to forecast how it might evolve according to China’s interests and its leaders’ vision”. Wang further argued that China’s grand strategy should be re-oriented to place greater emphasis on the West: “Today, East Asia is still of vital importance, but China should and will begin to pay more strategic attention to the west (…) This new western outlook may reshape China’s geostrategic vision as well as the Eurasian landscape”. This westward rebalancing, however, faces two major difficulties. First, as mentioned above, it is nearly impossible to achieve coordination between different Chinese government agencies. Second, it is equally difficult to reconcile the vast diversity of views held both by China’s political elite and the general public. In confronting these difficulties, Wang believed that a grand strategy spearheaded by strong leadership offered the best chance to coordinate across agencies and build coalitions.

Between 2012 and 2013, Wang Jisi published articles promoting China goes West in a number Chinese journals and popular media outlets including Caijing Magazine and Global Times. And in early 2013, influential strategists in Beijing convened fora to discuss the proposal. Thus, by the time BRI was launched, security specialists in Beijing assumed that Wang Jisi’s proposal had been incorporated into the new strategy. Wang himself, however, became ambivalent about BRI’s ability to capture different ideas and interests. According to Wang, a real grand strategy should be limited to a small group of experts and policymakers. But due to deep-seated fragmentation among different interests and bureaucratic actors, a workable grand strategy in China requires that numerous political groups and sub-state actors be included in the process. In an autocratic system, while the leader can make policy by fiat, he still has to incentivise subordinates to implement it.

In sum, through these prior proposals and practices, various diplomatic, economic, and strategic interest groups pressured the leadership to intervene to help them advance their agendas. When BRI emerged, therefore, it rapidly galvanised support from major agencies and influential stakeholders in China. But with such sweeping support, combined with the proclamation of external ambitions, how do we understand who is truly in charge of this initiative and what its priorities are?

II. Elite Politics of the Belt and Road Initiative

Chinese politics are governed by a party-state system, marked by complex divisions between political power (the ruling CCP) and the government (a system of state bureaucracies). The political leadership is the head of the party, known as the President of China, and the head of the state is the Premier, who leads ministries in the State Council. Focusing on the 1980s, China scholars found that “elite politics”—personal interactions and power of these party-state heads—were responsible for shaping economic policies in Beijing. More recently, China watchers have proposed the concept of “faction politics,” describing a dynamic in which the individual heads of competing factions have stable followers and opposing economic agendas.

This section analyses how top-level voices (gaoceng shengyin 高层声音) on BRI corroborates the elite politics perspective, in which the political leadership has control over national strategy and rallies economic agencies to implement it. BRI project data is then used to demonstrate how, despite top-down authority, substate actors interpreted national strategy to their own advantage, mostly following an “un-
“stately” business orientation similar to the 1980s reform. All in all, authoritarianism and fragmentation remain powerful forces in today’s China.

The top-level voices are drawn from the State Council Development Research Center’s (DRC) BRI Database as well as online reporting on BRI. In total, 139 top-level statements were made between 2015 and 2016. I categorised these statements into two groups, political and technocratic. The political group refers to BRI statements made by members of the Politburo and the technocratic group refers to statements made by government central agencies. In theory, the top-level statements communicate policy preferences and possible measures to be taken by the central government. In practice, however, substate actors have considerable latitude to interpret and improvise regarding their BRI projects. Thus, the documents analysed here help to uncover the power relations underlying BRI, but do not pinpoint the actual policy measures substate actors are obligated to follow. This type of informal guidance empowers substate actors to pursue their own self-interests while at the same time strengthening the legitimacy of top authorities who can still appear to be “playing by the rules”. In short, the documents help us to identify the decision makers and implementers, as well as the proclaimed aim and real action in BRI. They cannot predict, however, what subordinate commercial actors will do and how much they will actually spend on BRI’s implementation.

Among Politburo statements, focus is placed on President Xi Jinping and Premier Li Keqiang, heads of party and state respectively, as well as Vice Premier Zhang Gaoli, head of the Belt and Road Small Leading Group. As shown in Table 1, in the technocratic category, I separate out statements by the NDRC (which is in charge of the national economy), the MFA (in charge of diplomacy), and MOFCOM (in charge of foreign trade and treaties). By analysing their propositions and activities, Table 1 demonstrates which function (economy, diplomacy, or trade) is most salient in BRI governance.

33 White 1998.
35 Perry 2010.
Political leaders, as represented by the Politburo members, include senior officials in charge of party management, propaganda, politics and law, legislature, finance, security, and internal affairs. In the documents analysed, Politburo members made 69 speeches on BRI from 2015 to 2016, of which President Xi Jinping accounted for a simple majority of 38 speeches (55 per cent), while Premier Li Keqiang made only nine speeches related to BRI and Vice Premier Zhang Gaoli made 14. President Xi not only delivered most of the remarks on BRI, but also defined the vision, ideas, and principles guiding BRI. President Xi alone was in charge of the external promotion of BRI in 2015 and 2016 and all major BRI contracts and projects were signed by President Xi or followed his foreign visits.

Zhang Gaoli's speeches were made mostly in China and aimed to mobilise provincial actors to participate in BRI. Only four other members of the Politburo made public speeches on BRI. Zhang Dejiang focused on Hong Kong's roles (three speeches), Liu Yunshang on party collaboration (two speeches), Liu Qibao on propaganda (one speech), and Yu Zhengsheng on policy research (one speech). Due to Xi Jinping and Zhang Gaoli's roles in BRI, their activities and statements are analysed below to highlight specific policy dimensions of BRI. Considering BRI's economic focus, it is striking to note that Premier Li was entirely sidestepped. In Beijing today, while Premier Li heads the State Council, economic policymaking now rests in the party leader's hands, with the help of economic agencies.

Concerning the 66 speeches and statements made by ministry officials in the central government, Table 1 singles out the NDRC, the MFA, and MOFCOM, as these ministries were tasked with coordinating BRI implementation and had jointly drafted the BRI Vision and Action Plan in early 2015, which remains the only formal policy publication on BRI in China. The distribution of their activities is relatively equitable. Representatives of the NDRC made 18 speeches; the MFA made 16 speeches; and MOFCOM
made 14 speeches. The rest of the central agencies, including transportation, taxation, customs, land and resources, and foreign exchange, together contributed 18 speeches on BRI.

Looking at the individuals who made those speeches, and the venues where they were made, indicates that the MFA and MOFCOM may not be as important in BRI implementation as it would appear. Many of the MFA’s statements, for instance, were actually made by ambassadors or former ambassadors regarding President Xi’s foreign trips and rarely did they offer any new interpretation or proposition. Similarly, MOFCOM hardly included any substantive policy messages in its 14 statements. By contrast, the NDRC is in a leading position at the operational level and has made new project proposals. Therefore, the NDRC’s statements should be examined more closely, along with those of President Xi Jinping and Vice Premier Zhang Gaoli.

Interestingly, whereas the MFA and MOFCOM appeared to provide little policy input for BRI, the central agencies in charge of transportation, customs, taxation, foreign exchange, and others have provided rather concrete measures. The Ministry of Transportation, for example, proposed energy and financial insurance; Customs proposed 16 new measures; Taxation published 10; State Administration of Foreign Exchange (SAFE) pledged to support BRI with foreign exchange reserves; MIIT proposed measures related to e-commerce; the State Assets Supervision and Administration Commission published the SOE’s BRI plan; and the State Office of News and Information proposed a China–ASEAN Information Portal. Many ministries also promoted new moves in individual locations throughout China. It is clear that the NDRC, as the economic super ministry, excluded the MFA and MOFCOM while mobilising other bureaus to implement BRI. Given the NDRC’s mandate to promote domestic economic planning, BRI’s implementation is more likely to advance internal development than external ambitions.

The analysis outlined here also provides a glimpse into China’s political economic system. First, it demonstrates that political leadership is essential. The political leader determines the importance of a policy or project and to what extent substate actors will take it seriously. Since BRI has the leadership’s endorsement, it will remain an official national strategy until at least 2022. Second, implementation requires that Chinese agencies and actors with power and resources execute the policy. Then NDRC—which is charged with macroeconomic planning, the approval of large investment projects, providing directives to provincial governments, and coordinating with other economic agencies—has emerged as the leading agency in moving BRI forward. The NDRC’s partner ministries on BRI (MFA and MOFCOM) play important but supportive roles. Yet the fact that other bureaucracies like energy, transportation, and customs could potentially act independently from the NDRC demonstrates how the NDRC’s bureaucratic super status has been eroded by other agencies’ ability to operate independently, both abroad and within China.

BRI is notoriously vague and does not provide clear direction. In what follows, I analyse the speeches of President Xi to better understand the ideas and policies behind BRI. I then examine the remarks of Vice Premier Zhang Gaoli and activities of the NDRC to create a profile of China’s BRI policy.

President Xi’s 39 speeches can be categorized according to three different audiences, with clear differences between them: multilateral, bilateral, and domestic. As demonstrated in Figure 1, when speaking to multilateral audiences, President Xi emphasised vague ideals of openness, inclusiveness, and cooperation in BRI. Xi characterised BRI as a “joint development” platform that would facilitate regional stability and global governance, deploying phrases such as “joint chorus”, “large bright road”, and “friendship”. Such lofty and imprecise concepts likely contributed to dismissal and scepticism by some external observers.
In bilateral summits and meetings, President Xi’s messaging around BRI is more concrete and contains strong economic components. Xi strongly promoted BRI in the Middle East, Eastern Europe, and Central Asia, proposing economic corridors, bilateral treaties, and infrastructure projects, which combined strategic alignment with economic gains. Finally, when speaking to domestic audiences, President Xi spoke in the most direct and concrete terms regarding the implementation of BRI. For instance, in domestic speeches he has launched the Silk Road Fund (at the Central Economics Work Meeting), demanded that the 13th Five Year Plan include BRI, and highlighted the specific measures and achievements of BRI’s first stage.

The speeches of Vice Premier Zhang Gaoli, head of the BRI Small Leading Group, illustrates how his job was to mobilise local governments and, to lesser extent, to coordinate central agencies. Zhang chaired BRI researches and conferences in Ningxia, Gansu, Chongqing (twice), Guangdong, Yunnan, and Guangxi. In each location, Zhang explained the importance of BRI and how local officials could participate and benefit from the new policy. For example, he encouraged Ningxia and Gansu to focus on Economic Belt-related infrastructure construction, Chongqing to explore various economic corridors, Guangdong to become a pioneer in high-tech, and Guangxi to leverage its trade relations with ASEAN. In Beijing, Zhang chaired five BRI working meetings, delivering speeches at these meetings that were general and advisory in nature, focusing on explaining President Xi’s messages. Outside of China, Zhang Gaoli only visited Serbia, where he spoke of the country’s strategic importance to BRI, but offered no specifics.

Judging by its reports and remarks, the NDRC’s activities were more concrete, focusing on coordinating BRI’s implementation in China. Of the NDRC’s 18 speeches, for instance, four clarified BRI’s geographic coverage. The countries included in BRI have continuously evolved, however. In early 2015, the NDRC published a list of 60 countries. A few months later, it revised the list, stating that countries outside of the 60 named were also welcome. The NDRC also underscored the importance of China’s border areas; defined the sectors included in BRI; and affirmed infrastructure as a top priority, followed by energy and e-commerce. In reality, of course, the NDRC’s guidelines are not firm and can be interpreted differently by different actors. Third, as the only coordinating agency, the NDRC adopted the official English name
for BRI, published “BRI Vision and Action Plan”, “Chinese Standards BRI Action Plan”, “Core Principles”, and “industrial capacity cooperation three-year plan”, and approved BRI World Expo and provincial BRI plans. Yet all of these “official” publications were vague and non-obligatory, in many cases repackaging existing macroeconomic plans as BRI plans.

By putting BRI under the purview of the NDRC and by mixing domestic and foreign policy, two messages become clear. First, for Chinese foreign policy to be effective, it must have the deep involvement from Chinese economic planners and commercial actors. Second, the real priority of BRI is not to “buy” external influence, but rather to stimulate domestic growth. The vague and non-obligatory wording from the central government also suggests that state companies and local governments can and should interpret and implement BRI according to their own economic needs and local conditions.

III. Implementing BRI: A Process Under Transformation

There are a number of questions regarding BRI’s implementation: How does China plan to finance BRI projects? Where will the projects take place? Who are the main actors involved? How can external actors influence BRI? This section looks at BRI financing at the national level and examines the major reported BRI projects to assess whether a strategic or an economic rationale was the main driver. The section goes on to examine BRI’s development impacts in specific localities. The analysis of BRI’s early implementation supports the notion that domestic economic imperatives shaped both the creation and the governance of BRI. It also shows how the decentralised nature of BRI implementation empowered local actors to improvise projects in line with their own market conditions while allowing external actors to influence the process and transform BRI in China and abroad.

BRI financing and external projects

China launched two financing mechanisms related to BRI: the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF). President Xi proposed the creation of the AIIB in his speech on establishing the 21st Century Maritime Silk Road in October 2013. Yet no specifics or funding arrangements were provided. The US government quickly dismissed the AIIB and lobbied US allies not to engage with the new institution. The strategy backfired, however, as several US allies went ahead and signed on to the AIIB. In December 2015, the AIIB was formally inaugurated in Beijing as a multilateral development bank with founding members from Eurasian countries. China contributed 30 per cent to the AIIB’s fund pool to become its largest shareholder, acquiring 29 per cent voting power.

In President Xi’s original proposal, the AIIB was presented as mechanism for implementing the Maritime Silk Road and as one of the “twin brothers”, along with the SRF, under BRI.36 In its inauguration, however, the AIIB appeared as a multilateral development bank employing the global norms, principles, and mechanisms of development financing. While the AIIB is under the Chinese leadership and headquartered in Beijing, it does not have a mandate to implement China’s national strategy. In practice, however, the AIIB has partnered with the World Bank and the Asian Development Bank (ADB) in making loans. What caused this shift in the AIIB from an instrument of the Maritime Silk Road to a semi-autonomous multilateral development bank?

Three factors seem to have shaped this transformation. First, despite US opposition, the early participation of Western countries—notably Germany, Britain, and Australia—helped push the AIIB toward transparency and conformity to global standards and lending norms. Second, input and engagement from Western development bank like the World Bank and the ADB directly shaped the principles and measures included in the AIIB charter and other documents. Third, US opposition paradoxically helped ensure the AIIB’s transformation—by pressuring the Chinese government to demonstrate the AIIB’s indepen-

36 Ye 2015.
dence from political interference and that its interests were broader than China’s national interest. These changes in the AIIB echo the policy advice of Professor Thomas Christensen: In order to shape China’s behaviour to the US advantage, the US should combine pressure with its allies’ persuasion.\textsuperscript{37}

Nonetheless, the AIIB’s transformation makes it a less useful instrument for BRI and for China’s outbound “industrial policy”. The newly launched SRF, however, promises to serve China’s national economic interests. The SRF is mandated with financing the construction of the Belt and Road Initiative and is subject to little external scrutiny or influence. Among the SRF’s initial fund of $10 billion, SAFE provided $6.5 billion, China Investment Inc. provided $1.5 billion, China Ex-Im Bank (CEIB) provided $1.5 billion, and China Development Bank (CDB) provided $500 million. As all these funders have been engaged in the country’s overseas lending for decades, the SRF is likely to continue “conventional” Chinese-style of foreign lending: concentrating in energy and raw materials and granting preference to Chinese state-owned companies.

Serving on the SRF’s inaugural Board of Directors is Jin Qi, a long-time aide to PBC governor Zhou Xiaochuang. Jin’s priority is likely to be in line with PBC’s domestic priorities. According to Jin, the SRF has four priorities: first, to support real economy; second, to finance infrastructure construction; third, to promote the relocation of Chinese industrial capacity; and fourth, to promote the green economy and sustainable development.\textsuperscript{38} Further, Jin made clear that of the four agendas, “financial support for industrial relocation is central”. She observed: “Most of the BRI nations are developing nations in the early stage of industrialisation. China just passed the middle stage of industrialisation and, due to its size, it has relatively advanced industrial capacity, machinery, technology, capital, and 30 years of experience in late development. Thus, China should use ‘capital going global’ (ziben zouchu 资本走出去) to support capacity, machinery, technology, and experiences to go global.”\textsuperscript{39} In 2015, the SRF participated in the minority financing of three projects: China Three Gorge’s contract of clean energy programs in Pakistan, China Chemical and Industry’s acquisition of Italian Tire, and China Offshore Oil Engineering Co.’s LNG integration project in Russia.\textsuperscript{40} All in all, the SRF is unlikely to be able to provide substantial financing to infrastructure projects.

How, then, will BRI-related projects be financed? Clearly, the two new mechanisms (the AIIB and the SRF) have neither the financial capacity nor the institutional means to serve as leading financiers of BRI. The likely candidates for funding such projects are CEIB, CDB, state commercial banks, and local branches of these financial institutions. In the past, CEIB and CDB have financed large construction and infrastructure projects outside China, and they have maintained trillions of dollars in project reserves in Eurasian countries. In 2015, CEIB disbursed $80 billion in loans compared to the ADB’s $27.1 billion.\textsuperscript{41} CEIB has stocked up more than 1,000 BRI projects in 49 countries including highways, railways, ports, power plants, resources extraction, pipelines, communications, and industrial parks.\textsuperscript{42} The Construction Bank of China, one of the four commercial banks, also claimed to be following more than 400 BRI infrastructure projects and planning to expand into Eastern Europe, Central Asia, and Southeast Asia.\textsuperscript{43}

Does this mean that Chinese SOEs will rapidly expand into less-developed nations to spread China’s influence? The evidence so far suggests that this is not the case. A survey of major economic and dip-

\textsuperscript{37} Christensen 2015.

\textsuperscript{38} “Silu jijin dongsihang jinqi: jinrong zhichi yidaiyilu xu youxian si fangmian” (The Silk Road Fund Board of Director Jin Qi: Financial Support for BRI Needs Pragmatism), Zhong zeng wang, 24 May 2016.

\textsuperscript{39} “Jin qi tan jinrong ruhe zhichi yidai yilu jianshe” (Jin Qi Speaks on Financial Support of One Belt One Road), Jingrong shibao, 23 May 2016.

\textsuperscript{40} “Sichou zhilu jijin jihua: ziji cong he er lai” (SRF Plan: Where is the Money From), Jingrong shibao, 13 May 2016.

\textsuperscript{41} Ibid.

\textsuperscript{42} “Jinchukou yinhang yidai yilu daikuang yuer chao 5200 yi” (Ex-Im Bank Loans to BRI More Than RMB 520 billion), Zhongguo zhiwu zongbao, 15 January 2016.

\textsuperscript{43} “Jianhang yuliu 2 wanyi buzhuo yidai yilu shangji” (The Construction Bank Reserved RMB2 trillion to Seize Business Opportunity in BRI), Cai Hua She, 25 April 2016.
diplomatic projects reveals that the projects fall under three categories: 1) the most ambitious project proposals, which were “hollow pledges”, 2) the real and substantive investment projects, which were in line with business needs of the companies, and 3) the diplomatic projects, which mainly involved delivering welfare-related aid such as housing and electricity to Pakistan and Indonesia.\(^{44}\)

The “hollow pledges” included Southern Grid’s electricity connectivity project, which would build pipelines across Laos, Myanmar, Russia, and Mongolia. Given the difficulties in establishing such multi-country electrical networks, this pledge is all but impossible to realise. Moreover, the company is under no obligation to finance this project or otherwise act on this pledge. Another major SOE, China Rails Construction, pledged to construct a network of highways, railways, and housing in Central Asia, Eastern Europe, the Middle East and Southeast Asia, without making any concrete commitments. Southern Airlines pledged to integrate terminals in more than 69 cities in 36 nations in Eurasia, which is unrealistic and also entails no concrete investment plan. In the second project category—those in line with corporate business expansion—China Rails announced a $2 billion investment to establish its regional headquarters in Malaysia; China Construction invested in a landmark building in Cambodia and signed a contract to build a China-Malaysia Science Centre; and Shanghai Baosteel’s major BRI project was an online portal to increase exports. In terms of diplomatic BRI projects, most of the early activities took place in Pakistan and Indonesia and involved public housing, highways, and power plants, as well as a port, a dam, and earthquake relief.

It is clear by now that BRI’s aim was to integrate China’s domestic development policy with its foreign policy. Outside China, however, there was considerable uncertainty and suspicion regarding BRI. Furthermore, the AIIB was transformed from a nationalist instrument into a semi-autonomous multilateral development bank and the SRF had few resources and little authority in terms of influencing big changes abroad. BRI’s main implementers are SOEs backed by state banks. Early BRI projects demonstrate a clear business orientation, apart from some modest foreign aid projects and non-obligatory pledges. In short, due to foreign suspicion and a number of other challenges, the BRI is likely to proceed at a much faster pace inside the country than abroad, as the next section argues.

**One Belt One Road financing, the domestic version**

In 2015, the NDRC and the China Banking Regulatory Commission (CBRC) jointly passed the “One Belt and One Road Financing Method” (Yidai yilu rongzi 泸路融资法).\(^5\) The Method asks the CDB to establish project-specific group banks and arrange for Chinese local banks, foreign funds, and the SRF to participate in infrastructure projects in China. According to the Method, the central government and local governments could act as loan guarantors or buy out low-grade equity to ensure profitability for other project investors. The document included many examples and mechanisms of BRI’s financing inside China. Most projects were in central China, Hunan, Hubei, and Henan, as the coastal provinces had little demand for infrastructure financing and western localities made little business sense. Furthermore, the examples were mostly of pre-existing infrastructure projects that had stalled due to lack of financing prior to BRI. The launching of BRI seemed to offer a new lifeline to these infrastructure projects linked to local governments, SOEs, and banks.

According to the NDRC and CBRC, “Due to economic pressure, Rails-Highways-Infrastructure is a sure way to stabilise economic growth”.\(^46\) The NDRC and CBRC talk about three railway projects from Hunan and how BRI helped revive those stalled constructions. In one case, the local government adopted CDB’s new Fund-plus-PPP mechanism to continue construction. Specifically, Hunan provincial finance provided RMB 2.5 billion to purchase low-grade equity in the rail project; CDB then rallied Postal Savings Bank,

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\(^{44}\) Using economic means to achieve diplomatic gains is called economic statecraft (Norris 2016).

\(^{45}\) NDRC and CBRC 2015.

\(^{46}\) Unless stated otherwise, the examples in BRI financing projects are from NDRC and CBRC 2015.
Pudong Development Bank, and others to raise RMB 7.5 billion to purchase high-grade equity in the project. The financing arrangement would last for 20 years. The NDRC and CBRC applauded the fact that this financing mechanism used RMB 2.5 billion in government money to raise RMB 7.5 billion in societal capital and RMB 30.3 billion loans from other sources. 47

The second project was approved by NDRC in 2008 for an estimated cost of RMB 23 billion, of which the Ministry of Railways and Hunan government would each provide 25 per cent and the provincial SOE Hunan Railways would raise loans for the remaining 50 per cent. By 2010, however, the company had failed to obtain the loans. In 2011, Ministry of Railways pulled out, only to return a year later. Additionally, the Hunan government failed to get loans needed to acquire land. As a result, the project was stalled for several years. With launching of BRI, CDB stepped in and formed a group bank consisting of China’s Construction Bank, Chinese Ex-Im Bank, and a local bank to lend RMB 9 billion to Hunan Railway Inc. In 2015, when the project resumed, thanks to CDB’s positive evaluation, more banks wanted to participate.

The third project was an approved railway project connecting poverty-stricken mountain areas in Hunan Province. The provincial SOE Hunan Infrastructure Investment Inc. was its main financier. The company, however, had accumulated too many bank loans and in 2014, due to China’s tightening on local debt, the company could no longer obtain loans and had to put the railway project on hold. In 2015, thanks to BRI, CDB’s Hunan branch stepped in and, together with the provincial government and Hunan Investment Inc., formed a Fund-plus-Loans-plus-PPP financing mechanism. Through this mechanism, the local government provided RMB 2.5 billion and CDB-led banks contributed RMB 10 billion to form a Railway Construction Fund. The rest of the funds came from societal capital in the PPP scheme. According to NDRC and CBRC, the Fund was overbid by 200 per cent.

In line with the practice, by late 2015, CDB’s Hunan branch had formed group banks for 25 projects in the province, totalling RMB 143 billion, including 34 highways and 8 railways in Hunan. 48 In addition, the Hunan government proposed to establish the largest transportation centre in central China to connect with the Belt and Road, at an estimated cost of RMB 600 billion. The idea spread rapidly in Hubei and Henan, Hunan Province’s northern neighbours. A port project in Hubei Province that had difficulty raising funds in 2014 was able to secure loans in the amount of RMB 1.5 billion from a CEIB-led group bank in the name of BRI. By 2015, more than RMB 100 billion in loans had been approved in the province, thanks to BRI. Encouraged to increase borrowing, China’s provincial governments reported a total of RMB 1.04 trillion in infrastructure investment in 2015. 49

Domestic financing and BRI projects confirm that growth imperatives have driven BRI’s creation and implementation. Inside China, new and revived infrastructure projects serve two purposes: to boost GDP growth inside China and to help build connectivity. It is important to note that most of the population and cities covered by BRI are in China. According to the BRI map published at the 2017 Belt and Road Summit in Beijing, before the land-based route reaches Almaty in Kazakhstan, it crosses the Chinese cities of Urumqi, Lanzhou, and Xi’an, with connections to Chongqing, Chengdu, Zhengzhou, Wuhan, and Changsha, to name just a few. When President Xi announced plans for connectivity between China and Eurasian countries, central agencies, local governments, state banks, and SOEs quickly came up with infrastructure projects that would also connect places inside China.

Externally, China Banking Association (CBA), the liaison between CBRC and banks in China, proposed five principles in 2015 for Chinese banks going global under BRI. The principles sought to impose greater regulation on outbound financing and to tighten outflows of funds. According to CBA, BRI-related ex-

47 In 2016, the exchange rate was around RMB 6.8 to USD 1.0.
48 “Yidai yilu jijian xindai yangben: Guokai hang yanyi zonghe jinxiaoren” (BRI Credit and Loans Sample: CDB Acts as Broker), 21shiji jingji baogao, 26 October 2015.
49 NDRC and CBRC 2015.
ternal financing should: 1) expand Chinese bank branches abroad, 2) create innovative financing and products to help Chinese investors explore BRI nations, 3) raise low-cost capital through multiple international channels, 4) coordinate finance and industry to facilitate industrialisation in BRI countries, and 5) strengthen bilateral and multilateral financial cooperation.50

The CBA guidelines are supported by the external activities of Chinese banks. Most of the BRI activities reported by Chinese banks in 2015 and 2016 pertained to Chinese commercial banks setting up branch offices in foreign countries; increasing the use of the renminbi in external transactions; and signing Memoranda of Understanding (MOUs) between Chinese and foreign bank regulators.51 In 2015, for example, nine Chinese banks set up 56 branches in 24 countries and Chinese state banking regulators signed MOUs with 28 countries.52

In terms of actual financing, the cases were either insignificant or had a strong domestic rationale. In 2016, CDB provided loans to a small- and medium-sized enterprise (SME) in Uzbekistan, which was highlighted as a showcase of BRI financing in Central Asia. In reality, the loan was the continuation of CDB’s practices since 2007. CDB had lent to SMEs in Central Asia for the purchase of Chinese equipment and goods. From 2007 to 2015, CDB invested $405 million in Uzbekistan and supported more than 370 SMEs, which imported over $260 million in equipment from some 200 Chinese companies.53

Another much-touted BRI case was that of Kashgar Industrial Park along the Chinese border with its Central and South Asian neighbours. Expected to connect with the Gwatar Port in Southern Pakistan, the contract to construct Kashgar was granted to COSCO Logistics and the main financier of project was CDB’s Xinjiang branch. CDB’s lending led to other bank loans, often to Chinese companies that operate within Kashgar Industrial Park. The Park, which had been operating since before BRI, faced difficulties during the economic downturn, but BRI gave it new life. Similarly, a Hunan SOE’s contract to build highways and bridges in Sri Lanka was halted in 2012 and revived in 2015 after Hunan’s CEIB lent $850 million in buyers’ credit to Sri Lanka to restart the projects.54 In both the Kashgar Industrial Park and the Sri Lanka projects, strongly rooted in domestic interests, local governments and their affiliated SOEs drew on BRI to complete previously stalled projects.

Coastal China experienced severe downward economic pressures before BRI. However, due to the minimal importance of their SOEs, the coastal provinces implemented BRI financing differently from the interior China cases outlined above. In Zhejiang, for example, local banks adopted or increased the use of offshore financing to help the province’s shipping companies expand their transnational business. Another popular financial instrument in Zhejiang was foreign trade insurance, which allowed exporters to minimize the risks associated with exporting to less developed or safe countries. In the case of defaults, the Chinese Credit and Insurance Company would pay exporters. Local banks in Guangdong launched transnational renminbi bilateral pools to help Chinese companies obtain favourable exchange rates in their financial transactions abroad. This practice is also in line with the central government’s policy of renminbi internationalisation.

Conclusions

50 “Zhongzi yinhang jiakuai buju yidai yilu jianshe” (Chinese Banks Speed up Branch Establishment along the BRI), Zhongguojingjiwang, 29 March, 2016
51 “Jiaqiang hezuo wei yidai yilu tigong jinrong baozhan, interview of Chinese Banking Minister Shang Fulin” (Enhance Cooperation to Provide Financial Safeguard to BRI), Jingji ribao, 30 March 2016.
52 Ibid.
53 “Guokaihang zhichi yidai yilu jianshe” (China Development Bank Support One Belt One Road), Jinrong shibao, March 8 2016
54 “Yinhangye pujiu yidai yilu ziji tongtu” (Banking Industry Makes Financing Plans for BRI), Zhongguo zhengfu wang, 3 February 2016.
When the Chinese leadership launched the Belt and Road Initiative in late 2013, it caused considerable controversy abroad. Many China watchers in industrialized countries, on one hand, are deeply concerned about the strategic challenges arising from China’s BRI and the potential for it to cause environmental damage and social instability in target countries. On the other hand, less developed economies are expecting a rapid financial injection from China. The analysis of Chinese domestic politics presented above challenges these observations, underscoring three points. First, the motivations behind BRI predate the current leadership, reflecting the enduring aspirations of Chinese ruling elites. Second, despite changes in the Chinese political system, it continues to be dominated by leaders that prioritise domestic development. And third, economic activities in China remain dispersed and decentralised, thus granting state agents and local governments tremendous latitude to interpret BRI according to their own interests and conditions.

All this does not mean, however, that BRI’s external impacts are trivial nor that external actors do not play a role. In the case of AIIB’s transformation, external actors’ early involvement, coupled with US opposition, is responsible for transforming the organisation from an instrument of BRI into a multilateral development agency. Moving forward, the same dynamic of engagement and pressure is likely to shape BRI’s external influence for the better. BRI also encouraged Chinese companies to invest in certain countries, which over time may stimulate investment opportunities in those regions. As Albert Hirschman once noted, all poor countries present advantageous factors for growth, yet it is up to capitalists from richer nations to recognise and seize opportunities for industrialisation. While not uniformly, BRI may serve as just such a lever in some heretofore undeveloped areas that are ripe for take-off. More importantly, were BRI to achieve its goal of reviving China’s economic growth, Chinese banks and companies might have more resources with which to direct investment and industry overseas—thus enhancing China’s political clout in the world. Again, as Hirschman noted, an expanding economy is bound to have a greater external economic footprint that ultimately shapes foreign policy outcomes.

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56 Hirschman 1980.
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