June 17, 2019 | Open Forum

Domestic politics of China's Belt and Road Initiative

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China has an authoritarian political system and state-controlled capitalism. It is natural for foreign observers to predominantly view the autocrat-launched Belt and Road Initiative (BRI) as a cohesive geostrategy to project Chinese power abroad. Such a view, however, is premised on misunderstanding China's domestic politics and overlooks deep fragmentation among policymakers in China and market tendencies in actual policy implementation. This article investigates the entire process of the Belt and Road, from original ideas, to policy formation, to consolidation, and to actual implementation and shows that, on the one hand, bureaucratic practices have largely shaped the central guidelines, and on the other hand, subnational and state capital have reinterpreted and implemented the strategy on commercial terms and market imperatives. In short, while the autocratic leader announced the BRI based on nationalist and strategic mobilization, it is the functional bureaucracies and commercial actors' market needs that shape its implementation and outcomes.

From two announcements in foreign capitals in late 2013 to the second Belt and Road Summit in Beijing in May 2019, the BRI has entered its sixth year. In the beginning, foreign specialists and states were largely dismissive, or oblivious, of it. In the recent two years, on the contrary, almost all countries and regions were aware of this initiative, and 89 of them have signed official memorandums of understanding (MOUs) with Beijing. However, despite rapidly rising attention in key foreign capitals, the understanding of BRI's domestic motivations and political-economic forces shaping its implementation remains limited. In fact, as the strategy was becoming a universally accepted "grand strategy" under President Xi Jinping, foreign attention to and efforts to analyze the bureaucracies, political groups, and economic actors underlying the BRI have lessened, not increased.[1]

Portraying the BRI primarily as a foreign strategy directed by a powerful leader, people no longer ask serious policy questions such as what are the driving forces, who are the policy supporters, and what interest groups are involved in the BRI process. Answers to these questions are fundamental to evaluation of the BRI's internal and global impacts in the past five years, and many years ahead.

This article draws on field research in China that covers central actors, local governments, and companies, as well as extensive documentary analysis of Chinese online and print materials from 2014 to 2018. The research findings cast in doubt the common perception of the BRI as primarily an external expansionist effort by the autocratic leader. First, it goes into the origin of the BRI and explains how domestic economic crises and fragmented bureaucracies jointly propelled its emergence. Second, in the first phase, it reveals how state agencies leveraged the strategy to promote and strengthen their preexisting proposals and practices. Third, looking into real implementation, it compares how state capital and local governments, based on their different commercial and developmental needs, have interpreted the BRI differently. As a whole, we may have *one* strategy under the political leader and multiple "roads" of implementation based on commercial and market priorities.

The process shows that as a political strategy, promoted through top-down mobilization and carried out by decentralized implementation, the BRI helped revive China's domestic economy while enhancing outward investment and lending. As newly globalizing capital, it is normal for foreign countries to feel confused and conflicted with incoming Chinese investments, and in particular the rapid advance of the BRI, under which all China projects had been placed. However, overlooking China's domestic interests, politics, and policies, foreign observers are prone to exaggerate the expansionist nature of the BRI and overlook the developmental outcomes of globalization by China. This outcome is both unfortunate for China, whose economic priorities and surpluses need to globalize, and for the developing regions that could potentially benefit from this capital shift.

President Xi and the launch of the BRI: The missing story

Xi Jinping, coming to power in 2012 and rapidly consolidating power in 2013, was credited with the genesis of the BRI, the most ambitious foreign policy strategy in China's modern history. Indeed, Xi personally announced the Silk Road Economic Belt (SREB) in Kazakhstan in September 2013 and the 21st Century Maritime Silk Road in Indonesia in October 2013. Xi was also the one that offered characterizations of the BRI as "a bright road," "a multi-country chorus," … and "a win-win" project, along with his pledges of substantial funds to the strategy in bilateral and multilateral settings: the $40 billion Silk Road Fund (SRF), $46 billion China-Pakistan Economic Corridor (CPEC), $100 billion Asian Infrastructure Investment Bank (AIIB), and many others.

Attributing the BRI entirely to visionary ideas of Xi Jinping clearly would overlook the policy process that fed into the birthing of the strategy. In this section, I demonstrate the BRI story that is more than individual leadership, by outlining the crises prior to the BRI, important policy proposals available in different bureaucracies, and how the crises and bureaucratic impasse had compelled and enabled the political leadership to announce the overarching strategy that seeks to deal with all the policy challenges: first, diplomatic challenges and mutual connectivity proposals; second, economic challenges and the Chinese Marshall Plan; and third, maritime security challenges and the "China goes West" rebalancing.

Diplomatic imperative: Mutual connectivity [hulian hutong]

The BRI's signature program has been infrastructure connectivity, aiming to finance and construct large infrastructure projects that link China with Southeast, South, and Central Asia. This idea or practice was not new; China had conducted "infrastructure diplomacy" since at least 2008. The Ministry of Foreign Affairs (MFA) had proposed mutual connectivity projects in the Shanghai Cooperation Organization (SCO) framework in Central Asia and ASEAN Plus Three (APT) framework in Southeast Asia.[2] Infrastructure proposals by MFA, however, did not go much further, as the agency had no access to project reserves at Chinese banks, nor the power to orchestrate financing and construction of infrastructure, which belonged to the National Development and Reform Council (NDRC) and China Development Bank (CDB).

China's domestic overcapacity intensified in 2010, and its infrastructure diplomacy was raised to a new height by its leaders. At the China-ASEAN Leaders' Summit, Premier Wen Jiabao pledged to "provide loans to establish a China-ASEAN Infrastructure Cooperation Fund."[3] In particular, in Indonesia, Wen announced that China would disburse $1 billion in concessionary loans and $8 billion in development financing to help the country's infrastructure needs.[4] Then President Hu Jintao pushed for similarly strong infrastructure ideas. At an APEC summit in Russia in 2012, Hu offered a concrete plan for infrastructure development in Eurasia in a speech titled "Deepening Mutual Connectivity and Realizing Sustainable Development," stating that "infrastructure is the basis for economic development; connectivity is critical to trade integration; and Asian leaders need to promote communication and cooperation across borders."[5]

Before Xi's Belt and Road announcements, Premier Li was an active promoter of infrastructure 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.[6] At the Boao Forum for Asia (BFA) in May 2013, BFA vice chairman Zeng Peiyan said, "We must propose [an] Asia Infrastructure Cooperation Initiative (AICI) and work toward, first, coordinating infrastructure programs in the member countries, and two, establishing a specialized multilateral financial institution or an investment fund."[7]

Actual infrastructure investment had also been strident before the 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.[8] Cross-border rail and highways projects connected border capitals such as Nanning and Kunming with Hanoi and Singapore, respectively. However, Chinese diplomats generally viewed infrastructure diplomacy as failing to achieve its goals. When ASEAN members founded the ASEAN Infrastructure Fund (AIF) in 2012, Chinese diplomats attempted to expand it into an East Asian Infrastructure Fund (EAIF) but could not sway Japan and other "unfriendly" nations.[9] Internally, they could not bring on board Chinese economic planners and financiers. Diplomats encountered obstacles in the SCO, finally responding that Chinese political leadership should take charge and devise an "overarching" strategy to manage economic, political, and strategic relations in Central Asia.[10]

Economic imperative: The Chinese Marshall Plan

Like infrastructure diplomacy, the Chinese Marshall Plan was also a precursor to the BRI, but it was advanced by people associated with economic agencies. The idea gained salience against the background of industrial overcapacity in China.[11] Former minister of state administration of taxation Xu Shanda made this proposal widely known, if publicly controversial, arguing in 2009, "China should learn from post-WWII America to implement a Chinese Marshall Plan," which could serve as a medium to long-term strategy to disburse foreign aid and foster international cooperation. Xu proposed that China spend $500 billion to set up a "Harmonious World Plan" by providing aid and loans to Asian, African, and Latin American countries, conditional on granting preference to Chinese companies in construction and supplying equipment. The plan, according to Xu, would boost Chinese exports, reduce industrial overcapacity, accelerate renminbi internationalization, and advance China's global influence.[12]

Xu's Chinese Marshal Plan proposal was popular among Chinese technocrats. It was also strongly echoed by renowned economist Justin Lin;[13] however, commentator Qiu Lin lodged a powerful charge against Xu, calling the proposal "wasting Chinese money abroad" while ignoring impoverished regions inside China.[14] Other influential voices also criticized it and effectively forestalled progression from the proposal to concrete policy.

Strategic challenge: The "China goes West" rebalancing

From 2010 to 2012, tension in Maritime Asia was rising fast. The US excluded China from a regional grouping, the Trans-Pacific Partnership (TPP), and was seen as creating *de facto* geostrategic encirclement around China. Wang Jisi proposed "China goes west" as a way to promote strategic rebalancing and prevent a US-China direct clash in Maritime Asia.[15] Wang's strategy was quite popular in Beijing foreign policy circles. After the launch of BRI, security specialists in Beijing claimed that "China goes west" had been the forerunner of the BRI. Wang's westward rebalancing, however, faced two major difficulties: 1) it was nearly impossible to achieve coordination across different government agencies in order to make the strategy work; and 2) it was quite difficult to reconcile the diversity of views held in China's political elite and the general public, winning approval for a strategy that reorients China toward inland Eurasia and away from Maritime Asia, which had been the focus of China's economic, social, and political exchanges with the world since the 1980s.

In summary, the BRI's origin suggests that the strategy's attraction to the central government and early popularity were not mainly due to the autocratic directive but based on preexisting practices and proposals in key state agencies. State agencies, despite making convincing arguments on their own, could not rally cross-agency support. The BRI's launch quickly galvanized support from these agencies in Beijing. However, with such sweeping support, it became confusing who was truly in charge of the initiative and where its priorities lay.

The BRI and the Chinese state: Mutually reinforcing

The process from the BRI announcement to consolidation as a national strategy, roughly from 2013 to 2015, demonstrates how the strategy empowered the formerly paralyzed state. During this juncture, various state agencies, particularly those with resources and preexisting projects in line with the BRI received a major boost to their efforts. The BRI became a mobilization campaign, in which different government agencies inserted their policy ideas and made the messages in the strategy more concrete.

In line with preexisting policy ideas and practices, in the summer of 2014, Liu Jianchao, representing the Ministry of Foreign Affairs, supported the BRI strongly and argued that the strategy would integrate China's own development with Asian regionalism through policy coordination, road connections, trade facilitation, currency exchanges, and communication of public opinion.[16] The NDRC publicized its action plan for BRI construction, in which investment, manufacturing, cross-border industrial parks, energy trade, and infrastructure were "the priority of the priorities."[17] The State Council think tank Development and Research Center (DRC) advocated that the BRI jointly develop coastal, central, and western China, while improving Asia's overall economic competitiveness in the world.[18]

Government-affiliated think tank experts also got a clear boost from the BRI to disseminate their policy ideas. Li Xiangyang wrote that the BRI represented a new-era economic diplomacy in China and advocated a series of geostrategic-conscious Free Trade Areas (FTAs): China-Russia-Mongolia in Northeast Asia, China-Hong Kong-Taiwan and China-ASEAN in Southeast Asia, Bangalore-China-India-Myanmar economic corridor and China-Pakistan Economic Corridor in South Asia, and China and the Gulf countries in Western Asia.[19] Chen Yao underscored the BRI's strategic significance,[20] tying construction of a new Silk Road with the revival of China's former place in the world and advocating for the BRI to connect land and maritime transport, deepen regional integration, and expand the geostrategic space for China's rise.

Different Agencies, Different Interests

brHow different agencies play a part in the BRI is not only important to detect policy directions from otherwise nebulousrhetoric but also to identify the nature and shapers of the strategy in China and abroad. Were the BRI to be truly a foreign policy strategy or a new globalization vision, as the political rhetoric stressed, we should expect to see strong and leading roles by MFA (diplomacy) and MOFCOM (international economic cooperation). These two agencies, however, did not appear as the policy drivers or important shapers of the BRI implementation. Most MFA statements were by diplomats regarding Xi's foreign trips and rarely offered any new interpretation or proposition.[21] The statements by MOFCOM also did not provide substantive policy information, except for token approval of free trade areas and zones. Furthermore, the BRI-related zones launched by MOFCOM were inside China, not abroad.[22]

Among the state bureaucracies, the NDRC was evidently in the lead at the operational level and in new project proposals, in particular pertaining to local governments. Its implementation has two directions and demonstrates its traditional focus and power in domestic economic planning and weakness in other issue areas: 1) to come up with acceptable names, scopes, and general standards for the BRI—One Belt One Road or Belt and Road or New Silk Road; and 2) to tie the strategy with its domestic economic priorities and rally local governments to conduct reform and reinvigorate growth under the BRI banner. The NDRC published the official BRI Macro Planning, the Chinese Standards BRI Action Plan, the Core Principles, and the Industrial Capacity Cooperation Three-Year Planning—all "official documents" that were vague and non-obligatory, but, more importantly, folding NDRC's domestic agenda into the BRI. NDRC's One Belt and One Road Macro Planning, for example, was published in early 2015, but its main contents—administrative reform, corporate reform, investment sectorial guidelines, a new budget law, currency marketization, medical provisions, urbanization and hukou reform, new FTA and FDI investment guidelines, and a low carbon economy—had little to do with the BRI.[23]

The NDRC, as a super-ministry in the State Council, however, has the power to ask other ministries and local governments to come up with their plans for the BRI implementation. By mid-2015, more than ten ministries had completed their plans; by late 2015, 32 provinces had all submitted their BRI plans, however vague and non-obligatory, strikingly similar to the Five Year Social Economic Planning that the bureaucracies routinely conducted in recent decades.

Other agencies' activities were also telling. Central agencies in finance, transportation, industry, foreign exchange, customs, and taxation, all passed concrete and potentially significant measures. The MOF proposed new energy and financial insurance to outgoing companies; Chinese Customs adopted 16 new measures to facilitate international trade; the Bureau of Taxation published ten measures that would benefit outgoing companies; the State Administration of Foreign Exchange (SAFE) pledged to support the BRI with foreign exchange reserves while ensuring returns on its investment. Drawing on the opportunity afforded by the BRI, the Ministry of Transportation (MOT) in particular achieved three goals: 1) receiving support from the State Council, NDRC, MOF, Land and Resources, and Environment in its infrastructure propositions; 2) expediting construction of centrally-budgeted projects, such as 28 long-distance highways, six large and important ports, and two new long-distance speed rails; and 3) multiplying its funding sources (RMB¥311 billion central budget +1.8 trillion raised funds +100 billion other projects).[24]

Analysis of the BRI provides a glimpse into processes and power plays in Beijing. First, it confirms how political leadership is essential to major changes in economic and foreign policies. While many policy measures had been proposed in the central bureaucracy, only the autocratic intervention of the BRI precipitated their rolling out.[25] Second, policy implementation in China requires agencies and actors that have power and resources to construct projects and have access to finance. Among the three "gatekeeper" agencies (NDRC, MFA, and MOFCOM), the NDRC has the ability to direct local developments and approve large investment projects and to give approval necessary to access state-financing, making it a leading agency in coordinating the BRI implementation. MFA and MOFCOM thus far have played important but only supportive roles. More importantly, actors in energy, transportation, and finance—the largest SOEs and the most involved in infrastructure—acted rapidly and independently from the NDRC oversight.

Commercial actors and the BRI: Improvisation and interpretation

The process of policy-making from 2013 to 2015 supports that the BRI launched by the political leadership served as a top-down slogan to rally "cohesive" messaging in China. The cohesion of messages was based on ambitious nationalism, speaking to the rise and modernization of the Chinese nation. The messages were ambiguous, allowing state agencies, policy experts, and practitioners to insert their own preferences and policy programs. The BRI policy represents "cohesive" political mobilization and yet highly fragmented policy directions from Beijing. For subordinate state and commercial actors, in particular the state companies and local governments, the BRI meant two things: 1) they were obligated to implement the top-down national strategy; and 2) they had leeway to interpret the strategy to suit their commercial interests.

The BRI's implementation has just completed the first stage; empirical research shows that different state commercial actors have adopted distinct approaches to it. SOEs, state banks, and local governments have been inventive in fulfilling their political obligations while serving their commercial and developmental interests. Below, I first present the pattern of SOE and state bank interpretations and implementation of the BRI, both outside and inside China, and then I contrast how local governments have interpreted the BRI and how BRI projects speak to development priorities in the localities.

Using the DRC One Belt and One Road Strategic Platform, I compiled a list of 647 activities in implementing the BRI from 2015 to 2017.[26] State actors – national bureaucracies as one category and SOEs and local governments as another – account for 47% and 41% respectively. Non-state activities, including private business, think tanks, NGOs, and others, only account for 12%. Furthermore, at both the national and local level, BRI activities were concentrated in industry that involved SOEs, 245 out of 647. The industry share did not include financing projects that may serve to facilitate industries going global. For example, the SRF's investment in Pakistan's Karot Hydropower project would help Chinese companies and equipment get orders, but since the SRF was the chief actor, this was categorized as a financing, not an industry, project.

Analysis of the BRI activities in the database show that SOE projects belong to three categories. First, "hollow pledges," in which the project proposals were too ambitious to be feasible and no specific investment plans or time tables were available. Examples are Southern Grid's project to build electricity connectivity and pipelines across Laos, Myanmar, Russia, and Mongolia; China Rails Construction pledges to construct a network of highways, railways, and housing in Central Asia, East Europe, the Middle East, and Southeast Asia; and Southern Airlines proposal to integrate terminals in more than 69 cities in 36 nations in Eurasia.

In the second category – those in line with corporate business expansion – examples are many. Among them, China Rails announced a $200 million 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 created an online portal to increase exports.[27] Going through full reports on these BRI projects, not just looking at the titles or the headlines, typically reveals commercial calculations and prior business plans behind these projects. Finally, diplomatically oriented BRI projects mostly took place in Pakistan and Indonesia and involved public housing, highways, and power plants, as well as a port, a dam, and earthquake relief.

Why have Chinese SOEs not gone “wild” in investing in the BRI projects abroad? The BRI was launched with oversized financing pledges from the Chinese leadership, and the Chinese development banks, such as China Ex-Im Bank (CEIB) and China Development Bank (CDB), had considerable financial surpluses and project reserves in Asia. Furthermore, along with the BRI, the Chinese president launched two new financing mechanisms: the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF). Why did Chinese SOEs still seek to maintain market rationality in their BRI projects?

The reason lies in the fact that BRI-related financing is subject to Chinese banks’ mandate to ensure safety and return of state assets. Furthermore, the AIIB and SRF are both limited in funding and have specific principles for lending decisions. The AIIB was inaugurated in 2016 and had $100 billion initial capital, to which China contributed $30 billion. However, it has 93 member-states, and it is run as a multilateral development bank in accordance with international professional norms. The inaugural president Jin Liqun had been trained in the US and worked as a senior official at the Asian Development Bank, and he repeatedly maintained that the AIIB would be a “clean and lean” multilateral bank.[28] The SRF, with $40 billion in total, is a sovereign fund pooled from Chinese MOF, SAFE, CDB, and other government sources. It does prioritize servicing the home market and Chinese SOEs, but it considers also 1) whether a project provides a long-term return on its investment; and 2) whether a project has joint financing from Chinese and/or international banks.[29]

The SOEs’ own experience in seeking financing is more telling. When the BRI was launched, Shanghai’s Baosteel, a national SOE, established a Belt and Road Strategic Investment Office and started to look for investment funds and opportunities abroad. It sent a delegation to meet supervisors and state banks in Beijing and asked about their preferential policies and financing mechanisms. It was told to look for “bankable” projects (relatively safe and with solid potential for returns) first and then submit applications for loans. Such projects are determined more by market considerations than strategic concerns. Between India or Pakistan in South Asia – a region identified in the BRI, the company prioritized India as more commercially viable.

AIIB and SRF were too small to support the ambitious BRI. The high price tag has to be shouldered by China's own financial surpluses. State agencies in charge of the financial sector have separate priorities from the political leadership, however. Therefore, they support the BRI rhetorically but simultaneously impose regulatory control and oversight over capital investments. In 2015, the China Banking Association (CBA) – the liaison between China Banking Regulatory Commission (CBRC) and banks in China – declared principles for financing abroad and imposed tighter regulation on outward investment. CBA and CBRC stipulated, BRI-related external financing should: 1) expand Chinese bank branches abroad, 2) create innovative financing and products to help Chinese investors explore BRI markets, 3) raise low-cost capital through multiple international channels, (4) coordinate finance and industry to facilitate industrialization in BRI countries, and 5) strengthen bilateral and multilateral financial cooperation.[30] The guidelines were confirmed by the BRI-related financial activities. In 2015 and 2016, most finance-related activities pertained to Chinese banks setting up branch offices in foreign countries increasing the use of Chinese currency in external transactions and signing MOUs between Chinese and foreign bank regulators.[31]

Compared to SOEs, local government implementation of the BRI is even less noticed by foreign observers, who see it as the "centerpiece" foreign policy, while Chinese commentators tend to be negative toward local reinterpretations, believing that local projects distort the BRI's strategic intent. However, it is the local dynamic that largely explains the popularity of the BRI inside China. The ability to leverage the BRI and interpret it flexibly has helped local governments carry out their development projects and revive the local economy in the last few years.

Obscured by the external ambition of the BRI were sustained development efforts in Chinese localities, which faced industrial restructuring or overcapacity challenges. With varied political-economic actors involved, local governments improvised and implemented quite different BRI projects that help them meet those challenges. Because of unleashing local opportunities, under the context of the "irrational," externally-oriented BRI, and the general lack of major reforms in Beijing, China's economy nonetheless stabilized and diversified from 2015 to 2018, despite challenges. The World Bank Report, *Doing Business 2019*, demonstrates clear improvement in business regulations in China.[32] In AmCham China's *2019 China Business Climate Survey Report*, it is reported that 80% of members said they expected positive industry growth in 2019.[33]

Local governments discussed here have been active in implementing the BRI; they represent different economic regions, economic structures, and state capacities. Ningbo is an eastern city close to Shanghai and Hangzhou; it has a vibrant private economy and significant presence of foreign and state capital. Local bureaucrats are well-trained and development-savvy. When the BRI was launched, Ningbo was facing challenges to upgrade its manufacturing industries in a globalized market. The local government identified attracting high-tech FDI as its priority, and to achieve that, the city should improve its status as a global city in China. Leveraging the BRI, Ningbo took three measures: 1) it expanded its central and eastern European goods exhibition to a routinized, multilateral, Central-Eastern Europe Consortium; 2) it sponsored the creation of a Maritime Silk Road Shipping Index to rival the global Baltic Index; and 3) it expanded and upgraded its new Plum Mountain economic zone to attract foreign investors. In late 2017, Ningbo successfully became the Zhejiang BRI Experiment Site and pledged to achieve new rounds of industrialization and globalization under the BRI.

In the same province, Wenzhou belongs to the southern economic regime. Different from Ningbo, it has dominant private capital and active entrepreneurs, and the local government has been less strategic and strong-handed. Nonetheless, Wenzhou implemented the BRI proactively, with two major programs led by private entrepreneurs.[34] The Belt and Road Goods Expo, held annually in Italy and endorsed by five central ministries, is financed by one or two companies, and showcased many Chinese brands to expand the export market in Europe. The second program was led by the largest power device maker in Wenzhou, which actively follows the leaders' footsteps along the BRI, but its largest BRI project is in China. It constructed a massive manufacturing site near Xi'an, the famed origin and pillar of the Silk Road Economic Belt, and expects to relocate production from coastal cities (Wenzhou, Hangzhou, and Shanghai) to interior China, where labor, land, and other costs are lower and continental markets accessible.

If Ningbo represents the pattern of mixed economy and strong state and Wenzhou represents that of strong private economy and weak state, Chongqing in western China represents the dominance of state capital, as indicated not only by SOEs' majority share in industrial output and state revenue but also by consensus among interviewees that SOEs are the leading development agents in the city.[35] In Chongqing, state-capital improvised two types of BRI implementation. First, it leveraged the strategy and spun off new e-commerce business to profit from imported high-end consumer goods. The most important one is the Yu-Xin-Ou E-commerce Company, a subsidiary of Chongqing's largest SOE, Chongqing Foreign Trade Group. Second, the SOEs collaborated to find external markets for their excess production capacity; 3+N consists of three main actors – Chongqing Foreign Trade Group, Chongqing Ex-Im Bank, and China Development Bank (Chongqing Branch), and other partners to expand business overseas.

Thus, local governments interpreted the BRI based on their own political economic forces and worked to help achieve local development goals. The Ningbo government, facing challenges to upgrade local industry, rapidly concentrated on attracting "high-tech" foreign capital. Although the BRI nominally targets less-developed Asian economies, Ningbo's implementation focused on boosting the city's global profile so that it could be more effective in attracting FDI from advanced capitalist societies. Ningbo's pattern is consistent with other cities that have a similar strong hand from the local government, such as Shanghai, Hangzhou, Suzhou, and other cities in the Yangtze River delta region. With entrepreneurial private capital in the lead, Wenzhou's BRI project was based on the incentives and needs of companies. In Chongqing, with state capital in the lead, the city's BRI projects have been driven by the need to stimulate business and revival of SOEs. For that agenda, state banks and preferential policies were supportive in the city.

*How and why domestic politics matter***?**

Chinese elite politics operates in a black box; top-level policy making is not transparent. Foreigners know two aspects of the system: 1) the political leadership has a lot of power—Xi has concentrated all major powers at the apex of the regime; and 2) China has a state-controlled capital system—the state owns or governs all the large banks, the largest companies, and local governments. It is therefore logical to draw the conclusion that the Belt and Road initiative was the brain child of Xi, who uses state capital to promote the expansion of China's power in the world. This perception has driven foreign assessments of the BRI and Chinese capital in general. Such perceptions, however, overlook significant fragmentation between the state and party leadership, policy ambiguity generated by this state fragmentation, and de facto reinterpretation of national strategies by commercial actors – the SOEs and local governments included.

On the state side, Party leadership and state bureaucracies are functionally separated into two "blocks," holding each other in check. As of 2019, the Party has 89 million members, who fill party, state, and corporate jobs and are subject to ideological training, recruitment, and appointment conducted by the Party Department of Organization. Yet day-to-day, they are civil servants whose professional networks and policy portfolios lie within their government agencies. The Party leadership organs have high political power; but, being limited in expertise and personnel, they impose little real oversight on the state agencies (bureaucracies). Massive state bureaucracies, by performing indispensable government jobs, have a lot of freedom to interpret whether and *how* to carry out a political program.

The BRI process shows that state agencies and the political leadership are not unidirectional in their power and policy interactions. The inability of state agencies to promote their policy ideas to address key challenges facing the country enabled (or compelled) the leadership to announce the Belt and Road. The leadership's announcements allowed state agencies to push for policy contents that they desired. In this process, the leadership and the bureaucracies were mutually reinforced, although agencies with resources and policy authority were better at pushing for their preferred measures.

State capital – SOEs and local governments – is subordinate to political organization and mobilization by the Party leadership and subject to regulation by state agencies. The separation between the Party's organizational power and the bureaucracy's regulatory roles, however, has weakened oversight, leaving SOEs and local governments largely in charge of their own affairs and freely improvising their own measures. From organization theory, when "principals" are divided and give conflicting mandates, agents can have freedom to pick and choose the agendas and means to self-serve.[36] In China, because of the stable, effective evaluative and disciplinary systems in the Party, the commercial actors cannot deviate from the paramount priorities of the ruling party, i.e., maintaining a high growth economy and social stability. For any business projects, any loans they request, any land they use, they have to go through the appropriate central agencies for procedural approval, which gives central bureaucracies considerable power to check risky behavior. Going global, SOEs are required to ensure the return and safety of their assets, help achieve political agendas, and *not* create a social and diplomatic backlash. Chinese SOEs, in fact, have been "risk averse" in investing abroad.[37]

In the BRI implementation, it is clear that all SOEs and local governments felt obligated to sing the praise of it and propose projects in line with it. In reality, they had considerable leeway to improvise how to implement the BRI. To what extent and how much were they willing to invest funds in the BRI projects? The companies and governments took their cue from central agencies, who hold the purse strings, licensing, and project approval. Worried about companies and local governments abusing the banner of the BRI, central bankers urged "bankable" loans. The NDRC stipulates clearly, "[We] must insist on companies as the main actors and market as the driving mechanism. [We] must follow international norms and commercial principles; the companies are responsible for their own decisions, their own returns, and the risks."[38]

Why should we be aware of the fragmentation between the state and party leadership and the commercial tendency of state capital in the BRI? To politicians in the liberal world, simplistic portrayal of the BRI as autocratic Xi's strategy to expand Chinese power abroad has stoked up China-fear sentiment and rallied opposition to Chinese investment and lending abroad. However, there are bigger concerns than narrowly defined geostrategic interests in a few countries. The popular and simplistic view is factually inaccurate and has contributed to misconstruing Chinese BRI, the drivers and effects of Chinese investment and lending abroad.

Ignored by arguments based on external expansionism are the following points: 1) the BRI strategy, despite having an autocratic stamp, incorporated preexisting technocratic and coalitional support for Chinese capital and industry to go global, making it more stable than a personalistic "vision" of an autocratic leader; 2) the agencies and commercial actors orchestrating the BRI implementation work under long-term functional needs and market considerations, more than an autocrat's "ambition," opening room for negotiation and collaboration between Chinese implementersand foreign recipients; and 3) the Chinese economy has excessive capital and infrastructure, which the world's lagging places need. Working well together, the two forces can achieve win-win outcomes. Xi Jinping may make "win-win" sound like a hollow advertisement, but it does not have to be. Rejecting Chinese capital because of the fear of its "strategic implications" serves as a self-fulling prophecy in globalization led by China – if investment is resisted in general, only that with strategic connotations may persevere.

1. Exceptions are recent academic publications. See Min Ye, "Fragmentation and Mobilization: Domestic Politics of Belt and Road Initiative in China," *Journal of Contemporary China*, February 26, 2019; Baogang He, "The Domestic Politics of the Belt and Road Initiative and Its Implications," *Journal of Contemporary China,* Vol. 28, No. 116 (2019); Xiaojun Li and Ka Zeng, "To Join or Not to Join? State Ownership, Commercial Interests, and China's Belt and Road Initiative," *Pacific Affairs* (2019).

2. Interviews with MFA officials and affiliated think tanks in the summer of 2014, Beijing.

3. Wen Jiabao, speech at China-ASEAN summit, *Renmin ribao*, October 30, 2010, p. 1.

4. Wen Jiabao, speech in Indonesia, *Renmin ribao*, May 1, 2011, p. 2.

5. Hu Jintao, speech at APEC Summit, *Zhongguo xinwen wanglue*, September 8, 2012.

6. Li Keqiang, speech in Pakistan, *21st Century Economic Daily*, May 22, 2013, p. 8.

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TAGS : "Belt and Road" Initiative, Asian Infrastructure Investment Bank, Pakistan Economic Corridor, Shanghai Cooperation Organization, Silk Road Economic Belt, Silk Road Fund

THE ASAN INSTITUTE FOR POLICY STUDIES

Online ISSN 2288-5757

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