

# CHINA'S EURASIAN CENTURY?

*Political and Strategic Implications of the Belt  
and Road Initiative*

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## Chapter 3

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### Drivers of the Belt and Road Initiative

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## Drivers of the Belt and Road Initiative

In less than three years, the Belt and Road Initiative (BRI) has become the defining concept of China's foreign policy and is now omnipresent in official rhetoric. It has established a general direction for the country's efforts to build an interconnected, integrated Eurasian continent before 2050. Judging by the importance that the leadership has given the concept, and the quantity of financial, diplomatic, and intellectual resources that have been devoted to it, arguing that BRI is just an empty shell or vacuous political slogan has become increasingly difficult. Its paramount importance for the core leadership is also hard to deny. What is so crucial about the initiative that the vital energies of the entire country have been mobilized to give it the best chances of succeeding? Why is Beijing so eager to invest billions of dollars in Eurasia's infrastructure connectivity? What are the drivers behind BRI and what are its goals?

A first partial answer to these questions can be found in Xi Jinping's speeches. In several instances, he has argued that it is only natural that China, after having itself benefited from its integration into the international system, has now started to make its own contribution to global development by providing "more public goods to the international community." China will do so, Xi has repeatedly claimed, not to pursue its own purposes (as a "one-man show") or to establish an exclusive sphere of influence, but rather to produce mutually beneficial outcomes and prosperity for all.<sup>1</sup> The March 2015 "Vision and Actions" document portrays BRI in the same generous light—it is "a great undertaking that will benefit peoples around the world" and also an answer to "the weak recovery of the global economy and a complex international and regional situation."<sup>2</sup>

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<sup>1</sup> Taylor Soper, "Full Text: China President Xi Gives Policy Speech in Seattle, Wants to Fight Cybercrime with the U.S.," GeekWire, September 22, 2015, <http://www.geekwire.com/2015/full-text-china-president-xi-gives-policy-speech-in-seattle-pledges-to-fight-cybercrime-with-u-s/>; and "Wang Yi: 'Belt and Road' Is 'Symphony' Jointly Performed by All Countries," Ministry of Foreign Affairs of the People's Republic of China (PRC), February 2, 2015, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1234406.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1234406.shtml).

<sup>2</sup> National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce (PRC) "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," March 28, 2015.

BRI emerged after two major events, one economic and the other strategic, and has rapidly become Xi's signature concept. Not long after Xi rose to the position of vice president of the People's Republic of China (PRC) in March 2008, China began to feel the aftershocks of the global financial crisis. Shortly after he became vice chairman of the Central Military Commission in fall 2010, the Obama administration announced its intention to "rebalance" to the Asia-Pacific. These two events had a profound impact on the Chinese elites' ongoing assessment of their country's economic development prospects and external strategic environment. In the wake of the financial crisis, the global economy—including China—entered a period of low growth without any prospect of short-term recovery. In 2011 the United States started to push for the establishment of the Trans-Pacific Partnership, a regional free trade agreement that was seen in Beijing as a way to expand U.S. access in Asia while marginalizing and isolating China. At the same time, the Chinese leadership perceived mounting security challenges in the country's immediate environment, developments that Beijing blamed on the Obama administration's rebalancing strategy and its attempts to strengthen regional military alliances and incite U.S. allies to stir trouble on maritime issues. Given the extreme complexity of this environment, Chinese authorities concluded that relying on a "conventional approach" to achieve China's rise was no longer sufficient. In the words of Jiang Zhida, a fellow at the China Institute of International Studies, Beijing had to "think strategically to turn challenges into opportunities" and to "create favorable conditions" for China's unimpeded rise.<sup>3</sup> BRI can best be understood as an attempt to set the direction for China to achieve its ambitions as a preponderant regional power, in the context of mounting challenges in both the economic and strategic domains.

The next two sections of this chapter will look at BRI's drivers. The first will focus on economic rationales for BRI and show how the initiative is thought of as a way to boost China's economy, eliminate some of its excess industrial capacity, stimulate the global expansion of its state-owned enterprises (SOE), and help with the gradual internationalization of its currency. The second part of the chapter will focus on strategic drivers, which, although not officially acknowledged, are a fundamental rationale behind BRI. Specifically, Beijing seeks to alleviate terrorist threats, secure energy resources, strengthen its regional influence, and counter the U.S. presence in Asia.

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<sup>3</sup> Jiang Zhida, "Yidai Yilu: Yi 'kongjian' huan 'shijian' de fazhan zhanlüe" ["Belt and Road": The Development Strategy That Turns "Space" into "Time"], *Heping yu Fazhan* 4 (2015).

## Economic Rationales

Even before the global financial crisis of 2008–9, China’s leaders had begun to worry that their long-standing development model—with its heavy emphasis on investment, exports, and SOEs—had outlived its usefulness and that a new approach was needed, one that would give a greater role to domestic consumption and private initiative.<sup>4</sup> Despite this awareness, the regime’s response to the slump in global demand that followed the onset of the financial crisis was to unleash a massive stimulus program, with yet more state-directed investment in infrastructure and basic industries.<sup>5</sup> Although this program served its immediate purpose of boosting growth, back to an impressive rate of 10.6% in 2010, it only delayed the day of reckoning. By the time Xi Jinping assumed the top posts in the Chinese Communist Party (CCP) and government at the end of 2012, growth rates had fallen again to well below pre-crisis levels and appeared to be on a steep downward trajectory.<sup>6</sup> Despite the strong rebound in 2010, growth rates never returned to the 2007 level (14.2%) and fell to below 8% from 2012 onward.<sup>7</sup>

Xi’s response to this troubling reality took two forms: on the one hand, at the Third Plenum of the 18th Party Congress in November 2013, he announced a package of wide-ranging reforms designed to elevate the market to “play a decisive role in allocating national resources” and emphasizing the need to “encourage, support and guide” the “non-publicly owned economy.” At the same time, however, the CCP Central Committee reaffirmed “the leading role of the state-owned economy” in its plans for future development.<sup>8</sup> It is against this backdrop that BRI was launched at the end of 2013.

The official narrative surrounding BRI describes it as a generous gift to humankind, with China not seeking unilateral gains but rather working

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<sup>4</sup> In early 2007, then prime minister Wen Jiabao said that the Chinese economy had to face major issues—“unstable, unbalanced, uncoordinated and unsustainable problems.” See “Premier: China Confident in Maintaining Economic Growth,” *Xinhua*, March 16, 2007, [http://news.xinhuanet.com/english/2007-03/16/content\\_5856569.htm](http://news.xinhuanet.com/english/2007-03/16/content_5856569.htm).

<sup>5</sup> Nicholas R. Lardy, *Sustaining China’s Economic Growth after the Global Financial Crisis* (Washington, D.C.: Peterson Institute for International Economics, 2012), 5–41.

<sup>6</sup> Dwight H. Perkins, “China’s Growth Slowdown and Its Implications,” National Bureau of Asian Research (NBR), NBR Analysis Brief, November 4, 2013, [http://nbr.org/publications/analysis/pdf/brief/110413\\_Perkins\\_ChinaSlowdown.pdf](http://nbr.org/publications/analysis/pdf/brief/110413_Perkins_ChinaSlowdown.pdf).

<sup>7</sup> World Bank, World Development Indicators Databank, <http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDP.MKTP.KD.ZG&country=CHN>.

<sup>8</sup> See “Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform, Adopted at the Third Plenary Session of the 18th Central Committee of the Communist Party of China on November 12, 2013,” available at [http://www.china.org.cn/china/third\\_plenary\\_session/2014-01/16/content\\_31212602.htm](http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm).

for common prosperity and shared benefits. A closer look at Chinese publications provides a different perspective on Beijing's motivations. Xi's vision of Eurasian integration appears much more China-centered and principally designed to serve national interests. As described, for example, by the director of the Central Party School's Institute of International Studies, BRI is meant to achieve several objectives, including promoting better-balanced domestic development, opening up China's inland provinces to the outside world, expanding export markets for Chinese goods, and increasing available channels for energy imports. The initiative is described as further broadening China's "strategic hinterland and international space" and creating a secure and stable peripheral environment for the country's continued development and rise. The focus here is clearly on China and its interests rather than those of its neighbors.<sup>9</sup>

According to Chinese analysts, the countries along the belt and road, taken together, have enormous economic potential. With a total population of 4.4 billion and a combined GDP of \$21 trillion—accounting for 63% and 29% of world totals, respectively—the region covered by BRI stands out as the dynamic core of the world economy.<sup>10</sup> Before the global financial crisis, Chinese analysts had already started to think about ways to revitalize the ancient Silk Road, but they saw the economic gap between the Eurasian heartland and its two more prosperous peripheries, Europe to the west and Asia to the east, as a significant obstacle.<sup>11</sup> Nonetheless, Eurasia's overall economic situation was considered to be improving. In the previous decade, China's trade with countries along the belt and road had recorded between

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<sup>9</sup> This view is shared by analysts from the China Institutes of Contemporary International Relations (CICIR), the think tank affiliated with China's Ministry of State Security. Author's interviews, Beijing, November 2015. See also Han Baojiang, "Sichouzhi Lu Jingji Dai zaofu yantu geguo renmin de da shiye" [Silk Road Economic Belt to Bring Great Benefits to People of All Countries], *Renmin Ribao*, July 3, 2014, <http://theory.people.com.cn/n/2014/0703/c40531-25232236.html>.

<sup>10</sup> Chen Fengying, "Xi Jinping 'Yidai Yilu' gouxiang zhanlüe yiyi shenyuan" [Strategic Far-Reaching Significance of Xi Jinping's "Belt and Road" Concept], China Radio International, October 10, 2014, <http://gb.cri.cn/42071/2014/10/10/882s4720906.htm>. Chen Fengying is a fellow with CICIR. See also "Belt and Road Initiatives Get Kick Start," Information Office of the CCP International Department, China Insight, December 27, 2014, <http://english.cccws.org.cn/archiver/cccwsen/UpFile/Files/Default/20141231095436722769.pdf>.

<sup>11</sup> See, for example, Zhu Xianping and Zou Xiangyang, "Zhongguo-Zhongya Xin Sichouzhi Lu Fazhan Dai gouxiang" [China-Central Asia New Silk Road Economic Development Belt Concept], *Dongbeiyu Luntan*, September 2006; Xia Liping, "Dangdai Yaou Dalu kua quyu hezuo qushi jiqi yingxiang" [Cooperation Trends and Influence in Contemporary Eurasia], *Eluosi Zhongya Dongou Yanjiu* 6 (2005): 63–65; Zheng Rujian, "Chongzhen Sichouzhi Lu: Zhongya wuguo dui Xin Yaou Dalu Qiao de yunzuo" [Silk Road Revival: Central Asia's Five States and the New Eurasian Land Bridge's Operations], *Zhongguo Ruankexue* 1 (1995): 54–57; Cui Guanjie, "Xin Yaou Daluqiao yanxian: Woguo you yige kaifang jingjidai" [Along the New Eurasian Land Bridge: China's Other Opened Economic Belt], *Zhongguo Ruankexue* 1 (1995): 29–34; and Yang Shu and Wang Shusen, "Sichuzhilu Jingjidai: Zhanlüe gouxiang jiqi tiaozhan" [Silk Road Economic Belt: Strategic Concept and Challenges], *Lanzhou Daxue Xuebao* 1 (2014): 24–25.

10% and 20% average annual growth, compared with only 3% growth in China's overall foreign trade during the same period.<sup>12</sup> Given the region's economic potential, Chinese analysts speculated that BRI could unlock promising new markets across Eurasia, even as demand from the developed world slackened.<sup>13</sup>

### *Boosting the Chinese Economy: A New Stimulus Package?*

Economic growth is essential to the continued legitimacy of China's one-party state and to the country's great-power ambitions.<sup>14</sup> After the 1989 Tiananmen Square incident, steady improvements in the standard of living became a crucial part of Deng Xiaoping's tacit social contract with the Chinese people in return for their continued acceptance of the CCP's monopoly on political power.<sup>15</sup> High growth rates are also believed to be necessary to avoid massive unemployment and potential social unrest, which could weaken the country and therefore the regime. In 2007 the CCP amended its constitution to inscribe the objective of transforming China into a "moderately prosperous society" by 2021 when the party celebrates its hundredth anniversary.<sup>16</sup> This broad goal was given a more concrete definition by Hu Jintao in his opening speech to the 18th Party Congress in 2012, at a time when the Chinese economy had already started to feel the aftershocks of the global financial crisis: by 2020, China would double its 2010 GDP and per capita income for both urban and rural residents. This goal was reiterated by Xi in his first public speech as CCP general secretary

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<sup>12</sup> Wang Wen (remarks at a conference organized by the Center for Strategic and International Studies, Washington, D.C., April 18, 2016); and Wang Yiwei, *Yidai Yilu: Zhongguo jueqi gei shijie dailai shenme* [Belt and Road: What China's Rise Will Offer to the World] (Beijing: Xin Shijie Chubanshe, 2016), 18.

<sup>13</sup> See, for example, Feng Zongxian, "Ouya diqu jingji fazhan xingshi fenxi he zhanwang" [Eurasia's Economic Development Trends, Analysis and Outlook], in *2013 OuYa Jingji Luntan fazhan baogao* [2013 Euro-Asia Economic Forum Development Report] (Xi'an: Xi'an Jiaotong Daxue Chubanshe, 2013), 55–63; and Gan Junxian, "Sichouzhi Lu fuxing jihua yu Zhongguo waijiao" [Planning for a Revival of the Silk Road and China's Diplomacy], *Dongbei Luntan* 19, no. 5 (2010): 65–73.

<sup>14</sup> Nadège Rolland, "China's National Power: A Colossus with Iron or Clay Feet?" in *Strategic Asia 2015–16: Foundations of National Power in the Asia-Pacific*, ed. Ashley J. Tellis, Alison Szalwinski, and Michael Wills (Seattle: NBR, 2015), 23–54.

<sup>15</sup> As the demonstrations were gaining momentum in Tiananmen Square in 1989, Deng said that "two hundred dead could bring 20 years of peace to China." Kris Cheng, "200 Dead Could Bring 20 Years of Peace, Ex-China Leader Deng Said Ahead of Tiananmen Massacre," *Hong Kong Free Press*, December 30, 2016, <https://www.hongkongfp.com/2016/12/30/200-dead-could-bring-20-years-of-peace-ex-china-leader-deng-said-ahead-of-tiananmen-massacre>.

<sup>16</sup> An English translation of the CCP's constitution is available from Xinhua at [http://news.xinhuanet.com/english/2007-10/25/content\\_6944738.htm](http://news.xinhuanet.com/english/2007-10/25/content_6944738.htm).

in November 2012, as he visited a “road to revival” exhibition with his fellow Politburo comrades.<sup>17</sup>

The massive \$586 billion stimulus package launched in 2008 in response to the global financial crisis cushioned the blow to the Chinese economy, but its beneficial effects were short-lived. By 2011, the days of double-digit growth were clearly over, and China was left with a “stimulus package hangover.”<sup>18</sup> The leadership now had to face the prospect of a protracted economic slowdown, a situation that Xi described in 2014 as the country’s “new normal.”<sup>19</sup>

The transformation of China’s economic development model—from credit-fueled investment and export-driven growth to higher domestic consumption—is a conundrum for the Xi administration, which has chosen to prioritize achieving quantitative GDP targets over the difficult business of economic restructuring.<sup>20</sup> In this context, BRI enables the Chinese leadership to revert to what it knows best and breathes new life into the old model. Beijing is once again investing heavily in construction and infrastructure projects, only this time outside the already saturated territory of China. The hope seems to be that this new “stimulus package in disguise” will enable the country to sustain the GDP growth rates deemed necessary for social stability—just as was the case after the 2008 crisis—and achieve the 2021 goal of a moderately prosperous society. In the longer run, infrastructure development may also open new markets and help create new foreign demand for Chinese products.<sup>21</sup> Chinese economic commentators

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<sup>17</sup> “Chengqian qihou jiwang kailai jixu chaozhe Zhonghua minzu weida fuxing mubiao fenyong qianjin” [Bridging the Past and the Future: Dauntlessly Forging Ahead toward the Goal of the Great Rejuvenation of the Chinese People], Xinhua, November 29, 2012, [http://news.xinhuanet.com/politics/2012-11/29/c\\_113852724.htm](http://news.xinhuanet.com/politics/2012-11/29/c_113852724.htm).

<sup>18</sup> Zhao Hai (remarks at the U.S. Institute of Peace, Washington, D.C., December 1, 2016), <http://www.usip.org/events/will-cpec-be-force-peace-or-conflict>.

<sup>19</sup> “Xi Says China Must Adapt to ‘New Normal’ of Slower Growth,” Bloomberg, May 11, 2014, <http://www.bloomberg.com/news/articles/2014-05-11/xi-says-china-must-adapt-to-new-normal-of-slower-growth>; and “Xi’s ‘New Normal’ Theory,” Xinhua, November 9, 2014, [http://news.xinhuanet.com/english/china/2014-11/09/c\\_133776839.htm](http://news.xinhuanet.com/english/china/2014-11/09/c_133776839.htm).

<sup>20</sup> For a thorough discussion of the stakes and risks of this transformation of China’s economic model, see the transcript of the U.S.-China Economic and Security Review Commission’s hearing on China’s 13th Five-Year Plan, April 27, 2016, available at <http://www.uscc.gov/Hearings/hearing-china’s-13th-five-year-plan>. In 2015, Xi reiterated a pledge to lift the GDP by 6.5% by 2020. See Mark Magnier, “China Lowers Expectations for Growth,” *Wall Street Journal*, November 3, 2015, <http://www.wsj.com/articles/chinas-president-xi-jinping-says-economy-to-grow-by-at-least-6-5-1446566259>; and Jane Cai and Victoria Ruan, “China’s Politburo Turns to ‘Tried and Tested’ Playbook to Spur Growth through Investment, Property,” *South China Morning Post*, May 1, 2015, <http://www.scmp.com/news/china/economy/article/1783142/china-hints-further-easing-monetary-policy-economy-loses-steam>.

<sup>21</sup> Li Qiaoyi, “Making It Work,” *Global Times*, March 10, 2015, <http://www.globaltimes.cn/content/911258.shtml>; and Wang Jingjing, “‘One Belt, One Road’ Likely to Raise China’s GDP,” *China Daily*, March 25, 2015, [http://usa.chinadaily.com.cn/business/2015-03/25/content\\_19908927.htm](http://usa.chinadaily.com.cn/business/2015-03/25/content_19908927.htm).

and analysts appear optimistic about BRI's prospects for stimulating GDP growth. Officials at the National Development and Reform Commission (NDRC) agree with Justin Yifu Lin, former World Bank official and Peking University professor, that BRI's infrastructure investments are a crucial economic growth engine and will "create big market demand" for China's excess production.<sup>22</sup> More concretely, a report published in 2015 by Beijing-based Minsheng Securities estimated that BRI could contribute as much as 0.25% to China's growth rate.<sup>23</sup>

## Overcapacity

The 2008 stimulus package delayed the Chinese economy's day of reckoning but also aggravated its structural imbalances. While the influx of government investment in state-owned heavy industries sustained aggregate economic growth, it also added yet more capacity in already overbuilt sectors such as steel, aluminum, and cement, flooding global markets with Chinese products. Even though the CCP's annual Central Economic Work Conference listed addressing overcapacity as a priority every year from 2007 to 2015, fundamental changes have yet to take place.<sup>24</sup> Tackling overcapacity is now "more urgent than ever," according to European Chamber of Commerce in China president Joerg Wuttke, and the "cost of maintaining the status quo is far too high."<sup>25</sup> Yet dealing with overcapacity is a politically sensitive issue for Chinese officials, with consequences they would prefer to avoid.<sup>26</sup> Indeed, managing the problem of overcapacity would require a major overhaul of China's model of state capitalism, with potentially worrisome implications for the CCP's hold on political power. Heavy industries require large workforces, and cutting their activity would generate mass layoffs and increase the risk of

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<sup>22</sup> Author's interviews with officials from the NDRC, Beijing, December 2016. See also "Zhuanjia jiedu xin changdai xia Yidai Yilu: Wei Zhongguo jingji dailai zhongyao zengzhang dongli" [Expert Interprets Belt and Road under New Normal: An Important Engine for China's Economic Growth], Xinhua, March 7, 2015, <http://finance.sina.com.cn/china/hgjj/20150307/225521669818.shtml>.

<sup>23</sup> "Quanshang: 'Yidai Yilu' huo ladong GDP zengzhang 0.25 ge baifendian" [Broker: "Belt and Road" May Bring 0.25% of GDP Growth], Ta Kung Pao, March 25, 2015, <http://finance.takungpao.com.hk/hgjj/q/2015/0325/2955088.html>.

<sup>24</sup> European Chamber of Commerce in China, "Overcapacity in China: An Impediment to the Party's Reform Agenda," February 2016, [http://www.iberchina.org/files/2016/Overcapacity\\_in\\_China.pdf](http://www.iberchina.org/files/2016/Overcapacity_in_China.pdf); and Rui Fan, "China's Excess Capacity: Drivers and Implications," Law Offices of Stewart and Stewart, June 2015, <http://www.stewartlaw.com/Content/Documents/China%27s%20Excess%20Capacity%20-%20Drivers%20and%20Implications.pdf>.

<sup>25</sup> European Chamber of Commerce in China, "Overcapacity in China."

<sup>26</sup> Tom Mitchell and Yuan Yang, "China Rails against Global 'Hype' on Overcapacity," *Financial Times*, June 6, 2016, <https://www.ft.com/content/9ee9f1ca-2bca-11e6-a18d-a96ab29e3c95>.

social instability. In the face of China's continuing economic slowdown, the government announced a cut of 1.8 million jobs at SOEs in February 2016—1.3 million in coal and 500,000 in steel out of a total workforce of 12 million in both industries<sup>27</sup>—but the priority given to sustaining growth and maintaining employment still supersedes the need to implement structural reforms.

So what should China do with its excess capacity? A number of foreign commentators have suggested that Chinese planners might see BRI as an answer to the country's overcapacity problem, although most also point out that demand from BRI countries is clearly not sufficient to absorb all of China's excess production.<sup>28</sup> Still, even if it does not resolve the issue, some analysts believe that the initiative could help Beijing buy time to enact further domestic reform and rebalancing.<sup>29</sup>

Chinese officials publicly deny that BRI has anything to do with overcapacity and prefer to use the term “international industrial cooperation.” They portray China's proposed projects as magnanimous gifts to underdeveloped countries in desperate need of basic transportation networks or energy supplies to which China brings its experience in infrastructure construction and urban development.<sup>30</sup> They insist that what China is doing is “fundamentally different from the transfer of excess capacity practiced in the past by developed countries”<sup>31</sup> and is not meant to dump outdated or low-quality products on its poorer neighbors, who are “not stupid” and would never agree to such treatment.<sup>32</sup> Yet, despite these denials, exporting excess production to neighboring countries appears to

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<sup>27</sup> Kevin Yao and Meng Meng, “China Expects to Lay Off 1.8 Million Workers in Coal, Steel Sectors,” Reuters, February 29, 2016, <http://www.reuters.com/article/us-china-economy-employment-idUSKCN0W205X>.

<sup>28</sup> See, for example, Simeon Djankov and Sean Miner, eds., “China's Belt and Road Initiative: Motives, Scope, and Challenges,” Peterson Institute for International Economics, Briefing, March 2016, 11, [https://piie.com/system/files/documents/piieb16-2\\_1.pdf](https://piie.com/system/files/documents/piieb16-2_1.pdf); David Dollar, “China's Rise as a Regional and Global Power: The AIIB and the ‘One Belt, One Road,’” *Horizons*, no. 4 (2015): 162–72, <https://www.brookings.edu/wp-content/uploads/2016/06/China-rise-as-regional-and-global-power.pdf>; and Brenda Goh and Koh Gui Qing, “China's ‘One Belt, One Road’ Looks to Take Construction Binge Offshore,” Reuters, September 6, 2015, <http://www.reuters.com/article/china-economy-silkroad-idUSL5N10H1XR20150906>.

<sup>29</sup> “Fitch Interview: China Steel Production Capacity to Peak in 2016,” Reuters, November 19, 2015, <http://af.reuters.com/article/metalsNews/idAFFit94038920151119>; and Eric Ng, “‘One Belt’ Infrastructure Investments Seen as Helping to Use Up Some Industrial Over-capacity,” *South China Morning Post*, November 2, 2015, <http://www.scmp.com/business/article/1874895/one-belt-infrastructure-investments-seen-helping-use-some-industrial-over>.

<sup>30</sup> Li Ziguang (remarks at U.S.-China Young Leaders Dialogue, Yinchuan, December 2016).

<sup>31</sup> Huo Jianguo, “China Exporting Industrial Benefits, Not Overcapacity,” *Global Times*, March 17, 2016, <http://www.globaltimes.cn/content/974284.shtml>.

<sup>32</sup> Remarks by a senior director of the International Liaison Department at a closed-door roundtable, Washington, D.C., November 15, 2016.

currently be the Chinese authorities' preferred solution to the overcapacity problem. As Huang Libin, an official with the Ministry of Industry and Information Technology, commented, "for us there is overcapacity, but for the countries along the 'One Road One Belt' route, or for other BRIC nations, they don't have enough and if we shift it out, it will be a win-win situation."<sup>33</sup> He Yafei, vice minister of the Overseas Chinese Affairs Office of the State Council, suggested that China's excess capacity challenge could be turned into an opportunity for growth and create a new "thrust in the metamorphosis of China's economic development" if combined with a renewed push for Chinese companies to "go out" into global markets.<sup>34</sup>

### *A Fresh Boost to Chinese Firms' "Going Global" Strategy*

The role of overseas investment was highlighted by Premier Li Keqiang at a meeting on participation by SOEs in BRI held in June 2016. According to Li, boosting such investment is essential to moderating China's economic slowdown, maintaining medium- to high-speed growth, and attaining medium- to high-level development.<sup>35</sup> Not surprisingly, Chinese SOEs have been enthusiastic about BRI, which they see as creating favorable conditions for investment abroad.<sup>36</sup>

Seen in this context, the initiative is a continuation of the "going global" strategy formulated in 2000 by then premier Zhu Rongji to encourage Chinese companies to invest abroad, enhance their international competitiveness, and become China's "national champions."<sup>37</sup> Then, as now, Chinese companies are responding to signals from the top. In the decade prior to China's accession to the World Trade Organization (WTO), SOEs went through a process of breaking up into multiple entities in order to demonstrate the nation's willingness to accept market competition. Today, by contrast, the government favors the consolidation

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<sup>33</sup> David Stanway, "Going Abroad the Solution to China's Overcapacity Woes—Ministry Official," Reuters, July 22, 2015, <http://www.reuters.com/article/china-industry-overcapacity-idUSL3N10230E20150722>. The BRIC nations are Brazil, Russia, India, and China.

<sup>34</sup> He Yafei, "China's Overcapacity Crisis Can Spur Growth through Overseas Expansion," *South China Morning Post*, January 7, 2014, <http://www.scmp.com/comment/insight-opinion/article/1399681/chinas-overcapacity-crisis-can-spur-growth-through-overseas>.

<sup>35</sup> Norman Sze and Flora Wu, "'One Belt, One Road': The Internationalization of China's SOEs," Deloitte, Perspective, vol. 5, 2016, <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/about-deloitte/dtpt/deloitte-cn-dtpt-vol5-chapter2-en.pdf>.

<sup>36</sup> Author's interviews with officials from the China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters and China National Petroleum Corporation (CNPC), Beijing, December 2016. The China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters has 6,300 members, who produce one-third of the PRC's total export volume.

<sup>37</sup> Author's interviews with officials from the NDRC, Beijing, December 2016.

of state-sector conglomerates. SOEs are the preferred instruments of the top leadership's national economic and social policies: they help support social stability by offering jobs and social services, carry the Chinese flag to international markets, enhance China's technological base, and foster indigenous innovation.<sup>38</sup> For all these reasons, Xi has described the SOEs as having a "dominant role in important sectors and crucial areas that affect national security and the commanding heights of the economy."<sup>39</sup> Xi has clear ambitions for a reinvigorated state sector, which reflect his views on top-down economic development under which SOEs respond to the party's will and operate according to a political rather than a purely market logic.<sup>40</sup> BRI is meant to promote their business activities abroad and help them expand their international clout, but it also uses SOEs as the political leadership's strong arm to gain leverage and influence in host countries. Even if, as a high-ranking representative from the China National Petroleum Corporation (CNPC) suggests, "the emperor is in Beijing but generals who are on the battlefield ultimately make the decisions," Chinese state firms do not have much say when the central leadership gives them instructions. Indeed, the same CNPC cadre acknowledged that sometimes profit must be sacrificed for the sake of national security, and profitable projects must compensate for those that are losing money.<sup>41</sup> The return on investment may not even be entirely monetary, as a Ministry of Commerce official explains, but can sometimes be measured in increased "friendship" (in other words, in Chinese influence) secured in host countries.<sup>42</sup>

The second wave of Chinese SOEs going global under BRI will not, as in the past, compete against each other for international contracts. In order to avoid duplication and to better compete for market share against their foreign challengers, several firms operating in sectors that are key to

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<sup>38</sup> Andrew Batson, "Villains or Victims? The Role of SOEs in China's Economy," Dragonomics Research and Advisory, China Economic Quarterly, June 2016; Barry Naughton, "State Enterprise Reform: Missing in Action," Dragonomics Research and Advisory, China Economic Quarterly, June 2016; Michael Komisaroff, "Return of the Line Ministries," Dragonomics Research and Advisory, China Economic Quarterly, June 2016; and Wendy Leutert, "Challenges Ahead in China's Reform of State-Owned Enterprises," *Asia Policy*, no. 21 (2016): 83–99.

<sup>39</sup> Barry Naughton, "Two Trains Running: Supply-Side Reform, SOE Reform and the Authoritative Personage," Hoover Institution, China Leadership Monitor, no. 50, Summer 2016, 7, <http://www.hoover.org/sites/default/files/research/docs/clm50bn.pdf>.

<sup>40</sup> Xi Jinping, "Guanyu 'Zhonggong Zhongyang guanyu quanmian shenhua gaige ruogan zhongda wenti de jue ding' de shuoming" [A Note on the "CCP Central Committee Decision on Several Major Issues Concerning Comprehensively Deepening Reforms"], *People's Daily*, November 16, 2013, [http://paper.people.com.cn/rmrbhwb/html/2013-11/16/content\\_1325399.htm](http://paper.people.com.cn/rmrbhwb/html/2013-11/16/content_1325399.htm). See also Leutert, "Challenges Ahead in China's Reform of State-Owned Enterprises"; and Batson, "Villains or Victims?"

<sup>41</sup> Author's interviews with CNPC officials, Beijing, December 2016.

<sup>42</sup> Author's interviews with a representative from the Ministry of Commerce, Yinchuan, December 2016.

the realization of BRI have recently been merged. The State-Owned Assets Supervision and Administration Commission reiterated in March 2016 the objective of reforming the state sector by making companies “bigger and better” through mergers and acquisitions.<sup>43</sup> This pattern is evident in the case of the container shipping operator China COSCO Shipping Corporation (formerly China Ocean Shipping Group Company and China Shipping Group), the tanker shipping and logistics business China Merchants Group (which purchased Sinotrans and CSC Holdings Co.), the mining giant China Minmetals Corporation (which incorporated the China Metallurgical Group), and the power company China State Power Investment Corporation (formerly China Power Investment Corporation and State Nuclear Power Technology Corporation).<sup>44</sup>

China’s great strides in the high-speed rail sector offer a particularly striking example of the mutual reinforcement and increased synergies between the objectives of the central government and those of the SOEs. The merger of China South Railway and China North Railway into China Railway Rolling Stock Corporation was announced in 2015 as China’s international “high-speed railway diplomacy” and BRI were both gathering momentum. Throughout 2014 and 2015, both Li Keqiang and Xi Jinping trumpeted the merits of Chinese high-speed rail technology during each of their official visits to Europe and Asia. High-speed rail quickly became a symbol not only of China’s global industrial competitiveness but also of the diplomatic message that is at the heart of BRI: connection, interaction, and cooperation with China can lead to development in countries where Western countries and international institutions have previously failed.<sup>45</sup> But in the end, the initiative mostly serves China’s interests. With the support of political authorities and ready access to policy bank credits, the SOEs can expand their overseas activities and contribute to China’s growth as they generate income and jobs for Chinese workers. Meanwhile, the political leadership uses the prospect of infrastructure projects to widen the scope of bilateral cooperation and deepen China’s influence in BRI countries. As a recent study of China’s high-speed railway diplomacy observes, “agreements for deepening cooperation in military affairs, culture, research and education, or other areas, are often negotiated simultaneously

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<sup>43</sup> “China Tells Foreign Firms to Brace for Bigger Competitors,” Bloomberg, March 15, 2016, <https://www.bloomberg.com/news/articles/2016-03-15/china-congress-to-foreign-firms-brace-for-bigger-competitors>.

<sup>44</sup> Leutert, “Challenges Ahead in China’s Reform of State-Owned Enterprises.”

<sup>45</sup> “Top Spokesman—Premier Li Promotes China’s High-Speed Rail,” State Council of the PRC, December 25, 2015, [http://english.gov.cn/premier/news/2015/12/29/content\\_281475262862422.htm](http://english.gov.cn/premier/news/2015/12/29/content_281475262862422.htm).

with—or in the aftermath of—the railway deals,” ultimately contributing greatly to China’s growing global presence and influence.<sup>46</sup>

In addition to benefiting companies that specialize in transportation infrastructure and logistics, BRI will also stimulate the global expansion of Chinese conglomerates with expertise in critical infrastructure, including electrical power and information and communication technology (ICT).<sup>47</sup> Thus, for example, the central government is actively pushing the China State Grid Corporation to expand its activities into third-country markets. The company has mastered the ultra-high-voltage technology needed to transmit power across large distances within China, and this technology could prove critically important for supplying power in BRI countries. Deploying power grids across the Eurasian continent would offer China a large share of the global market and enable it to shape international standards.<sup>48</sup> Similarly, the “digital Silk Road” cannot be built without the active engagement of Chinese ICT firms, which the central government is likewise encouraging.<sup>49</sup> ZTE and Huawei are already major contributors to research on international fifth-generation, or 5G, standards for mobile networks and are looking for new opportunities to expand their markets. As a result of the partnership that China and the European Union agreed to in September 2015, Chinese companies will likely help set the standards for the new generation of global mobile communications, as well as electronic commerce, banking, and logistics.<sup>50</sup>

### *The Internationalization of the Renminbi*

As Chinese SOEs become more internationalized, so does the renminbi. In the wake of the global financial crisis, the Chinese government, worried by China’s increased vulnerability to external shocks and volatility—especially from the U.S. dollar—started to think about

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<sup>46</sup> Agatha Kratz and Dragan Pavličević, “China’s High-Speed Rail Diplomacy: Riding a Gravy Train?” King’s College London, Lau China Institute, Working Paper Series, no. 1, 2016, <http://www.kcl.ac.uk/sspp/sga/lci/documents/working-papers/Lau-China-Institute-Working-Papers-1.pdf>.

<sup>47</sup> Willy Wo-Lap Lam, “One Belt, One Road’ Enhances Xi Jinping’s Control Over the Economy,” Jamestown Foundation, China Brief, March 15, 2015, <https://jamestown.org/program/one-belt-one-road-enhances-xi-jinpings-control-over-the-economy>; and Li, “Making It Work.”

<sup>48</sup> “Power Play: China’s Ultra-High Voltage Technology and Global Standards,” Paulson Institute, Paulson Paper on Standards, April 2015, [http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPS\\_UHV\\_English.pdf](http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPS_UHV_English.pdf).

<sup>49</sup> Zhao Huanxin, “Web Companies Asked to Support ‘Digital Silk Road,’” *China Daily*, July 18, 2015, [http://usa.chinadaily.com.cn/business/2015-07/18/content\\_21318972.htm](http://usa.chinadaily.com.cn/business/2015-07/18/content_21318972.htm).

<sup>50</sup> “The EU and China Signed a Key Partnership on 5G, Our Tomorrow’s Communication Networks,” European Commission, Press Release, September 28, 2015, [http://europa.eu/rapid/press-release\\_IP-15-5715\\_en.htm](http://europa.eu/rapid/press-release_IP-15-5715_en.htm).

ways to strengthen the renminbi's position and develop it as a global trade and investment currency.<sup>51</sup> The International Monetary Fund added the renminbi to its “special drawing rights” basket in October 2016, describing this step as a “milestone in the integration of the Chinese economy into the global financial system.”<sup>52</sup> But a considerable gap still exists between ambition and reality, especially because, as in many other domains, the Chinese authorities are reluctant to relinquish control over their monetary policy. There is increasing tension between “preserving stability and allowing the freedom and flexibility required of a global currency,” but for the time being China will likely maintain its hybrid approach of free float mixed with recurrent state intervention.<sup>53</sup>

In this context, the People's Bank of China seems to favor the gradual internationalization of the renminbi through the creation of a global network of offshore renminbi clearing banks, currency-swap agreements, and integrated electronic infrastructure.<sup>54</sup> BRI can help serve as a stimulus for all these developments by creating opportunities for greater use of the renminbi in international transactions, especially those related to energy development and investment in infrastructure.<sup>55</sup> As changes in trade patterns inevitably affect the use of currencies in international settlements, Chinese companies' increasing activity in Eurasian markets can help narrow the gap between China's trade and the renminbi's global position. In 2016, China's proportion of global exports rose to 13.8%, while the renminbi's share of world payments (1.7%) lagged significantly behind the U.S. dollar (64.0%)

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<sup>51</sup> For a comprehensive discussion about the increased international role of the renminbi and its challenges, see Eswar Prasad, “The Renminbi's Ascendance in International Finance,” in *Policy Challenges in a Diverging Global Economy*, ed. Reuven Glick and Mark M. Spiegel (San Francisco: Federal Reserve Bank of San Francisco, 2015), 157–206, <http://prasad.dyson.cornell.edu/doc/FRBSF-AEPC2015Final.pdf>; and Arthur Kroeber, “China's Global Currency: Lever for Financial Reform,” Brookings-Tsinghua Center for Public Policy, Monograph Series, no. 3, February 2013, <https://www.brookings.edu/wp-content/uploads/2016/06/china-global-currency-financial-reform-kroeber.pdf>.

<sup>52</sup> “IMF Adds Chinese Renminbi to Special Drawing Rights Basket,” International Monetary Fund, September 30, 2016, <http://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket>.

<sup>53</sup> Gabriel Wildau and Tom Mitchell, “China: Renminbi Stalls on Road to Being a Global Currency,” *Financial Times*, December 11, 2016, <https://www.ft.com/content/e480fd92-bc6a-11e6-8b45-b8b81dd5d080>.

<sup>54</sup> Gregory Chin, “Globalizing the RMB? Beijing Appoints Three New Clearing Banks in London, Frankfurt, and Seoul,” Asian Development Bank Institute, Asia Pathways, July 29, 2014, <http://www.asiapathways-adbi.org/2014/07/globalizing-the-rmb-beijing-appoints-three-new-clearing-banks-in-london-frankfurt-and-seoul>.

<sup>55</sup> Yang Mei, Guo Fang, and Yao Dongqin, “Xinsilu zhanlüe de jingji zhidian” [The New Silk Road Strategy's Economic Fulcrum], *Zhongguo Jingji Zhoukan*, July 2014, [http://paper.people.com.cn/zgjzk/html/2014-07/07/content\\_1450774.htm](http://paper.people.com.cn/zgjzk/html/2014-07/07/content_1450774.htm).

and even the Canadian dollar (1.96%).<sup>56</sup> Experts believe that this gap will begin to close thanks to the progress of China's new Cross-Border Interbank Payment System (CIPS) and the opening of new offshore clearing centers, which have the potential to transform the Asian financial landscape in the coming decade.<sup>57</sup>

In addition to the overseas branches of China's major state-owned commercial banks, there are currently nineteen renminbi clearing centers worldwide, but very few are located in countries covered by BRI. Hong Kong, which processes 71% of offshore renminbi payments, is the largest one.<sup>58</sup> China seems to favor bilateral swap agreements for BRI countries but also would like to create cross-border payment systems parallel to the ones currently operated by the international financial giants the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Visa.<sup>59</sup> These would facilitate the completion of transactions without using dollars or going through institutions under U.S. surveillance or control.

Launched in October 2015, CIPS is both a funds transfer system and a communication channel for financial institutions that does not use an offshore clearing center.<sup>60</sup> It has been designed so that international renminbi transactions can be made independently of SWIFT, thus reducing China's reliance on Western payment systems and financial markets.<sup>61</sup> For its

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<sup>56</sup> China's share of global exports is the highest that any country has enjoyed since the United States in 1968. See Elias Glenn and Pete Sweeney, "China Seizes Biggest Share of Global Exports in Almost 50 Years," Reuters, April 22, 2016, <http://www.reuters.com/article/us-china-exports-idUSKCN0XJ097>. In 2013 the renminbi ranked as the tenth most used currency in global settlements, with a share of 0.87%. See Kenneth Rapoza, "Canada's Dollar Beats China's Currency in World Trade but Not for Long," *Forbes*, July 21, 2016, <http://www.forbes.com/sites/kenrapoza/2016/07/21/canadas-dollar-beats-chinas-currency-in-world-trade-but-not-for-long/#107bb1991692>.

<sup>57</sup> "RMB Tracker," Society for Worldwide Interbank Financial Telecommunication, July 2016, <https://www.swift.com/node/33851>; and Standard Chartered and Thomson Reuters, "Renminbi Roadmap," Asia Securities Industry and Financial Markets Association, May 2014, <https://www.sc.com/en/resources/global-en/pdf/Research/RMB-Roadmap-SC-branded.pdf>.

<sup>58</sup> The list of offshore renminbi clearing centers at the time of writing includes Argentina, Australia, Canada, Chile, Frankfurt, Hong Kong, London, Luxemburg, Macao, Malaysia, Paris, Qatar, Russia, Singapore, South Africa, South Korea, Switzerland, Taiwan, and Thailand. Duan Ting, "RMB's Unstoppable Climb to the Global Stage," *China Daily*, September 9, 2016, [http://www.chinadailyasia.com/focus/2016-09/09/content\\_15492913\\_2.html](http://www.chinadailyasia.com/focus/2016-09/09/content_15492913_2.html).

<sup>59</sup> As seen in chapter 2, China signed a series of renminbi bilateral swap agreements, including with Singapore, Malaysia, Indonesia, Thailand, Kazakhstan, Uzbekistan, Nepal, Pakistan, Sri Lanka, the United Arab Emirates, Qatar, Belarus, Russia, Ukraine, and Turkey. See "China's 'One Belt, One Road'—Opportunities for Chinese and Foreign Businesses," HSBC, July 31, 2015, <https://globalconnections.hsbc.com/hong-kong/en/articles/chinas-one-belt-one-road-opportunities-chinese-and-foreign-businesses>.

<sup>60</sup> Paul Golden, "China's International Payment System Gathers Steam," *Euromoney*, November 12, 2015, <http://www.euromoney.com/Article/3505807/Chinas-international-payment-system-gathers-steam.html>.

<sup>61</sup> Eswar S. Prasad, *Gaining Currency: The Rise of the Renminbi* (New York: Oxford University Press, 2017), 115–16.

part, state-controlled UnionPay, which was created in 2002 and is under the purview of the People's Bank of China and the State Council, provides a system for interbank and cross-border transactions and already delivers services to the majority of BRI countries.<sup>62</sup>

The latest phase in the development of China's international payment systems is tailored specifically to the needs of BRI transactions. State-owned China Merchants Port Holdings, which specializes in transportation, logistics, and harbor services, is a leading example of this new model. Together with IZP Technologies, a provider of big data services founded in 2008, China Merchants Port Holdings launched a new entity in March 2016. The Silk Road E-Merchants Information Technologies is a foreign-trade service company that designs digital platforms for customs clearance and electronic cross-border trade and payments. In association with the NDRC, IZP has created a big data center dedicated to BRI, which aims to "collect global port trade, finance, GIS [geographical information system] information, domestic and foreign statistics and industry business data as well as domestic and foreign internet data, data of mainstream news media and social media and other mass data, and analyze, mine and apply them."<sup>63</sup> IZP also operates digital platforms for electronic commerce, such as Haixuan and Globebuy, as well as the online payment platform Globebill, which mostly serves corporate clients that have cross-border businesses and transactions with China.<sup>64</sup>

IZP's CEO, former Huawei employee Luo Feng, unabashedly presents Globebill as the "new Visa system along the Silk Road" and articulates a clear objective: "The U.S. dollar dominates the dual-currency card market now but in 10 years, it will be Renminbi plus one."<sup>65</sup> For this purpose, IZP has established several "Silk Road stations" (in Italy, Kyrgyzstan, Sri Lanka, Djibouti, Belarus, and Lithuania, among other countries) that can "stimulate more Chinese goods to be exported to Belt and Road countries."<sup>66</sup> In 2015, IZP signed agreements with Russia's Trade and Economic Committee,

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<sup>62</sup> "UnionPay Expands along the 'Belt and Road,'" Xinhua, February 9, 2015, [http://news.xinhuanet.com/english/china/2015-02/09/c\\_133981413.htm](http://news.xinhuanet.com/english/china/2015-02/09/c_133981413.htm).

<sup>63</sup> "Data Engine of OBOR Strategy: Overall Framework of 'the Belt and Road (OBOR)' Big Data," IZP Technologies, <http://www.izptec.com/en/index.php?m=content&c=index&a=lists&catid=1>.

<sup>64</sup> Song Mengxing and Wang Sujuan, "Globebill Indeed Goes Global with Range of Currencies," China Watch, December 26, 2014, <http://chinawatch.washingtonpost.com/2014/12/globebill-indeed-goes-global-with-range-of-currencies>.

<sup>65</sup> Dai Tian, "Big Data Conglomerate Dreams Big on Silk Road," *China Daily*, July 29, 2015, [http://www.chinadaily.com.cn/business/fourmoninternet/2015-07/29/content\\_21432401.htm](http://www.chinadaily.com.cn/business/fourmoninternet/2015-07/29/content_21432401.htm).

<sup>66</sup> "Silk Road Station: Aircraft Carrier in World Trade along One Belt One Road!" IZP Technologies, <http://www.izptec.com/en/index.php?m=content&c=index&a=lists&catid=11>.

as well as with Lithuania's central bank, enabling trade clearing services that allow direct transactions between renminbi and local currencies without going through U.S.-dollar exchanges.<sup>67</sup> Finally, IZP operates in conjunction with China Merchants Port Holdings in several countries, including Sri Lanka, Belarus, and Djibouti. In Sri Lanka, IZP has a stake in Mattala Rajapaksa International Airport, 16 kilometers away from China Merchants-controlled Hambantota port and industrial zone. In Djibouti, it controls the Silk Road International Bank (created in December 2016) along with Silk Road E-Merchants Information Technologies and Djibouti's Ministry of Finance. China Merchants has also owned a 23% stake in the port of Djibouti since 2012.<sup>68</sup> The Silk Road International Bank's official goals are to become the biggest bank card issuer in East Africa, as well as to provide financial solutions for bilateral trade between China and Africa and promote Chinese investment in the region.

### *Implications*

From an economic perspective, BRI can be seen as the third phase of China's reform and opening-up policy, a rationalization and an outward expansion of various earlier efforts.<sup>69</sup> The PRC's entry into the WTO in 2001 raised hopes that Beijing would gradually give up its planned economy and fully embrace the market. However, these expectations for the Chinese economy to be transformed under a more market-oriented, consumption-led growth model will not be realized through BRI. To the contrary, BRI is an attempt to patch China's most pressing economic problems without fundamentally altering its development model, a situation French economist Michel Aglietta summarized as "the market, as far as possible; the State, as much as necessary."<sup>70</sup> BRI will not bring economic liberalization to China;

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<sup>67</sup> "IZP Group Signs Strategic Agreement with Trade and Economic Committee of Russian Federation," PR Newswire, September 25, 2015, <http://www.prnewswire.com/news-releases/izp-group-signs-strategic-agreement-with-trade-and-economic-committee-of-russian-federation-300147696.html>; and "China's Payment Operator IZP Technologies to Develop Services in Lithuania," *People's Daily*, June 23, 2015, <http://en.people.cn/business/n/2015/0623/c90778-8909795.html>.

<sup>68</sup> "Jibuti Silu Guoji Yinhang zhengshi chengli zhuli 'Yidai Yilu' jinrong jichu sheshi jianshe" [Djibouti Silk Road International Bank Officially Launched to Help with "Belt and Road" Financial Infrastructure], *News163*, November 17, 2016, <http://news.163.com/16/1117/09/C62IUU80000187V8.html>; and "Silk Road International Bank Opens First Africa Office in Djibouti," *Capital Ethiopia*, January 9, 2017, <http://capitalethiopia.com/2017/01/09/silk-road-international-bank-opens-first-africa-office-djibouti/#.WKN2kE2QxhE>.

<sup>69</sup> The first phase began in 1978; the second phase started in 1992 with accelerated openness to foreign capital and increased manufacturing capacity.

<sup>70</sup> Michel Aglietta, "La nouvelle époque de la réforme chinoise: Progrès et obstacles" [China's Reforms New Era: Progress and Obstacles] (presentation at Conférence du Printemps de l'Economie, Paris, April 11, 2016), <https://www.youtube.com/watch?v=BXhYxzDJM8c>.

it will, to the contrary, help perpetuate the Chinese system of state control. The CCP wants to achieve the target it set for the country by 2021—to transform China from being “the world’s manufacturer” into a moderately prosperous economy and society—without setting in motion reforms that would either require the party to relinquish its political control over the economy or create serious social and political consequences for its legitimacy. To reach this goal, Chinese authorities believe that they must sustain GDP growth at around 6.5% until 2021, prolong the process of winding down excess capacity so as not to provoke industrial (and social) disruption, restructure and consolidate SOEs, and promote the renminbi’s internationalization. BRI is a means to achieve all these ends. How the initiative will play out and whether it can succeed in the long run as Beijing hopes are important questions. But they lie beyond the scope of this study.

Given China’s political, economic, and social characteristics, some Chinese analysts believe that BRI is not really a matter of choice. As Tsinghua University professor He Maochun observes, “One Belt, One Road is an upgraded version of the reform and opening up, an upgraded version of China’s international trade, and an upgraded version of China’s ‘going out,’” and it is the only path for China to achieve its rise.<sup>71</sup> By committing itself to the realization of BRI, China is following an economic trajectory that ultimately does not converge with the liberal model but instead perpetuates socialism with Chinese characteristics.

## Strategic Rationales

For all the reasons detailed above, economic factors might be important enough in themselves to provide China’s leaders with sufficient motivation to launch BRI. Indeed, in their interactions with foreigners, Chinese officials tend to downplay or even discard any discussion of the initiative in noneconomic terms. But there is much more to BRI than that. A closer look at Chinese sources reveals another set of factors that go to the heart of what the leadership wants to achieve. While the official rhetoric emphasizes enhancing connectivity and unlocking Eurasia’s economic potential, strategic considerations provide the second key driver for BRI. The projects that the initiative comprises are meant to address nontraditional security threats and to secure China’s periphery in order to counter what Chinese

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<sup>71</sup> He Maochun, “Yidai Yilu’ shi Zhongguo xiang shang de biyou zhilu” [“Belt and Road” Is the Only Road China Must Follow to Rise], Tsinghua University (unpublished manuscript), [http://www.ccwe.tsinghua.edu.cn/upload\\_files/file/20160105/1451965408815080054.pdf](http://www.ccwe.tsinghua.edu.cn/upload_files/file/20160105/1451965408815080054.pdf).

strategic thinkers regard as their country's greatest existential challenge: U.S. hegemony.

### *Enhancing Security by Providing Development*

Economic development ultimately helps promote key strategic goals for China by enhancing internal social stability and national unity.<sup>72</sup> Reducing the development gap between coastal and inner provinces is necessary to preserve social stability, especially in the western province of Xinjiang, where the central government, for fear of local “splittist” tendencies, has tightened its control in recent years. This goal was at the heart of the Great Western Development campaign launched in 1999–2000, and it is one of the major motivations for the linking of Xinjiang with the cross-border regional infrastructure and economic projects envisaged by BRI.<sup>73</sup> During the 2015 National People's Congress, the party secretary of Xinjiang's Kashgar explained, for example, that BRI brought “an important historic opportunity to safeguard social stability and lasting political order.”<sup>74</sup>

Of course, things are not so simple. Amnesty International's regional director for East Asia argues that the assumption that “substantially raising living standards among ethnic communities will extinguish potential ethno-nationalist aspirations” is mistaken, especially if “target groups have no say in the design and implementation of these policies and continue to face everyday discrimination and no meaningful political representation.”<sup>75</sup> Restrictions on religious practices, curbs on culture and language, political repression, and unequal distribution of economic opportunities and benefits between Han immigrants and local populations are certainly better explanations for the violence that has erupted in China's western provinces since 2008 than a lack of local transportation infrastructure.<sup>76</sup>

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<sup>72</sup> Sun Zhiyuan, “‘Yidai Yilu’ zhanlüe gouxian de sanzong neihan” [The Three Contents of the “Belt and Road” Strategy Concept], *Zhongguo Jingji Shibao*, August 12, 2014.

<sup>73</sup> Author's interviews with NDRC, Yinchuan, December 2016.

<sup>74</sup> Liu Zhiqiang, Li Yi, Zheng Yi, and Wang Yunna, “Zhimian xin changtai: Yidai Yilu kaifang gongying tuo xinju” [Facing the New Normal: Belt and Road Expanding Opening-Up and Win-Win to New Domains], *Renmin Ribao*, March 13, 2015, <http://cpc.people.com.cn/n/2015/0313/c83083-26687854.html>.

<sup>75</sup> “Are Ethnic Tensions on the Rise in China?” ChinaFile, February 13, 2014, <https://www.chinafile.com/conversation/are-ethnic-tensions-rise-china>.

<sup>76</sup> Consider, for example, the work of economics professor Ilham Tohti, who was sentenced to life in prison in September 2014 after being convicted of “separatism.” See Andrew Jacobs, “Uighur Intellectual Who Won't Back Down in China,” *New York Times*, August 20, 2010, <http://www.nytimes.com/2010/08/21/world/asia/21china.html>; and Edward Wong, “China Sentences Uighur Scholar to Life,” *New York Times*, September 23, 2014, <https://www.nytimes.com/2014/09/24/world/asia/china-court-sentences-ughur-scholar-to-life-in-separatism-case.html>.

Nevertheless, the Chinese leadership clearly hopes that promoting development and reducing poverty will help diminish unrest and discourage radicalization and terrorist recruitment, both within China's borders and beyond. Beijing believes that BRI, by bringing infrastructure connectivity and economic development to neighboring countries, will help reduce the likelihood of terrorism or insurgencies that might spill over into Xinjiang: "increased economic exchanges and trade, enhanced living standards in Central Asia, and cultural exchanges to strengthen trust between people will eliminate the basis for fundamentalism and terrorism."<sup>77</sup> More generally, it hopes that economic development will alleviate the threat from the "three evil forces" (terrorism, separatism, and extremism) and "cut off the external linkages that exist with western China's separatist forces."<sup>78</sup>

### *Securing Energy Resources*

In 2014, Xi Jinping made the case that security is a "holistic concept" encompassing domestic and international aspects, traditional and nontraditional threats, and domestic and overseas interests.<sup>79</sup> Economics and security are interrelated and inseparable. Energy and resources stand at the nexus of both domains: securing access to raw materials is essential for sustained manufacturing and industrial production and hence for the continued growth of China's wealth and power. In this context, Chinese political economist Liu Yingqiu writes that BRI has "a particularly important strategic significance."<sup>80</sup>

A 2014 report by the Development Research Center of the State Council, published after two years of research, examined various options for securing China's energy future. It identified three major factors that will shape the nation's prospects in this vital arena: technological

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<sup>77</sup> Gan Junxian, "Sichouzhi Lu' fuxing jihua yu Zhongguo waijiao" [Planning for a Revival of the "Silk Road" and China's Diplomacy], *Dongbeiyi Luntan* 19, no. 5 (2010).

<sup>78</sup> Jiang, "Yidai Yilu: Yi 'kongjian' huan 'shijian' de fazhan zhanlue." See also Zhao Minghao, "March Westward' and a New Look on China's Grand Strategy," *Mediterranean Quarterly* 26, no. 1 (2015): 97–116; and Zhao Minghao, "China's New Silk Road Initiative," Istituto Affari Internazionali, Working Paper, October 2015.

<sup>79</sup> "Jianchi zongti guojia anquan guan, zou Zhongguo tese guojia anquan daolu" [Adhere to the Holistic National Security Concept, Take the Road to National Security with Chinese Characteristics], Xinhua, April 15, 2014, [http://news.xinhuanet.com/politics/2014-04/15/c\\_11110253910.htm](http://news.xinhuanet.com/politics/2014-04/15/c_11110253910.htm). For an analysis of the implications of Xi's new concept, see Timothy Heath, "The 'Holistic Security Concept': The Securitization of Policy and Increasing Risk of Militarized Crisis," Jamestown Foundation, China Brief, June 19, 2015, <https://jamestown.org/program/the-holistic-security-concept-the-securitization-of-policy-and-increasing-risk-of-militarized-crisis>.

<sup>80</sup> Liu Yingqiu, "Zhongguo jingji da zhuanxing yu xin zhidian" [China's Economic Transformation and the New Fulcrum], *Guojia Xingzheng Xueyuan Xuebao*, September 1, 2014, <http://theory.people.com.cn/n/2014/0901/c217905-25581213.html>.

innovation, shifts in global supply and demand patterns, and the risks associated with geopolitical developments. The next twenty years will not see any fundamental change in global demand for oil and gas: it will remain high, with China and India as the main drivers of growth. Chinese dependence on oil and gas imports will also continue to grow: the report estimates that China's petroleum consumption will reach 600 million tons in 2020 and 800 million tons in 2030, three-quarters of which will need to be imported. To address this considerable dependence, the report recommends that China redistribute its current energy portfolio (coal, oil, gas, nuclear, and renewables), develop new technologies that will help provide clean and efficient energy, and prioritize energy-security measures such as increasing the size of its strategic petroleum reserves, accelerating diversification of oil imports, reducing dependence on imports that transit through the Malacca Strait, and securing energy transportation routes.<sup>81</sup> The vast and growing quantities of oil and natural gas necessary to sustain China's current economic development travel from the Middle East, East Africa, and maritime Southeast Asia along sea lines of communication and through the Malacca Strait chokepoint that the country has virtually no capacity to defend. Chinese strategists have been worried about this so-called Malacca dilemma for over a decade.<sup>82</sup> In the last five years, fears of a possible U.S. naval blockade in the event of an armed conflict, discussed in Washington as part of the debate over the air-sea battle concept, have renewed discussion in Beijing about strengthening the capacity of the People's Liberation Army (PLA) Navy, as well as diversifying oil and gas imports and developing alternative transportation routes.<sup>83</sup>

Overland pipelines, which are an essential feature of BRI, may not fully compensate for the potential interruption of shipments by sea. But they could ease some of China's strategic vulnerability by providing at least a portion of the country's essential needs in the event of a conflict with the United States and its allies. In a paper written in 2015, Han Jingkuan, vice president of CNPC's China Petroleum Planning and

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<sup>81</sup> Li Wei, "Zhongguo weilai nengyuan fazhan zhanlüe fenxi" [Analysis of China's Future Energy Development Strategy], *Renmin Ribao*, February 12, 2014, <http://politics.people.com.cn/n/2014/0212/c1001-24329909.html>.

<sup>82</sup> Liu Jiangping and Feng Xianhui, "Zouchuqu: Kuayue 600 nian de duihua" [Going Out: A Dialogue across 600 Years], *Liaowang*, 2005, 14–19.

<sup>83</sup> Liang Fang, a professor at China's National Defense University, writes, for example, that air-sea battle and offshore control could enable the United States to "blockade energy and raw supplies imports and industrial exports so as to cut off the lifeblood of China's economy." See "Jinri 'Haishang Sichouzhi Lu' tongdao fengxian you duoda?" [How Big Are the Risks on the "Maritime Silk Road" Today?], *Guofang Cankao*, February 11, 2015, [http://www.81.cn/jwgd/2015-02/11/content\\_6351319.htm](http://www.81.cn/jwgd/2015-02/11/content_6351319.htm).

Engineering Institute, describes how by 2030 countries along the belt and road—especially Russia and the Central Asian states, which he identifies as “key areas” for China’s “national energy security supply base”—would be able to provide large chunks of China’s crude oil and natural gas imports. He estimates that China will need to import 600 million tons of crude oil and 300 billion cubic meters of natural gas annually and that in 20 to 30 years energy imports from the different continental corridors envisaged by BRI (China–Central Asia–Russia–West Asia, China–Russian Siberia, and China–Myanmar–Bangladesh–India–Pakistan–Iran) will provide up to 143 million tons of crude oil and 206 billion cubic meters of natural gas—a significant portion of China’s projected energy needs.<sup>84</sup>

Russia, Kazakhstan, Uzbekistan, Turkmenistan, Azerbaijan, Iran, and other energy-producing countries along the Silk Road Economic Belt have been dubbed by Chinese experts as the “21st century strategic energy and resource base.” In June 2014 the Central Leading Group for Financial and Economic Affairs convened a meeting specifically dedicated to energy security, during which Xi called for renewed efforts to promote energy cooperation with countries along the Silk Road Economic Belt.<sup>85</sup> The priority given by the top leadership to enhanced energy cooperation is underpinned by the assumption that such cooperation is a textbook win-win situation: energy-producing countries are happy to export to the promising Chinese market, while China secures access to diversified sources of supply. Such cooperation is therefore considered a showcase for China’s “amicable, mutually beneficial, and inclusive” foreign policy. Chinese experts argue that access to new sources of supply would also give Beijing more leverage in determining prices in global energy markets.<sup>86</sup>

Energy security has been a core concern for Chinese strategic planners over the years. BRI will facilitate Beijing’s plans to diversify its supplies and help draw the regional pipelines map in a way that favors Chinese interests.

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<sup>84</sup> Han Jingkuan, “Zhuazhu guojia jianshe ‘Yidai Yilu’ zhongyao zhanlüe jiyu” [Seizing the Opportunity of the “Belt and Road” Strategy’s National Construction], *Shiyou Guan*, July 11, 2015, <http://bpmti.cnpc.com.cn/bpmti/gdlb/201505/21454ab32e9b4792951511d426016c63/files/65470af3cf3e4d2682f7a707a7ba1a71.pdf>.

<sup>85</sup> Yang Mei, Guo Fang, and Yao Dongqin, “Xinsilu zhanlüe de jingji zhidian” [The New Silk Road Strategy’s Economic Fulcrum], *Zhongguo Jingji Zhoukan*, July 2014, [http://paper.people.com.cn/zgjzk/html/2014-07/07/content\\_1450774.htm](http://paper.people.com.cn/zgjzk/html/2014-07/07/content_1450774.htm).

<sup>86</sup> Shi Ze and Yang Chenxi, “The Diplomacy of Promoting Cooperation on Energy Resources under the Belt and Road Initiative,” in “The ‘Belt and Road’ Monograph,” China Energy Fund Committee, 2016, 51–52; and author’s interviews with an energy expert at the Chinese Academy of Social Sciences, Beijing, November 2015.

## *Strengthening China's "Neighborhood Diplomacy"*

During the first year after his nomination as CCP general secretary in November 2012, Xi redefined China's economic and diplomatic directions for the decade ahead. In many respects, his approach is not dissimilar to that of his predecessor. Indeed, many of Xi's decisions and initiatives are arguably a continuation of Hu Jintao's approach, but with a twist, particularly in the foreign policy domain. In retrospect, 2013 appears as the year when the country's diplomacy started to undergo a subtle but significant shift—from a cautious stance in line with Deng Xiaoping's 1991 admonition to "keep a low profile" to a more proactive stance embodied by the slogan "striving for achievement" that Xi articulated in October 2013 during the Peripheral Diplomatic Work Forum.<sup>87</sup> The forum—the first meeting of its kind since the establishment of the PRC—followed a series of important Politburo study sessions dedicated to China's foreign policy,<sup>88</sup> as well as a dense stream of high-profile regional visits by Xi and Li Keqiang, including to Kazakhstan and Indonesia, where the Chinese president first aired the Belt and Road concept.<sup>89</sup>

To the Politburo Standing Committee and Central Committee members, state counselors, and Chinese ambassadors attending the forum, Xi stressed the strategic importance of neighborhood diplomacy for China's successful rise. Nurturing good relations with neighbors would seem to be a natural starting point for any country's diplomacy, but before Xi's accession to power, Beijing's hierarchy of diplomatic priorities had always given pride of place to relationships with "major powers." The unusual, high-visibility forum signaled that diplomatic relations with the region would now be elevated in importance, a message reinforced one year later at the Central Foreign Affairs Work Conference held in Beijing in November 2014.<sup>90</sup>

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<sup>87</sup> "Xi Jinping zai Zhoubian Waijiao Gongzuo Zuotanhui shang fabiao zhongyao jianghua" [Xi Jinping Delivers an Important Speech at the Forum on Peripheral Diplomatic Work], Xinhua, October 25, 2013, [http://news.xinhuanet.com/politics/2013-10/25/c\\_117878897.htm](http://news.xinhuanet.com/politics/2013-10/25/c_117878897.htm); and Xuetong Yan, "From Keeping a Low Profile to Striving for Achievement," *Chinese Journal of International Politics* 7, no. 2 (2014): 153–84.

<sup>88</sup> Timothy Heath, "Diplomacy Work Forum: Xi Steps Up Efforts to Shape a China-Centered Regional Order," Jamestown Foundation, China Brief, November 7, 2013.

<sup>89</sup> Zhao Minghao, "Cong yuanshou waijiao kan zhoubian waijiao da zhuanxing" [High-Profile Diplomacy Illustrates the Great Transformation of China's Peripheral Diplomacy], *Liaowang*, September 16, 2014, [http://news.xinhuanet.com/politics/2014-09/16/c\\_1112492464.htm](http://news.xinhuanet.com/politics/2014-09/16/c_1112492464.htm).

<sup>90</sup> Michael D. Swaine offers comprehensive reports of Chinese interpretations of both events. See Michael D. Swaine, "Chinese Views and Commentary on Periphery Diplomacy," Hoover Institution, China Leadership Monitor, no. 44, Summer 2014; and Michael D. Swaine "Xi Jinping's Address to the Central Conference on Work Relating to Foreign Affairs: Assessing and Advancing Major Power Diplomacy with Chinese Characteristics," Hoover Institution, China Leadership Monitor, no. 46, Winter 2015.

This shift toward a more proactive diplomacy centered on China's neighbors reflects the leadership's growing concern about the continuing U.S. presence in the region as well as Washington's alleged role in ratcheting up tensions in the East and South China Seas. As China's relations with Japan, the Philippines, and Vietnam deteriorated over maritime disputes and as concerns grew over Beijing's increased assertiveness, the Obama administration decided in 2011 to show its commitment and resolve by inaugurating a rebalance of its diplomatic, economic, and military efforts to the Asia-Pacific. The move caused alarm in Beijing, as it was perceived as an accelerated effort, directed from Washington, meant to challenge China's interests in the region. Chinese experts debated how the country should respond. One prominent view was that because the United States will never endorse China's rise, Beijing's only option is to try to reduce potential resistance from countries on its periphery and gain their support for its own objectives.<sup>91</sup> China cannot push the United States out of the region altogether, but it also cannot stand idly by while Washington seeks to contain its rise.<sup>92</sup> To prevent this, China must refocus and increase its own regional influence: as Xi himself put it, in order to "be at ease and able to manage our own matters free from anxiety," we must build "peace and security at our doorstep," discouraging neighbors from succumbing to the lure of the United States.<sup>93</sup> Aware of regional countries' misgivings about its growing might, China must play to its strengths as the world's second-largest economy and use its increasing wealth to gain influence with its neighbors.

This idea is at the core of BRI. Economic cooperation is not just a way to boost development or to bring financial returns. It is also a tool to be used for political and strategic gain—a method that Renmin University's Shi Yinhong has labeled "strategic economy."<sup>94</sup> When Xi tells China's neighbors

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<sup>91</sup> Yan Xuetong, "Zhengti de 'zhoubian' bi Meiguo geng zhongyao" [The Overall "Periphery" Is More Important Than the U.S.], *Huanqiu Shibao*, January 13, 2015, <http://opinion.huanqiu.com/1152/2015-01/5392162.html>.

<sup>92</sup> Wu Zhicheng and Xing Haibing, "Strategic Planning for Its Neighboring Diplomacy," *Contemporary International Relations* 25, no. 2 (2015): 62–65; Yan, "Zhengti de 'zhoubian' bi Meiguo geng zhongyao"; Guo Shuyong, "'Zhoubian shi youhao,' dang yi quyu zhili youxian" ["Periphery Is Primary," Time for Regional Governance to Be Prioritized], *Huanqiu Shibao*, February 11, 2015, <http://opinion.huanqiu.com/1152/2015-02/5651079.html>; and Zhang Qingmin, "Lijie Shibada yilai de Zhongguo wajiao" [Understanding China's Diplomacy since the 18th Party Congress], *Wajiao Pinglun*, no. 2 (2014), [http://paper.usc.cuhk.edu.hk/webmanager/wkfiles/2012/201408\\_13\\_paper.pdf](http://paper.usc.cuhk.edu.hk/webmanager/wkfiles/2012/201408_13_paper.pdf).

<sup>93</sup> Zhao, "Cong yuanshou wajiao kan zhoubian wajiao da zhuanxing."

<sup>94</sup> Shi Yinhong, "The Latest Transfer in China's Foreign Strategy: From 'Military Strategy' to 'Economic Strategy,'" *Contemporary International Relations* 25, no. 2 (2015); and Shi Yinhong, "China's Complicated Foreign Policy," European Council on Foreign Relations, Commentary, March 31, 2015, [http://www.ecfr.eu/article/commentary\\_chinas\\_complicated\\_foreign\\_policy311562](http://www.ecfr.eu/article/commentary_chinas_complicated_foreign_policy311562).

that they should take advantage of the economic opportunities offered by its development and by BRI, this is what he has in mind. Countries that are friendly to China, support its interests, or at a minimum do not challenge it on sensitive issues will receive economic and security benefits from Beijing; conversely, countries that oppose China, or infringe on its security and sovereignty, will be denied access to these rewards and might even be actively punished.<sup>95</sup>

### *Pivoting Westward to Counter the U.S. Pivot to Asia*

Broader strategic considerations also underlie the Belt and Road vision. Since at least the end of the Cold War, Chinese planners have viewed the United States as an oppressive global hegemon determined to prevent the rise of any potential challenger. Together with its command of the world's oceans, the United States' forward military presence and enduring alliance system have long been seen as posing the most direct and serious challenge to China's security: from Japan to the South China Sea to India and Afghanistan, this presence creates a "C-shaped encirclement ring" that squeezes China's "strategic space."<sup>96</sup> Beijing's newfound assertiveness in the East and South China Seas since 2010 illustrates the leadership's desire to push outward and extend the contours of this strategic space. Not surprisingly, when Washington declared its intention to rebalance to the Asia-Pacific in

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<sup>95</sup> See, for example, Li Chengyang, "Zhongguo zai zhoubian diqu de moupian buju" [China's Plans in the Peripheral Areas], *Shijie Zhishi*, 2014; Wang Sheng and Luo Xiao, "Changes in the International Order and China's Regional Diplomacy," *Xiandai Guoji Guanxi*, February 2, 2013, [http://www.cicir.ac.cn/chinese/Article\\_5007.html](http://www.cicir.ac.cn/chinese/Article_5007.html); and Xue Li, "Yidai Yilu' beijing xia de Zhongguo zhoubian waijiao fanglüe" [China's Peripheral Diplomatic Strategy in the Context of "Belt and Road"], *Financial Times* (Chinese edition), January 11, 2016, <http://m.ftchinese.com/story/001065641>.

<sup>96</sup> The concept of C-shaped encirclement was put forward by PLA Air Force colonel Dai Xu in his 2010 book *C-Xing Baowei: Neiyu waihuan xia de Zhongguo tuwei* [C-Shaped Encirclement: China's Breakthrough under Domestic Problems and Foreign Aggression] (Shanghai: Wenhui Press, 2010). Jiang Lingfei, a professor at China's National Defense University, describes for his part a "U-shaped turbulence zone" around China and prescribes stabilizing China's continental and maritime periphery as a priority to ensure its national security. Jiang Lingfei, "Guoji dabian ju xia de daguo zhanlüe xuanze" [Strategic Choices of Major Powers in a Situation of Global Changes], *Dangdai Shijie*, January 2010, 17–21. Chinese analysts tend to agree that China faces omnidirectional strategic pressures from the United States but diverge over whether to give priority to the consolidation of continental or maritime power. Debates between proponents of a wider naval buildup, such as Zhang Wenmu and Ni Lexiong, and advocates of land power consolidation, such as Ye Zicheng, were particularly lively during the past decade. Discussions reflecting concerns about U.S. pressure on China's strategic space can be found, among other places, in Wang Wei, "Zhongguo nengfou chongpo 'ezhi liantiao'?" [Can China Break the "Island Chain Containment"?], *Lingdao Yishu*, 2005, 59–64; Yu Zhengliang and Que Tianshu, "Tixi zhuanxing he Zhongguo de zhanlüe kongjian" [System Transformation and China's Strategic Space], *Shijie Jingji yu Zhengzhi* 10 (2006): 29–35; Zhang Jian, "Meiguo yatai waijiao gongshi jiya Zhongguo zhanlüe kongjian" [U.S. Diplomatic Campaign Squeezes China's Strategic Space], *Zhongguo Shehui Kexue Bao*, December 13, 2011; and Dai Xu, "Meiguo weidu zhi xia, Zhongguo xin de zhanlüe kongjian zai nali?" [Under American Containment, Where Is China's New Strategic Space?], *Huanqiu Shibao*, December 19, 2012, [http://www.caogen.com/blog/infor\\_detail.aspx?id=153&articleId=43957](http://www.caogen.com/blog/infor_detail.aspx?id=153&articleId=43957).

2011, Chinese observers concluded that a new and more intense phase in Sino-U.S. competition was at hand. China needed to find ways to respond. The solution, as leading expert Wang Jisi argued in late 2012, was to “march westward,” avoiding a direct confrontation with the United States and its maritime allies by directing China’s own strategic energies toward its interior frontiers.<sup>97</sup> Wang, who at that time was dean of the School of International Studies at Peking University and close to Hu Jintao, recommended that China increase its economic and trade cooperation to all “West Asian nations” along three major land routes (southern, central, and northern) and an additional maritime route passing through the Indian Ocean. He envisioned the establishment of a cooperation and development fund, as well as an increase of China’s investment in diplomatic resources, calling “marching westwards” a “strategic necessity for China’s involvement in great power cooperation, the improvement of the international environment and the strengthening of China’s competitive abilities.” Finally, Wang also listed possible obstacles and advised national leaders to “avoid risks, balance all sides, increase efforts in research and development and be part of an overall strategic plan.”<sup>98</sup>

In retrospect, Wang’s article looks like a prophetic advance draft for the BRI strategy. Contrary to what is usually believed, however, the leadership’s renewed interest in Eurasia was not sparked by his article. Rather, it was the other way around.<sup>99</sup> The ideas laid out in Wang’s 2012 article were not entirely new. Several noted Chinese experts have argued for some time that, in response to an increased U.S. push in East Asia, China should seek to preserve a favorable balance of power by enhancing its position in continental Eurasia.<sup>100</sup> As early as 2001, PLA general Liu Yazhou, one of China’s most prominent strategic writers, asserted that advancing westward was “a historical necessity for the Chinese nation, and it is also our destiny.”<sup>101</sup> General Liu proposed selecting “appropriate locations in the border regions” to set up Shenzhen-like trading hubs that would serve as the basis for a

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<sup>97</sup> Wang Jisi, “Marching Westwards: The Rebalancing of China’s Geostrategy,” Center for International and Strategic Studies, Peking University, Report, October 7, 2012.

<sup>98</sup> Ibid.

<sup>99</sup> Author’s interviews with representatives from CICIR and Renmin University, Beijing, November 2015.

<sup>100</sup> For example, see Tang Yongsheng, “Jiji tuijin xixiang zhanlüe” [Actively Promoting Westward Strategy], *Xiandai Guoji Guanxi* 11 (2010); Ye Zicheng, “Zhongguo de heping fazhan: Luquan de huifu yu fazhan” [China’s Peaceful Development and the Return to Land Power], *Shijie Jingji Yu Zhengzhi* 2 (2007); and Li Xiaohua, “Ouya Dalu diyuan zhengzhi xin geju yu Zhongguo de xuanze” [New Geopolitical Setting in Eurasia and China’s Choice], *Xiandai Guoji Guanxi* 4 (1999).

<sup>101</sup> Liu Yazhou, “Da guoce” [The Grand National Strategy], 2001, <http://www.aisixiang.com/data/2884.html>. An English translation of this essential text can be found in *Chinese Law and Government* 40, no. 2 (2007): 13–36.

future Central Asian “common market.” He also advocated the opening up of a “Europe-Asia land bridge to form a greater Euro-Asian symbiotic economic belt and use the countless economic links and common interests with countries to the West in order to dismantle the U.S. encirclement of China.” A more unified Eurasian core would provide “the anchor of our western strategy and break U.S. attempts to drive wedges” between China and its western neighbors.<sup>102</sup>

General Liu emphasized again the critical importance of China’s greater western region in a short article written in August 2010. He described Central Asia as a “rich piece of cake given to today’s Chinese people by heaven” and underlined its crucial importance in light of China’s energy security vulnerability. As Liu pointed out, the maritime “arteries bringing in China’s oil are all under the eyes not only of the American navy but also, for that matter, the Indian navy as well.” Central Asia should thus be regarded “as territory to be recovered in our advance, not as a border region.”<sup>103</sup> It is worth noting that Liu is believed to be among several military officers who periodically brief Xi on national security strategy and appears to belong in the Chinese president’s closest circle.<sup>104</sup>

BRI does not signal a radical shift in strategic focus toward China’s continental backyard and away from its maritime claims in the East and South China Seas. Both the Silk Road Economic Belt and the 21st Century Maritime Silk Road serve the same objective of pushing back against perceived U.S. attempts to pressure and contain China’s strategic space, whether on land or at sea, but attempt to do so in ways that minimize the risk of military conflict. BRI is therefore much more than a development initiative. It is not merely a series of engineering projects but a strategic concept meant to break through U.S. attempts to “strangle China.”<sup>105</sup> In the words of PLA Air Force general Qiao Liang, the Belt and Road strategic construct is “truly the strategy of the shrewd.” If China had chosen a direct collision course with the United States, the cost would have been too high; instead, a strategy of expansion toward the west preserves China’s national

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<sup>102</sup> Liu, “Da guoce.”

<sup>103</sup> “Kongjun Zhongjiang Liu Yazhou zhuan ‘Xibu lun’ zongtan xijin zhanlüe” [Air Force Lieutenant General Liu Yazhou Writes ‘Western Theory’ Talks of Strategy to March Westward], *Wenweipo*, August 10, 2010, <http://info.wenweipo.com/?action-viewnews-itemid-32266>.

<sup>104</sup> Willy Wo-Lap Lam, “The Generals’ Growing Clout in Diplomacy,” Jamestown Foundation, China Brief, April 3, 2015.

<sup>105</sup> Huo Jianguo, “‘Yidai Yilu’ shi zhanlüe gouxiang, bushi ‘gongcheng xiangmu’” [“Belt and Road” Is a Strategic Concept, Not an “Engineering Project”], *People’s Daily*, March 19, 2015, <http://finance.people.com.cn/money/n/2015/0319/c42877-26719589.html>.

interests and avoids confrontation, while offsetting U.S. pressure on China.<sup>106</sup> As another high-ranking PLA officer observed, it is no longer necessary for a country to protect its national interests by resorting to military conquest and territorial expansion. The Belt and Road vision helps transform the traditional mindset grounded in geopolitical competition into one focusing on “geopolitical cooperation.”<sup>107</sup>

## Conclusion

The Belt and Road Initiative is meant to address both China’s economic situation and its security environment in order to realize Xi’s “China dream”—that is, his vision for the great rejuvenation of the nation. It is the organizing concept of Xi’s vision for China as a rising global power that has unique national characteristics. Even if it is officially framed as a product of China’s benevolence and a friendly offer to neighboring countries to jump “aboard the Chinese development train,”<sup>108</sup> BRI is in fact conceived in strategic terms, mostly as a response to existential challenges posed by the United States. The concept sets the general long-term direction for China and seeks to mobilize and coordinate the use of all available national resources (political, economic, diplomatic, military, and ideological) to pursue internal (economic development) and external (diplomacy and national security) objectives in an integrated way.

As such, BRI is a “grand strategy” that is meant to serve China’s unimpeded rise to great-power status.<sup>109</sup> Its architects hope that the increasingly dense and intricate web of regional economic interconnections created by the initiative will eventually help alleviate any remaining “contradictions” between China and its neighbors. As more countries benefit from Beijing’s largesse, they will come to realize that common

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<sup>106</sup> Qiao Liang, “Quanqiu shiye xia de da zhanlüe gouxiang” [The Grand Strategy Concept under the Global Vision], in *Gaibian shijie jingji dili de “Yidai Yilu”* [“Belt and Road” Transforming the World’s Economy, Geography], ed. Liu Wei (Shanghai: Shanghai Jiaotong University Press, 2015), 51–65.

<sup>107</sup> Senior Colonel Xu Hui’s 2015 television interviews are available at <https://www.youtube.com/watch?v=dmZ6Xbm9rsE>.

<sup>108</sup> “Welcome Aboard China’s Train of Development,” Xinhua, August 22, 2014, [http://news.xinhuanet.com/english/china/2014-08/22/c\\_133576739.htm](http://news.xinhuanet.com/english/china/2014-08/22/c_133576739.htm).

<sup>109</sup> Xu Xiaojie, “Sichouzhi Lu’ zhanlüe gouxiang de tezheng yanjiu” [A Study of the Characteristics of the “Silk Road” Strategic Concept], *Eluosi Yanjiu*, no. 6 (2014), available at <http://www.aisixiang.com/data/96454.html>; Du Debin and Ma Yahua, “Yidai Yilu: Zhonghua minzu fuxing de dizhi da zhanlüe” [Belt and Road: The Grand Geostrategy for China’s National Rejuvenation], *Dili Yanjiu* 34, no. 6 (2015): 1005–14; and Xue Li, “Yidai Yilu zhanlüe shi daguo yangmou” [Belt and Road Strategy Is a Plan for Great Power-ness], *Financial Times* [Chinese edition], December 14, 2015, <http://www.ftchinese.com/story/001065182>.

development is more urgent and important than opposing China's interests or challenging its views. Pulled ever more closely into China's economic orbit, BRI countries—which may eventually include a large portion of the Eurasian continent, encompassing much of Europe and the Middle East—will find it increasingly difficult to stand up to Beijing. As China gains political influence over its neighborhood, it will be able to push back against U.S. dominance and reclaim its own regional strategic space.<sup>110</sup>

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<sup>110</sup> Tang Yongsheng, "Exploit Strategic Geopolitical Advantages and Positively Influence the Regional Order," *Contemporary International Relations* 23, no. 6 (2013).