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To cite this article: Veysel Tekdal (2017): China's Belt and Road Initiative: at the crossroads of challenges and ambitions, The Pacific Review, DOI: 10.1080/09512748.2017.1391864

To link to this article: http://dx.doi.org/10.1080/09512748.2017.1391864

Published online: 30 Oct 2017.
China’s Belt and Road Initiative: at the crossroads of challenges and ambitions

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ABSTRACT

Interpretations of the Belt and Road Initiative (BRI) mostly agree that it is a policy opening that offers some remedies for China’s economic and security challenges, as well as reflects China’s increasing regional and global ambitions. This paper argues that the multiple drivers characterizing the BRI result from the multiple identities of China as a developing country struggling with several sources of instability and macroeconomic problems and, simultaneously, a regional and an emerging power, and finally a major global power with significant economic capacity to shape the global economic order. The paper aims to substantiate the entanglement of the defensive and ambitious motivations behind the BRI by examining the background against which the Chinese Communist Party leadership has suggested it. In so doing, it draws on Chinese official policy documents and statistics, speeches from Chinese leaders and existing social–scientific research on the transformation of China’s economic and political landscape in recent years.

KEYWORDS Belt and Road Initiative; challenges of China; ambitions of China; China; global economic order

China’s Belt and Road Initiative (BRI) stands for a long-term plan for the construction of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road. Xi Jinping announced the former in September 2013 when paying a visit to Kazakhstan, while he declared the latter when visiting Indonesia one month later. Since its announcement, the BRI has come to be known most prominently as a strategy to enhance trade and investment connectivity between China and Europe, Central Asia, the Middle East, Africa and South Asia.

In March 2015, the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM) and the Ministry of Foreign Affairs jointly published what we can conceive as the official BRI plan, i.e. the ‘Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road’ (hereafter the Visions and Actions). Official discourse on the BRI points out that it embodies several areas for cooperation, including infrastructure, policy coordination, trade facilitation, financial integration and people-to-people bonds in areas as diverse as tourism,
There is no official map for the BRI and its geographical scope is not fixed, as it is an open-ended network system (Ferdinand, 2016, p. 950; Liu & Dunford, 2016, p. 336; Summers, 2016, pp. 3–4). Still, the Visions and Actions (NDRC, 2015) identifies six land corridors: the New Eurasian Land Bridge; China–Mongolia–Russia; China–Central Asia–West Asia; the China–Indochina Peninsula Corridor; the China–Pakistan Economic Corridor; and the Bangladesh–China–India–Myanmar Economic Corridor. Along with these corridors, the Maritime Silk Road specifies two more routes: one running through the South China Sea and the Indian Ocean to ports in the Mediterranean, and the other through the South China Sea to the South Pacific.

Policy ideas in China regarding the enhancement of connectivity between China and Europe, Africa and the rest of Asia precede the initiation of the BRI. Indeed, China was seeking to build and acquire ports across Southeast Asia and the Indian Ocean before the announcement of the BRI (Wang and Lu, 2016, p. 175). Furthermore, the Bangladesh–China–India–Myanmar and the China–Pakistan Economic Corridors predate the BRI. Moreover, efforts by local governments (e.g. Yunnan and Xinjiang) to stimulate integration between provinces in underdeveloped western China and Central and Southern Asia had already been underway before the BRI was announced (Summers, 2016, pp. 5–6). Accordingly, Summers (2016, p. 7) rightly argues that ‘...the belt and road initiative should be viewed as an extension, consolidation and political elevation of pre-existing policy ideas and practice at the sub-national level in China’. The Chinese Communist Party (CCP) leadership now has set up new institutions and mobilized enormous resources to push forward the BRI, and has initiated a diplomacy to gather support for it from abroad.

The BRI, as a long-term plan with the potential to transform the geoeconomic landscape of dozens of countries along the proposed routes, has attracted interest from the business world, governments and scholars from various disciplines. This paper particularly joins discussions on the motivations of the Chinese state in designing the BRI and its implications for the power configuration in Asia and the global economic order. Although it is stated in diverse forms, the basic question is as follows: is the BRI an ambitious offensive plan reflecting China’s increasing willingness to become an institution-maker in the global economic governance and a major hub of trade, investment and financial capital within and beyond its region? Indeed, there is enough evidence to give an affirmative answer to this question, as some observers have (e.g. Chen, 2016; Liu & Dunford, 2016; Nicolas, 2016). However, it is also quite reasonable to represent the BRI as a response to the challenges, both domestic and regional, faced by the CCP (e.g. Wang, 2016b). This paper argues that these offensive and defensive motivations characterizing the BRI result from multiple identities of China as a developing country struggling with several sources of instability and macroeconomic problems and, simultaneously, a regional and an emerging power, and finally a major global power with significant economic capacity to shape the global economic order. The paper aims to substantiate the entanglement of the defensive and ambitious motivations behind the BRI by examining the background against which the CCP leadership has suggested it. In so doing, it draws on Chinese official policy papers, speeches from Chinese leaders, statistics and existing social–scientific research on the transformation of China’s economic and political landscape in recent years.

The paper is organized as follows. The first section presents a review of the BRI’s institutions, diplomacy and projects. In the second section, an analytical framework is
developed to interpret Beijing’s motivations behind formulating the BRI. The third section discusses the defensive aspects of the BRI by unpacking the challenges faced by the CCP. The fourth section outlines China’s ambitions which are observable in the BRI. The paper ends up with concluding remarks.

Unpacking the BRI: a look at its institutions, diplomacy and projects

The BRI has taken its place in China’s institutional architecture and national-level policy documents. In late March 2015, a special leading group, which is a high-level decision-making body, was established for the BRI (Swaine, 2015, p. 3). The Third Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013 adopted a key document outlining the Xi administration’s economic roadmap, namely the ‘decision of the Central Committee of the Communist Party of China on some major issues concerning comprehensively deepening the reform’, which points to the Silk Road Economic Belt and the 21st-Century Maritime Silk Road as a ‘new pattern of all-round opening’ (Decision of the Central Committee, 2014). The BRI is also integrated into the 13th Five-Year Plan, in which it is elaborated upon in a separate chapter (NDRC, 2016a). In January 2016, the MOFCOM started to publish ‘investment and cooperation statistics on countries along Belt and Road Initiative’ periodically (Ministry of Commerce [MOFCOM], 2016).

After the Visions and Actions was issued in March 2015, Chinese delegations composed of diplomats and scholars were sent abroad to advertise the BRI (Callahan, 2016, p. 12). The promotion of the BRI constituted the core of Xi Jinping’s overseas visits in 2015 and 2016, during which dozens of bilateral trade and investment agreements within the framework of the BRI were signed. Xi Jinping’s BRI diplomacy has included visits to Vietnam and Singapore in November 2015, a five-day visit to the Middle East, Iran, Saudi Arabia and Egypt in January 2016, visits to Poland, Serbia and Uzbekistan in June 2016 and visits to Bangladesh and Cambodia in October 2016. Similarly, the Chinese leadership has made use of several international summits to promote the BRI, such as the Shanghai Cooperation Organization (SCO) in Uzbekistan in June 2016 and the China and Central and Eastern European Countries Summit in November 20161. Most recently, Xi Jinping delivered a speech at the opening session of the World Economic Forum (WEF) on 17 January 2017, whereby he was able to frame the BRI as a win-win ground for cooperation at a time when the global economy is facing downward pressure (Xi, 2017).

Some notable developments in terms of concrete actions on the ground include port acquisitions, project approvals and the inauguration of new rail routes. The Asian Infrastructure Investment Bank (AIIB) was declared in 2014 and came into operation in January 2016 with $100 billion of initial capital. Even though the AIIB is a multilateral institution with no official link to the BRI, the most important motivation behind the AIIB, as Callaghan and Hubbard (2016, p. 199) maintain, is the BRI itself. The AIIB, indeed, has been emerging as a source of funding for projects in BRI partner countries. The AIIB is scheduled for its second annual meeting in June 2017 with its ‘57 signatory countries and approved loans of over US$1.7 billion to support nine infrastructure projects across seven countries, including Pakistan, Bangladesh, Tajikistan, Indonesia, Myanmar, Azerbaijan and Oman’2. In December 2014, the Silk Road Fund was established with $40 billion of capital. Unlike the multilateral AIIB, it is managed by the People’s Bank of China (PBoC) (Nicolas, 2016, p. 11). Also, it is reported that the China Development Bank, a
major policy bank in China, plans to invest hundreds of billions of dollars in BRI projects (He, 2015).

Chinese companies, mostly state-owned/controlled ones, have either acquired the operation rights of several internationally important ports along the BRI routes over the last few years, including the Haifa New Port in Israel (2015), the Piraeus Container Port in Greece (2016) and the Gwadar Port in Pakistan (2013), or have invested in some others such as the Port of Rotterdam (2016) and Kumpor in Turkey (2015) (Yu, 2016, p. 9; various sources).

New rail routes for cargo trains across the New Eurasian Land Bridge have begun to operate over the last few years. There are now several Chinese–European city pairs that are linked via direct cargo trains, including Yiwu–Madrid and Suzhou–Warsaw, both of which were inaugurated in 2014. The volume of cargo transferred through the Chongqing–Duisburg rail route, launched in 2011, has been steadily growing. Those rail routes have provided a cargo alternative that takes less time than shipping and is cheaper than air cargo (Shepard, 2016; various sources). The China–Europe train route, running through Kazakhstan, also offers a quicker option than the trans-Siberian route, as they each take about 12 and 16 days, respectively (Kemp, 2016). The NDRC issued, in October 2016, a 19-page detailed five-year plan for 2016–2020 which illustrates China’s projection for the development of railway networks from China to Europe. The plan also contains provisions regarding the central regulation of increasing the number of China–Europe railway routes and the improvement of custom clearance and similar management issues (NDRC, 2016b). The plan suggests two additional China–Europe railway corridors, one running through Kyrgyzstan, Uzbekistan, Turkmenistan, Iran and Turkey to the European countries; the other will arrive in Europe from Kazakhstan via two alternative routes. One stretches from across the Caspian Sea and through Azerbaijan, Georgia and Bulgaria, while the other runs via Turkmenistan, Iran and Turkey (NDRC, 2016b, pp. 4–5). It also nominates Chinese cities to set rail routes with pair cities not only in Europe but also with Ulaanbaatar, Moscow, Almaty, Tehran and Istanbul (NDRC, 2016b, pp. 11–12).

Analytical framework: ambitions of a regional and major global economic power facing several challenges

China has a very distinctive position within the global order caused by its multiple identities. Most contrastingly, China is simultaneously a developing country and a major global economic power. On the one hand, most of the social and economic problems characterizing developing societies are visible in China (see Poh & Li, 2017, p. 7). On the other hand, China has emerged as a major global power with significant economic capacity to shape the global economic order over the last decade, particularly after the Global Financial Crisis of 2008–2009 (hereafter the GFC, see as follows). Beyond these two identities, China should also be considered as an emerging power which carries out a diplomacy, underpinned by its increasing power, to reform particular aspects of global governance. China is also arguably a regional power as evidenced by its endowments, such as a huge population and territory, and increasing importance as an economic partner for the countries in its region (see Breslin, 2013, pp. 616–617, for a more detailed discussion on China’s multiple identities). As a country with multiple identities, China has been left with peculiar challenges and ambitions.

To start with its challenges, it should be underlined first and foremost that as the leader of China’s one-party system, the CCP leadership is inherently under pressure to
manage the country competently to eliminate such risks as being overthrown by a mass uprising or a rival power bloc from within the party-state system (Shirk, 2008, pp. 6–7; see also Nathan, 2016, p.181). Economic prosperity is arguably the most important pillar of stability, and thus of the regime’s survival in China. Faced with the end of double-digit growth rates in the last few years, the Chinese economy has been challenged by the pains of a structural transformation. China’s growth model is marked by several macro-economic issues to be dealt with, *inter alia*, disproportionately investment-led growth, overcapacity in manufacturing, a relatively high level of regional developmental disparity and income inequality, and a heavy dependence on energy imports (Aglietta & Bai, 2016; NDRC, 2016a; Zhang, 2016). It is generally accepted that the structural transformation of the Chinese economy should work towards increasing the share of consumption in the gross domestic product (GDP) and the contribution of service and high-technology sectors to economic growth (Naughton, 2016, p. 56). The Chinese leadership also has to manage the well-known causes of social unrest, including abusive working conditions, ethnic tension in Xinjiang and Tibet, environmental degradation, land seizures by local governments and so forth.

China, moreover, should deal with several external security issues in its ‘uniquely challenging’ neighbourhood (Nathan, 2016, p. 182). Worsening relations with several neighbouring countries since 2009 due to territorial disputes in the South China Sea and the subsequent alliances against China, for instance, have turned out to be a major concern for Beijing (Wang, 2016b, p. 1). To retain its position as the single legitimate authority capable of representing and governing the Chinese people, the CCP leadership must competently address these issues. Underlining these challenges, some observers tend to see the BRI as an essentially defensive policy opening. For example, Wang Yong of Peking University, although he concedes Xi Jinping’s more pro-active and assertive international posture, tends to see the BRI as a ‘scheme of offensive for defensive’ under the ‘…combined pressure of the economic slowing, US pivot to Asia and the deterioration of the relations with neighbouring countries…’ (Wang, 2016b, p. 1).

On the other hand, China has been accumulating significant ‘power-capacities’ to project abroad, especially as a huge source of investment, trade and financial capital (Ten Brink, 2014, p. 39). For several years now, China has sustained a steady growth trend in its outward foreign direct investment (OFDI) by aggressively promoting the ‘go global’ policy. Signifying its increasing importance as a global investor, it became a net capital exporter in 2014 for the first time (discussed in what follows). The Chinese leadership has also been pushing aggressively in favour of internationalizing the Renminbi (RMB) since 2009 (Prasad, 2016). China’s increasing economic capacity, combined with a relative slowdown in the economies of leading western and Asian countries since the GFC, has encouraged it to increase its economic leverage in its broad neighbourhood (Callahan, 2016).

Chinese observers unequivocally express their dissatisfaction with the current global economic governance, which they consider to be not offering enough room for a rising China (Beeson & Li, 2016, p. 492; Breslin, 2016, pp. 63–64). That said, China, the ‘dissatisfied responsible great power’ (Breslin, 2010), is not opting to overthrow the global economic order. Instead, it is seeking to set up institutions of global economic governance, as in the case of the AIIB, to rival US-led ones (Chen, 2016, p. 781). Second, as Leverett and Bingbing (2016, p. 125) aptly put, China is pushing for greater multipolarity, ‘not by directly confronting major aspects of US primacy but through “win-win” initiatives that effectively operate outside Washington’s influence’. China has been forging different types of relations with other states, including BRICS countries, some European countries,
members of the Association of Southeast Asian Nations (ASEAN) and the SCO ‘to establish a network of global hub-and-spoke partnerships with China at the centre’ (Zeng & Breslin, 2016, p. 777).

In the light of the above discussion, the BRI can better be comprehended with such a perspective that places emphasis on the multiple identities of China and the dual character of its foreign policy. On the one hand, China’s leadership is formulating foreign policies to secure the regime’s stability and legitimacy vis-à-vis several economic, social and security challenges. There is a visible link between the Chinese leadership’s concern to deal with some of those challenges and the formulation of the BRI. On the other hand, underpinned by its increasing relative power in the global economy, Beijing has been more ambitious over the last few years in shaping the regional order and global economic governance. The BRI, therefore, reflects China’s increasing ambitions as well. Thus conceived, notions of challenges and ambitions present a simple but useful analytical framework for a balanced representation of the BRI (see Table 1). While the challenges are understood as potential sources of instability for the CCP’s rule and legitimacy, the ambitions denote the enhancement of China’s regional and global influence. Yet, a limitation of this analytical framework should be noted. It distinguishes the challenges and ambitions for purely analytical purposes. From a deeper ontological point of view, what I regard here as an ambition might be taken as a challenge or weakness. For instance, internationalizing the RMB is related to the monetary policy dilemma resulting from China’s rise within the US-dominated global monetary order (see Lim, 2010).

### The BRI as a response to challenges

#### Stagnating exports and overcapacity in manufacturing

Stagnating exports and overcapacity in manufacturing are among the major economic challenges before the CCP leadership. China’s GDP growth rate has been steadily decreasing since 2012 with a 7.3 % average for the 2012–2016 period; as a point of contrast, it was slightly over 10 % for the years between 2000 and 2011 (World Bank [WB], 2017a). This deceleration in GDP growth partly stems from the fact that China has been transforming its growth model by curbing its investment rate, which is considered too high for sustainable development. Beijing considers this lower GDP growth as a reflection of its progressing economic development, and has been calling it the ‘new normal’ since the Central Economic Work Conference in 2014 (Yu & Zhang, 2015, p. 2076). Under new normal conditions, the growth rate should be medium–high and led by innovation and total factor productivity rather than investment (NDRC, 2016a, Chapter 3). Despite efforts to cut down on unwise investments and rebalance the growth model from an

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Source: author’s own elaboration.
investment-led one to an innovation- and consumption-led one within the medium-to-
long term, China is still striving to grow at a rate of around 6.5% in the coming years. It
is not an easy target, bearing in mind that it was 6.9% and 6.7% in 2015 and 2016,
respectively (Aglietta & Bai, 2016; NDRC, 2016a). Some observers, such as Michael Pettis
(2017), a leading expert on the Chinese economy, regard the target as too high to be
realistic. Expanding exports will help China’s bid to keep the growth rate at around
6.5%. However, partly due to the global slowdown that still remains from the GFC, Chi-
inese exports to Europe, Japan and Latin America have stagnated or moderately
decreased in recent years, while the total value of exports slightly increased in 2013 and
2014, but declined in 2015 (National Bureau of Statistics of China, 2017). For this reason,
China has been willing to find new export markets (Liu & Dunford, 2016, p. 335; Yu,
2016, p. 6). Increased connectivity and bilateral agreements with countries along the BRI
routes will contribute to Beijing’s goal.

The expansion of exports is also important since China has a notable overcapacity in
the manufacturing sector. The overcapacity problem has roots in China’s growth pattern
in the post-GFC period, which has been disproportionately investment-led with more
than a 45% share in the GDP (Dollar, 2015, p. 162; Zhang, 2016, p. 3). The stimulus pack-
age employed by the Chinese government after the GFC, which aimed to provide an
impetus for growth in the face of shrinking exports, has worsened the overcapacity
problem (Liu & Dunford, 2016, pp. 327–328). Most of these investments have resulted in
debt-driven and low-efficiency investments undertaken by state-owned enterprises
(SOEs) (Zhang, 2016, p. 7). Currently, oversized and over-indebted SOEs constitute a
financial risk for the Chinese banking system (Aglietta & Bai, 2016, p. 3). Under these
conditions, Chinese leaders have been devising policies to curb overcapacity in recent
years, including the restructuring and closing of inefficient SOEs, notably in industries
such as steel, iron, aluminium, cement, coal, flat glass and paper (Yan, 2016, pp. 30–31).

Beijing appears to be aiming to shift some of its excess capacity abroad through the
BRI (Ferdinand, 2016, p. 951). This expectation has been aired by some high-level Chi-
inese officials such as He Yafei (He, 2014), the former vice minister of the Overseas Chi-
nese Affairs Office of the State Council, and Huang Libin (as cited in Fulco, 2016), from
the Ministry of Industry and Information Technology. Though there are doubts as to
whether markets in less-developed neighbouring countries are deep enough to absorb
that overcapacity, the BRI, more or less, would increase opportunities for Chinese com-
panies to invest in neighbouring countries, especially in construction-related sectors
(Dollar, 2015, p. 163). From China’s point of view, shifting some of its excess manufactur-
ing capacity to countries in China’s periphery has some other advantages. First, labour-
intensive manufacturing industries would find more competitive places to invest, like
Central Asian countries where labour costs are relatively low (Lin, 2015, p. 589; Wang &
Lu, 2016, pp. 181–182). Second, most of those manufacturing industries are energy-
intensive and highly polluting.

As the BRI implies the increasing importance of neighbouring countries for Chinese
exports and OFDI, the provinces in western China, which has a locational advantage as
being closer to the BRI countries, are poised to benefit greatly.

The under-development of western China

China’s tremendous growth trend in recent decades has been marked by striking
regional disparities. While the Eastern Region has prospered the most, the Western
Region has lagged significantly behind the former, and the Central and the North-eastern regions have fallen somewhere in between. In order to deal with the under-development of the Western Region, China’s central government initiated a long-term strategy called the Western Development Plan (WDP) in 1999. The WDP aims to equip local governments and entrepreneurs in western China with tax and credit incentives. Furthermore, national fiscal resources are employed for the provision of large infrastructure investments as varied as railways, highways, airports, dams and so forth (Lu & Deng, 2013; Yu, 2015, pp. 126–127).

Since the BRI aims to upgrade trade connectivity between provinces in western China and nearby countries, it brings with it new investment and trade opportunities for the region (Ferdinand, 2016, p. 951; NDRC, 2015; Yu, 2016, p. 6). The 13th Five-Year Plan clearly states that ‘We will ... ensure that the Belt and Road Initiative is able to better drive development in this region [western China]’ (NDRC, 2016a, Chapter 37, Section 1). In the words of a researcher involved in the study of the BRI at the Ministry of Foreign Affairs, one of the primary goals of the BRI is to make western China the ‘frontier in opening up to the world’ (as cited in Swaine, 2015, p. 5). The Visions and Actions (NDRC, 2015) mentions the Xinjiang Autonomous Region, Yunnan Province and the Guangxi Autonomous Region, all of which are border regions, as special areas for opening up to neighbouring countries. It states that border tourism and cultural cooperation between the Tibet Autonomous Region and the neighbouring countries should be promoted. The document also underlines the endorsement for the development and opening up of cities in other western provinces such as Shaanxi, Gansu and Qinghai, as well as the Ningxia Autonomous Region. Even though the Visions and Actions makes it clear that BRI is designed also to offer opportunities for provinces apart from those in western China, benefits coming with the BRI as a central-level initiative are more crucial for the Western Region than other parts of China. The region has historically been more dependent on central government support for economic development due to natural and geographical as well as historical disadvantages (Wei & Fang, 2006, pp. 159–162). Second, from the central government’s perspective, the under-development of western China is an issue of state capacity and national integration, since many parts of the region have a relatively high proportion of minority populations (Goodman, 2004, p. 319).

**Energy dependency**

Another challenge facing the Chinese government, which has both developmental and security aspects, is to secure an energy supply for the country, which is a net energy importer. As of 2013, about 13% of its energy use comes from imports, and this ratio is expected to rise in the coming years (WB, 2017b). China is the second and fourth biggest importer of crude oil and natural gas, respectively (International Energy Agency, 2016, pp. 11–13). It is hoped that the BRI will bolster China’s endeavours to forge a closer energy cooperation with Central Asian countries and Russia (Liu & Dunford, 2016, pp. 333–334; see Shambaugh, 2013, p. 330, on China’s energy diplomacy towards these countries). China has already become an important customer of Kazakhstani oil and natural gas from Turkmenistan and Uzbekistan (William, 2016). Since the Crimea Crisis in 2014, China and Russia have been cooperating more closely in several areas, including energy (Wang, 2016a).

It is also worth mentioning that China’s oil imports from Africa and the Middle East are transferred mostly through the Malacca Strait. This makes China highly dependent
on the Strait, which is a hotbed of security risks and which is not wide enough to be a reliable transfer route (Beeson & Li, 2014, p. 161, footnote 17). A Myanmar–China oil pipeline, serving to avoid the Malacca Strait, came into operation in April 2017 (‘China–Myanmar Crude Oil’, 2017). Bypassing the Malacca Strait by transferring the oil through planned pipelines, highways and railways over the China–Pakistan Economic Corridor would be an important step towards decreasing dependence on the Malacca Strait (Bender & Rosen, 2015; Wang & Lu, 2016, p. 175). The so-called Malacca dilemma has become rather severe under the heightened tensions in the South China Sea.

**Potential economic and security costs of tensions in the region**

China’s regional diplomacy in recent decades has served an underlying motivation: securing a sound external environment for its economic development and domestic stability. Good relations with neighbours have been a priority for Chinese foreign policy, particularly after the 1997 Asian financial crisis. On the other hand, China’s foreign policy towards its ‘periphery’ from 2009 to 2013, when China visibly shifted to an assertive posture, constitutes an exception to this policy line (Shambaugh, 2013, pp. 30–31). Particularly in the case of territorial disputes in the South China Sea, China displayed an assertive, or even confrontational, stance. Some countries in the region, including Vietnam, the Philippines, Malaysia and Japan reacted to the assertive China with policies as varied as strategic alignment with the US, increasing their military capacity, attempting to limit China through multilateral negotiation and finally building security relations with each other (Zhao & Qi, 2016). Furthermore, the Obama administration’s rebalancing to the Asia–Pacific arguably did aim to limit China’s influence in the region, both in military and economic terms (Beeson & Li, 2014, p. 82; Wang, 2016b, p. 4).

In such a context, Xi Jinping convened a work forum on China’s diplomatic strategy concerning its periphery in October 2013. The work forum discussed the strategic goals and basic principles of Chinese diplomacy towards neighbouring countries. It specifically addressed the need for a good relationship with neighbours. The Xi administration made clear its preference for a charm offensive towards the periphery instead of a confrontational line that could bring about economic and security-related costs (Callahan, 2016, p. 6; Li, 2016, p. 260). The hope, on the part of Beijing, might be that the BRI will offer economic cooperation opportunities which might help to mitigate tensions with neighbours (Zhao & Qi, 2016, p. 14). It might, however, also cause a pushback effect by leading the neighbouring countries to consider some means of balancing the overwhelming Chinese economic presence. On the other hand, since the countries in the region compete with each other as well, turning down the economic benefits of China as a source of finance, investment and a huge market might be a rather costly option for individual countries.

**The BRI as a part of China’s regional and global ambitions**

**Increasing China’s leverage in its neighbourhood**

Although it is widely acknowledged that China’s regional policy has gained a more ambitious vision over the last few years, it seems quite puzzling to interpret the extent of the newfound ambitions. Callahan (2016, p. 3) maintains that China regards its neighbourhood ‘as more than simply a space for win-win economic opportunities’. Upon
examining new ideas (e.g. ‘Asia-for-Asians’, ‘Asia dream’, ‘community of shared destiny’),
new policies and projects, including the BRI, which have come to define China’s regional
foreign policy since 2013, he argues that China has envisioned a medium to long-term
strategy to forge a comprehensive Sino-centric order covering the economic, political,
cultural and security realms (Callahan, 2016). On the other hand, some observers, includ-
ing Callahan himself, submit that China’s new Asia policy is still vague and there are cru-
cial differences of opinion even within the foreign policy elite (Callahan, 2016, p. 3;
Jakobson, 2016, p. 222). Beyond the ambiguities in China’s regional foreign policy for-
mulation, some observers raise the very question of whether China has the capability to
forge a Sino-centric regional order, as it still has some way to go to catch up with the US
in economic, military and technological strength (see Jakobson, 2016, p. 220; Li, 2016,
p. 246). The argument that China has become oriented to forge a comprehensive Sino-
centric regional order, therefore, seems very contested. Less debatable is the argument
that China’s regional policy aims to expand its regional clout vis-à-vis the US prepon-
derance in regional security configurations (Poh & Li, 2017, p. 6). China has aspired to
increase its leverage over the countries in the region by reinforcing the emerging ‘Sino-
centric patterns of trade, investment and infrastructure’ with the help of the BRI (Ken-
nedy & Parker, 2015). Though various speeches from Chinese leaders stress that the BRI
will not be employed as a tool for China’s geopolitical goals, China’s territorial claims in
the South China Sea, which have come to be included in the country’s core interests,
are motivated not only by its increasing military capabilities but also, and perhaps more
importantly, by increasing economic influence over the relevant countries (Li, 2016,
p. 262; Zhao, 2015, pp. 260–261).

Some suggest that China’s aspiration to increase its leverage in the region requires it
to take over certain regional public goods (see Li, 2016, p. 264). Investment in infrastruc-
ture, indeed, is a good example of such a public good. Many institutions, like the Asian
Development Bank (ADB), point to there being a significant infrastructure gap in Asia
(Callaghan & Hubbard, 2016, pp. 120–121). Since the capacity of the WB and the ADB
combined is not enough to meet this enormous infrastructure demand in the region,
Chinese or China-led funds (e.g. the Silk Road Fund and the AIIB, respectively) have a
gap to fill (Yu, 2016, p. 7). Even though infrastructure investments in BRI countries could
help China to lessen its excess capacity and increase its exports and overseas invest-
ment, long-term infrastructure investment is not always rational from a market point of
view, as it involves some particular difficulties. It may not be so profitable for funder due
to ‘low yields and excessive time frames’ (Murphy, 2016, p. 248; see also Aglietta & Bai,
2016, p. 13). That makes the infrastructure finance a ‘scarce good’ despite the excess
liquidity in global financial markets.

**Promoting the ‘Go Global’**

Mainly thanks to its foreign trade surpluses and inward foreign direct investments, China
has long been accumulating vast state-held foreign-exchange reserves, amounting to
three trillion USD as of late 2016. China’s foreign-exchange reserves are mostly invested
in dollar-denominated assets, particularly in US Treasury securities. In order to reduce its
dollar dependency, China wants to diversify its reserves, either through increasingly
acquiring assets abroad or through the internationalization of RMB (see in what follows)
(Liu & Dunford, 2016, p. 328).
China initiated the ‘go global’ policy in 1999 to systematically acquire overseas assets. The ‘go global’ policy includes incentives for both state-owned and private enterprises to invest abroad, such as easy credits from state banks and information support from various governmental offices (Gonzalez-Vincente, 2011, p. 402). Against this background, since the mid-2000s Chinese OFDI has been on a fast-growth trajectory (Liu & Dunford, 2016, p. 330; Shambaugh, 2013, p. 138). If one includes Chinese investment through a third country (most notably Hong Kong), which is not included in China’s national statistics, it became a net capital exporter for the first time in 2014. Having transformed from a negligible global investor into a leading one over the past decade, China still seems to be decided on advancing its ‘go global’ policy as reiterated in the Third Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013 (Decision of the Central Committee, 2014).

The BRI also aims to add new ones to China’s overseas economic zones. The Visions and Actions (NDRC, 2015) states the intention to ‘build all forms of industrial parks such as overseas economic and trade cooperation zones and cross-border economic cooperation zones, and promote industrial cluster development’. China’s overseas economic zones are constructed and managed by selected Chinese companies in cooperation with partners from the host country. Because of the incentives offered by both the Chinese and host governments, these zones provide convenient sites for private and state-owned Chinese companies to go global (Ding, 2017, pp. 17–19). China’s MOFCOM lists 20 overseas economic zones, which are located in developing countries including Zambia, Egypt, Nigeria, Cambdodia, Vietnam, Indonesia, Pakistan and Kyrgyzstan.

By advancing both hard and soft infrastructure (e.g. facilitating regulations regarding cross-border trade and investment), the BRI brings a great many opportunities for Chinese firms seeking to go global. Wang and Lu similarly emphasize that it would be particularly advantageous for firms investing in logistics, railroad and shipping to find overseas investment opportunities within BRI partner countries (Wang & Lu, 2016, pp. 179–181). The construction materials industry, in which China has a comparative advantage, stands to benefit greatly from a massive infrastructure strategy like the BRI to invest abroad (Lin, 2015, p. 589). Indeed, China’s FDI in BRI countries in 2015 ‘rose twice as fast as the increase in total FDI’ (‘Our Bulldozers, Our Rules’, 2016).

**Internationalizing the RMB**

Many expect the BRI to enhance the international use of the RMB (see Liu, 2015). It could be argued that the use of the RMB beyond China’s borders, either as a trade and investment settlement currency or a reserve currency, has lagged behind China’s overall global economic importance as the world’s second largest and the biggest trading economy (Liao & McDowell, 2015, p. 403). Liao and McDowell (2015) contend that the relatively weak international status of the RMB is related to China’s policies such as the controlled exchange rate, capital controls, capital account inconvertibility and underdeveloped domestic financial markets.

Given these limitations, the RMB still has a long way to go before it becomes a global reserve currency to rival the US dollar (Prasad, 2016, p. 5). However, China has been pushing for an increase in the RMB’s use for trade and financial transactions in recent years. The most crucial policy implemented by China in this respect has been the signing of bilateral swap agreements (BSAs). BSAs simply aim to enable Chinese firms and firms in the partner country to make trade payments in local currencies instead of the
US dollar. A BSA means that the PBoC and a partner central bank agree to exchange specific amounts of local currencies for a fixed time period (Lim, 2010, p. 685). Thanks to BSAs, a firm in the partner country can borrow the RMB from its own central bank to use when trading with a Chinese firm. BSAs, therefore, help both parties to eliminate the risk of exposure to fluctuations in the exchange rate of the US dollar and to avoid hedging costs (Liu, 2015). By late 2016, the PBoC had signed more than 30 BSAs with partner central banks, starting in 2009. As of early 2015, about 20% of China’s trade was done in the RMB (Prasad, 2016, p. 55). Paying imports with local currencies, an issue on the agenda of many countries, including BRICs, would eventually weaken the position of the US dollar as the dominant global trade currency (Lim, 2010, p. 685; Nölke, Ten Brink, Claar, & May, 2015, p. 560). Prospects for the RMB to become a major regional currency might be seen rather immediate as China has become a major trade partner for most of the Asian economies. China also has been joining in or leading the increasingly denser trade, investment and financial cooperation agreements in Asia (see Eichengreen & Lombardi, 2017, pp. 51–56, for a detailed discussion). The fact that countries in wider Asia constitute about half of China’s swap partners lends support to this argument. Furthermore, as of September 2016, China has signed the largest swap agreements with countries from the Asia-Pacific, including South Korea, Hong Kong, Malaysia, Singapore and Australia (see Prasad, 2016, pp. 78–80, Table 6.3).

The higher China’s foreign trade and capital exports, the greater the RMB’s opportunities of being internationalized (see McNally, 2012, p. 764). Credit offered by Chinese institutions for projects falling under the framework of the BRI may increase the volume of BSAs and, consequently, the international use of the RMB (Wang & Lu, 2016, p. 174). Furthermore, the internationalization of Chinese financial institutions, a goal stipulated in the 13th Five-Year Plan, is expected to enhance in parallel with increased investment and trade with BRI partner countries (NDRC, 2016a, Chapter 50, Section 3).

Reforming global economic governance

As some observers contend, the GFC, and the subsequent relative weakening of the United States’ economic capacity, has encouraged China to have a greater say in global economic governance (Breslin, 2016, p. 59; Pearson, 2014, pp. 167–168). There is an apparent mismatch between China’s economic power as the world’s second largest economy and its voting power within institutions of the global economic governance, e.g. multilateral banks such as the WB, the ADB and the International Monetary Fund (Yu, 2016, p. 8). China is planning to compensate for this mismatch by creating new multilateral institutions such as the AIIB and the New Development Bank of BRICS (Nicolas, 2016, p. 12). Chinese lending institutions such as the Silk Road Fund, Chinese policy banks and international cooperation mechanisms (the most ambitious of which is the BRI) also rival the established institutions and mechanisms of the liberal global economic order.

It should be underlined that China chose to set up a multilateral bank, namely the AIIB, which secures fund for projects in BRI partner countries, instead of merely using its policy banks and unilateral funds. This might be taken as another sign of China’s willingness to be an institution-maker (Nicolas, 2016, p. 13). More importantly, close allies of the US, including the United Kingdom, Australia, South Korea, Israel and many developing countries, joined the AIIB as founding members in defiance of the US (Callaghan & Hubbard, 2016, p. 127; Yu, 2016, p. 9).
Finally, it might be pointed out that the ramifications of China’s ‘state-permeated capitalism’ (Ten Brink, 2014) have manifested themselves in its non-orthodox practice as a global lender and investor (Breslin, 2016, p. 66; Ferdinand, 2016, p. 952). The AIIB, the Silk Road Fund and Chinese policy banks such as the China Development Bank offer an alternative to borrowers who are unwilling to commit to the institutional reform agenda of the WB. Also, it is known that China, in cooperation with some other large developing countries, wants the WB to focus more on physical infrastructure and growth (Dollar, 2015, p. 164). Hence, in addition to being an alternative to the WB, the AIIB could push the WB to soften its institutional reform agenda and focus more on physical infrastructure (Güven, 2016, pp. 20–22).

**Conclusion**

This paper argues that the motivation behind the BRI lies in the efforts of a developing country to cope with several economic and security challenges, while at the same time harbouring the ambitions of a regional and an emerging power, and finally a major global economic power. The entanglement of ambitious and defensive aspects of the BRI reflects China’s distinctive position in the global order induced by its multiple identities.

China shares many social and economic problems of the developing countries. As a middle-income country, it is seeking to keep growth rates high while pushing for the transformation/upgrading of its growth model, which is marked with several imbalances, *inter alia*, disproportionately investment-led growth, overcapacity in manufacturing, a relatively high level of regional disparity and income inequality, a relatively low contribution of services and high-technology sectors to economic growth. Though the Chinese leadership is devising policies to address these problems, it is still possible that the Chinese economy could be caught in a middle-income trap in the face of these multidimensional problems. The CCP leadership also has to manage social stability issues, such as epidemic worker and environmental protests and the ethnic tension in Xinjiang and Tibet. The Chinese state is also addressing these challenges with the help of foreign policies. Apart from domestic issues, China’s neighbourhood is a hotbed of geopolitical tensions. Thus, a perspective that disproportionately focuses on China’s regional and global ambitions could easily underestimate the defensive aspects of its foreign policy, and of the BRI in particular. There is a discernable link between, as shown above, the CCP leadership’s concerns to deal with these challenges and the formulation of BRI.

On the other hand, China has displayed an increasing willingness to expand its global influence in the post-GFC world. It has increasingly been following policies that will project its power capacities abroad, such as the internationalization of the RMB and acquiring assets abroad on a massive scale. Beijing also has aspired to increase its political leverage over the region by strengthening trade, investment and finance networks with neighbouring countries. Furthermore, China has been emerging as an institution-maker in global economic governance. More to the point is the receptiveness of other countries to join in with these Chinese initiatives. Heads of state and government from 29 countries participated in the ‘Belt and Road Forum for International Cooperation’ on 14–15 May 2017 in Beijing (‘Spotlight: World Leaders Chant’, 2017). The BRI itself has been formulated within this period and is part and parcel of China’s efforts to enhance its regional and global clout.
China’s charm offensive in wider Asia, nevertheless, has exposure to many risks, be they geopolitical, economic or operational. The US, India, Japan and some ASEAN countries may act to block certain BRI projects (Kennedy & Parker, 2015; Yu, 2016, p. 11). India, for instance, opposes the China–Pakistan Economic Corridor as it would pass through areas that India considers to be occupied by Pakistan (‘India Continues to Oppose’, 2017). Some countries along the BRI have unstable political regimes, such as Afghanistan, certain Middle Eastern and Central Asian countries (Ferdinand, 2016, p. 952; Nathan, 2016, p. 182). Moreover, as infrastructure investments have long-term time-scales, BRI projects could face many operational problems, such as being blocked by local protests (as in the case of the port and industrial zone project in Sri Lanka) (Aneez, 2017). Last but not the least, a probable low-growth trend in the Chinese economy would be the most significant risk to the BRI and China’s regional and global ambitions in general. However, amid these (potential) risks, the BRI, as discussed above, has already been changing, albeit slowly and incrementally, the geoeconomic landscape in the region spanning from Southeast Asia to Europe.

Notes

1. The information on Xi Jinping’s visits were compiled from various pieces at Xinhua.net
2. This quotation was taken from the AIIB’s second annual meeting website, http://www.aiib2017.org/eng/sub/aiib/about.php. See details of the projects at https://www.aiib.org/en/projects/approved/index.html
3. It is not stated in the plan whether this route will be connected to Bulgaria via the Black Sea or a railway route in Turkey.
4. See the calculation of Wang and Lu (2016, p. 17); see also Wang, Qi, and Zhang (2015, pp. 315–317).
5. See the list of Chinese overseas trade and cooperation zones at the website of the MOFCOM, http://fec.mofcom.gov.cn/article/jwjmhzq/article01.shtml

Acknowledgments

The author would like to thank Erse Kahraman, İbrahim Körümezli, Ali Onur Özcetlik, Cenap Çakmak, Müge Dalar and the two anonymous reviewers for their valuable insights and feedback. Any remaining errors are the author’s own.

Disclosure statement

No potential conflict of interest was reported by the author.

Funding

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

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