China’s Belt and Road Initiative: Old Wine in a New Bottle

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Introduction

After taking office in March 2013, the Chinese president Xi Jinping has exhibited a burning ambition to lift China as a leading power in the world. Internally, he has launched an unprecedented anti-corruption campaign in China and resolved to push forward reform. Externally, Xi has mapped out the Belt and Road Initiative (BRI), also known as “One Belt, One Road” (OBOR), which has soon been exalted as China’s overarching development plan and foreign strategy.

First put forth during President Xi Jinping’s visits to Central Asia and Southeast Asia in September and October of 2013, respectively, the BRI is composed of the land-based New Silk Road Economic Belt and the oceangoing 21st Century Maritime Silk Road, covering 65 countries on three continents and 4.4 billion people. While the Belt initiative aims to revive the ancient Silk Road by linking China with Europe through Central and Western Asia, the Maritime initiative aims to revive the ancient Maritime Silk Road started from China’s coastal regions, traversing a vast expanse of oceans to countries in Southeast Asia, the Middle East, Africa and Europe.

The BRI has soon been in the spotlight ever since it was unveiled, inviting a host of interpretations on the motives of the Chinese government and impacts on the world order or other countries. By and large, there are two major perspectives on this issue in the preceding literature. One is from the perspective of geopolitics, perceiving China’s BRI either as a proactive expansionary behavior in an attempt to expand regional influence and build a new regional or global order, or primarily as a passive response to the America’s “rebalancing towards the Asia Pacific” strategy. The other one is from the economic angle, arguing that the BRI was chiefly designed for economic purposes.

Rather than being an either white or black, all-or-nothing strategy, the BRI may encompass elements of both perspectives. Despite that, there is one which is more decisive, and in my view, the BRI has primarily been motivated by domestic economic concerns, but its ways of doing things is intrinsically of what I call “old wine in a new bottle”. The next section first reviews the existing literatures, followed by my rendition on China’s motives. In the third part, the paper analyzes some of the caveats of the BRI. At the conclusion, the implication of the BRI as “old wine in a new bottle” will be further elaborated.

Motives of the BRI: A Review

The debut of the BRI has soon aroused heated debates concerning the motives of the Chinese government and the possible impact on the US-centric international order. Scholars and think tanks from the geopolitical perspective tend to regard the BRI as either China’s expansionary behavior or defensive reaction. The expansionary camp, which is more prevalent, is of the belief that by virtue of a BRI, China strives to
expand certain unstated interests, about which three different views are at odds. First, some scholars highlighted that China endeavored to expand a kind of obscure regional and or global influence so as to reshape a new regional and world order in its favor. Arase contended that the BRI showcased China’s attempt of adjusting relationship with the existing great power, the US, and of restructuring relations with Asia so as to secure China’s future as a great power. In a nutshell, the BRI was largely a result of China’s search for great power status.1 Likewise, both Leonard and Enright argued that the BRI aims to forge a China-centric world order.2 As asserted by Enright, “the OBOR initiative is nothing less than an attempt to re-establish the notion of China as the Middle Kingdom with all roads (as well as railways, shipping lines, and air traffic) leading to China”.3

Second, Francis Fukuyama argued that the OBOR represented Beijing’s efforts to seek to export its development model, which emphasizes massive state-led investments in infrastructure, to other countries; hence, the OBOR, if successful, would greatly enhance the prestige of ‘China’s form of authoritarianism’ in Eurasia and have profound impact on ‘the future of global politics’.4 Third, in Clarke’s view, through the OBOR, China attempted to keep tight grip on what Owen Lattimore once described as the marginal ‘Inner Asian zone’5 (including Xinjiang, Tibet and Inner Mongolia) for sake of domestic stability and development, and use the ‘Inner Asian zone’ as conduits to project China’s power into Central and South Asia.6 But apparently China’s OBOR is targeting at a much wider region, rather than simply the above three autonomous regions.

In contrast to the above expansionary theses, the defensive proponents maintain that the primary goal of the BRI is to counterbalance the growing pressure brought about either by the US rebalancing to Asia or by neighboring countries alienating from China. For example, the OBOR was deemed as a strategy to circumvent any encirclement or containment by a hostile power along with other states.7 Both Cheng and Shubka pinpointed the U.S., arguing that China’s BRI is a way to break the US global reach, particularly the “pivot to Asia” strategy.8 In the eyes of Hörhager, the BRI was not only a testimony that a regional power shift was taking place in the Asia-Pacific, but also an attempt at strengthening China’s trade-related security,

7 Lucio Blanco Pitlo III, “China’s ‘One Belt, One Road’ To Where?” The Diplomat, Feb. 17, 2015.
preventing balancing against its rise and ensuring an overlap in national interests, making a challenge to the developments of its maritime capacity increasingly unlikely.9

A second group of research, which tends to be less prevalent, examines the BRI from economic perspective, holding that China’s BRI was primarily driven by economic interests. For instance, Djankov asserts that the BRI was “entirely a mercantile endeavor, designed to fortify China’s economic interests around the world and open business opportunities for Chinese companies enduring a slowdown at home”.10 In the eyes of Churchman, the OBOR was chiefly designed to benefit China’s economy, seeking to spur economic development in its poorer western and southern regions.11

A third group of scholars take a combined view, arguing that China’s goals inherent to the BRI encompass both geopolitical and economic purposes. “OBOR represents the extension, enhancement, combination, and in some ways culmination of several important Chinese initiatives. It has national security, geostrategic, international relations, economic, and business facets.”12 But scholars seem to underscore different combinations. While Enright stresses the combination of seeking to undertake a more prominent role in the world and to deftly counter TPP, without confronting it directly,13 Mingjiang Li argues that China’s BRI was partly a response to US strategic rebalance, and largely a reflection of Beijing’s foreign policy shift from the “low-profile” international strategy to actively strive for more accomplishments.14 Milner claimed that China’s goals were to cement relationship with neighboring countries and pursue a prominent position commensurate with Washington in Asia, other than the economic goal of seeking new markets for its construction and exporting sectors.15

At last, a less popular view ascribes the debut of China’s OBOR to Chinese President Xi’s personal power pursuit. Willy Lam argued that through the OBOR, more power would be further concentrated in the hands of Xi Jinping, and the central government could consolidate its control over different regions.16

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16 Willy Lam, ““One Belt, One Road” Enhances Xi Jinping’s Control Over the Economy,” China Brief, Volume XV, Issue 10, May 15, 2015.
With different angles, preceding research contributes to our understanding of China’s intentions behind the OBOR. The defending view has some elements of reasonableness as the picture it drew indeed complies with the reality where Beijing is in a more passive position in its relations with Washington. However, what deserves further contemplating is: Is the US rebalancing to Asia or TPP targeting at China? Or more fundamentally, is Sino-America relationship a competing or even antagonistic one, as the defending view implies?

While the argument of seeking economic interest has correctly fathomed the fundamental determinant of China’s OBOR, it tends to neglect how China would pursue the goal. If it is “entirely a mercantile endeavor”, there is no reason for Beijing to emphasize in its official document that “countries should work in concert and move towards the objectives of mutual benefit and common security”.17 Moreover, many studies from this perspective remain cursory and call for more thorough analyses.

The argument that China wanted to expand influence appear justifiable, but it should not be over-exaggerated. On the one hand, as President Xi underscores, implementation of the BRI is open to all nations and fully based on the principle of “wide consultation, joint contribution and shared benefits”. It is unlikely that those railways, ports and other infrastructure financed or built by Chinese entities only serve Chinese cargoes or cargos from or to China. They are also open to foreign entities. On the other hand, such an argument is built on the assumptions that country A’s economic interdependence with country B through infrastructure connectivity, growing trade and financial linkages etc, is set to increase country A’s influence on country B, and that kind of influence is always in favor of country A. Such assumptions, however, are problematic. First, their whole analyses tend to presume that China’s BRI will succeed and thus increase its influence. However, no one can ensure that the Initiative will be materialized successfully. Second, economic interdependence and regional influence are not positively correlated. In other words, growing economic interdependence does not necessarily bring about increasing influence, which has been verified by many cases. Typical among them is the relationship with Japan. As Japan’s largest export market, can China have a say on Japanese domestic politics or foreign policy? Another vivid case is Myanmar. Given that China was not only its largest trade partner and investor, but also the largest aid donor, China used to be considered Myanmar’s sole ally having strong influence on the latter. Although economic ties between the two remain intact, few would mention China’s strong influence on Myanmar today.

Third, flow of influence between two countries may be asymmetric, but it is bidirectional, rather than unidirectional. In reality, most times people tend to underscore a big country’s influence over a smaller one, but inadequate attention has been paid to the opposite flow of influence. Take China as an example, it is often liable to come to such a conclusion that foreign direct investments (FDIs) conducted by Chinese companies are conducive to enhancing China’s influence on the recipient

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country. However, as many physical FDIs have the feature of asset specificity, specialized and unique to a task which makes it hard to be redeployable,\textsuperscript{18} the investor’s country of origin is often vulnerable to the influence (such as policy changes) exerted by the recipient country. As a result, the investor’s country of origin to some extent, has to be “tied in” in a two-way business relationship with the host country, while the latter could choose to switch party. Therefore, growing influence that country A may gain through investment in country B does not exclude the possibility that country A may be held up by country B. This has been verified by Sri Lanka’s decision to suspend a Chinese-funded Colombo Port City project, which was part of China’s Maritime Silk Road initiative.\textsuperscript{19} Moreover, possessing such influence is not equal to exercising it. Whether a country is willing to exercise the influence it possesses over another country also depends on its willingness or intention.

Fourth, China’s BRI may pursue short-term and long-term goals, both of which are not necessarily compatible. For instance, for China’s short-term economic interest (i.e., resolve surplus labor forces in the construction sector), China should help a foreign country to develop infrastructure; but if that country turned antagonistic against China in the future, China’s assistance would amount to nurturing an enemy undermining its long-term security interests. Under such circumstances can we still say the BRI contributes to expanding China’s regional influence? Even if the influence-expanding view holds water, it takes time and there is little likelihood that China’s regional influence could grow so rapidly to the extent that China would edge out the U.S. Moreover, it may deserve noting that such a zero-sum game mindset may be exaggerated and more risky, liable to lead to the so-called self-fulfilled prophecy.

Except the power-pursuit argument, most studies in both expanding and defending camps are outward-looking in nature, either to expand ties with other countries or to resist unfriendly forces from abroad. As such, insufficient attention was paid to China’s domestic political and economic dynamism. While the power-pursuit argument placed its focus on domestic power politics, it turned blind eyes to the economic motives associated with the OBOR.

Different from the above debates, the author argues that this external-oriented BRI has largely been driven by domestic political economy concerns, being drawn upon to address domestic problems although it may produce some external side effect. To substantiate this argument, the following part will first analyze the context where China put forth the BRI, which is related with the Chinese macroeconomic milieu affected by its economic growth mode in the past decades.

**BRI and ‘China Dream’ in the Context of China’s Economic ‘New Normal’**

The OBOR has been erected as one of the most important political legacies that Xi Jinping wants to leave, which is an important fact that should not be neglected. In retrospect of each generation of Chinese paramount leaders, they all try hard to keep

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\textsuperscript{19} Shannon Tiezzi, “Suspended Sri Lankan Port Project Complicates Sirisena’s Trip to China,” *The Diplomat*, March 26, 2015.
some legacy so as to carve themselves a place in the Chinese history. Once taking office, Xi was also eager to put forth a new blueprint different from his predecessors to exhibit his vision and wisdom. What does that mean? It means that the OBOR looks ambitious but lacks consistency and operability. No one knows the fate of the OBOR after Xi. Neither can we tell whether the OBOR is so significant to the extent that it can help China recreate the glory of a ‘Middle Kingdom’, as some scholars argued. Undoubtedly is that President Xi has his ambition, as vividly portrayed by the ‘China Dream’, a dream of “the great rejuvenation of the Chinese nation”.

Accomplishing the ‘China Dream’, however, calls for overall development of the country, rather than merely the coastal regions. Since the debut of the Western development strategy in 1999, the western regions in China has made great strides in economic development, but their development still lacks far behind the coastal regions. The growing regional disparity is out of question a significant roadblock on the way to the ‘China Dream’. “The ‘China Dream’ is an ideal of China and the ‘Silk Road Economic Belt’ serves as the strategic support to realize the ‘China Dream’”.

With the BRI, the western regions will be at the forefront of a new round of overall economic reform and opening-up. In particular, as the Chinese economy is undergoing industrial upgrading, it is expected that the western regions will become home for those industries being transferred from the eastern regions in China, thus reducing pains that the Chinese economy has to endure. Pertaining to the above, it is expected that economic development through the BRI would not only tie the western regions and Central Asia together, but also contribute to jointly clamping down on terrorism. In that sense, the OBOR is also a political project, aiming to reduce gap between the east and the west of China, as well as ameliorate its neighboring milieu.

Also, accomplishing the ‘China Dream’ is contingent on sustained Chinese economic growth, which unfortunately becomes a tricky issue with the Chinese economy slipping into the “new normal”. To a large extent, the OBOR is first and foremost an initiative aiming to find alternative new drivers for China’s economic growth in the future. After over three decades of double-digit economic growth, the Chinese economy has phased into a so-called “new normal”, a full picture of Chinese economy first sketched out by Chinese President Xi Jinping. Ideally, a new normal of China’s economy is epitomized by a constantly improved and upgraded economic structure, as well as an economy increasingly driven by innovation instead of input and investment. Meanwhile, it has also reflected a chilly reality of an irreversible economic slowdown. As shown in Figure 1, Chinese annual GDP growth, despite a brief rally in 2010, kept sliding after the onset of the global financial crisis.

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21 Lucio Blanco Piltio III, “China’s ‘One Belt, One Road’ To Where?” The Diplomat, Feb. 17, 2015.
The economic slowdown, labeled as the “new normal”, is not only in stark contrast to the “old normal”, where the growth rate averaged 10 percent between 1978 and 2011, but also remains uncertain regarding where the bottom is and whether there exists a bottom. Dipping from 10.6 percent in the first quarter of 2008 to 6.1 percent in the last quarter of that year (see Figure 2), the Chinese economy was dealt a heavy blow under the percussions of the global financial tsunami. The four trillion stimulating package worked out by the Chinese government indeed gave a fillip to the plunging economy and hoisted it to a new height, but it did not change the nature of a feeble economy losing momentum. By the second quarterly in 2016, China’s economy only gained a 6.7 percent growth, a historical low since the 1990s. According to an “authoritative insider”, “China’s economic growth trend in the coming years will be ‘L-shaped’ rather than ‘U-shaped’ or ‘V-shaped’. Thanks to weak demand and overcapacity, the ‘L-shaped’ recovery is projected to last more than two years.”

More pessimistic views even contended that the rise of China came to end.

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23 Wen Gong, Zhifeng Xu & Qiuyu Wu, “Kaiju shouji wen dashi – quanwei renshi tan dangqian Zhongguo jingji” (Enquiring the General Situation in the First Quarter -- An ‘Authoritative Insider’ Discussing Present Chinese Economy), Renmin Ribao (People’s Daily), May 09, 2016. This is an exclusive interview conducted by the People’s Daily. The “authoritative insider” was presumed to be a high-level official, who was alleged to be Liu He, a think tank that President Xi relies on.

The economic slowdown has profound complex impact on China. On the positive side, a decelerated economic growth after several decades of rapid growth was deemed necessary for economic structure adjustment and conducive to lowering China’s ecological costs, decreasing risks of asset bubble burst and preventing growing income disparity. On the negative side, a lot of problems are likely to resurface thanks to retarded economic growth. As what the Chinese government has often underscored, “Development is of overriding importance, and it is the prerequisite and basis for solving all problems.”

First, top among the problems is employment, which has a vital bearing on the people’s livelihood and is key to political, economic and social stability in China. It is widely accepted that there is a positive correlation between economic growth and employment. According to Okun’s law,

“to achieve a 1 percentage point decline in the unemployment rate in the course of a year, real GDP must grow approximately 2 percentage points faster than the rate of growth of potential GDP over that period. So, for illustration, if the potential rate of GDP growth is 2 percent, Okun’s law says that GDP must grow at about a 4 percent rate for one year to achieve a 1 percentage point reduction in the rate of unemployment.”

As a large developing country with 1.3 billion populations, China still faces a daunting challenge in creating enough jobs positions. Since the East Asian financial

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crisis in 1997, a bottom line of 8 percent target for GDP growth, whether the central authority incorporated it into the annual Government Work Report or not, seemed to be a tacit benchmark used by governments at different levels in China, individuals, companies and financial institutions, both domestic and overseas, to gauge Chinese economic performance. The Chinese government has not pared its GDP growth target below 8 percent until 2012 for the sake of transforming economic growth mode and improving quality of economic growth.\textsuperscript{27} The reason why Beijing used to firmly hold to the GDP growth target of 8 percent was: only at that growth rate and above could China safely generate more than 9 million jobs every year in the past.\textsuperscript{28} In order to avoid rise of unemployment rate at present and for a very long time to come, it is estimated that each year no less than 10 million employment opportunities in Chinese cities and towns are needed for the newly-added job hunters, including university graduates, secondary vocational school graduates, army veterans, laid-off workers resulted from SOEs restructuring, and migrant rural workers.\textsuperscript{29} Hence, a very low economic growth speed can hardly provide sufficient employment opportunities.

Second, it matters that Chinese economy cannot grow at a too low speed because fast economic growth is the basis for millions of people to get out of poverty and lead a more decent life through increment of incomes, which is the source of legitimacy that the Chinese Communist Party (CCP) relies on. Third, the growth deceleration in recent years has raised concerns that the Chinese economy might fall into the “middle-income trap”, a term first coined by Gill and Kharas et al to describe the failure of middle-income level countries to leap into the high income rank.\textsuperscript{30} The Chinese Finance Minister Lou Jiwei even warned that China might have an ‘over 50 percent chance’ of sliding into the middle-income trap.\textsuperscript{31} More seriously, it may retard and even prevent China from accomplishing the “China dream”, a slogan put forth by the Chinese president. Thus, the Chinese government did its utmost to moderate the growth deceleration.

China’s economic moderation was caused by a variety of factors. Central to those factors is the previous economic growth mode, which worked wonders in the past, has run out of steam. The economic growth mode is composed of three components: consumption, investments and net exports. In the case of China, a vital weakness of the previous economic growth mode is that the three components have played an imbalanced role in driving Chinese economic growth and this has brought about more and more troubles. Specifically, it is widely accepted that China’s GDP growth is over-reliant on investments and exports, whereas domestic consumption has played a disproportional role relative to that in other major economies in the world.\textsuperscript{32}

\textsuperscript{27} “China 'able to attain 7.5% GDP growth' this year,” Xinhua, Nov. 10, 2012.
\textsuperscript{28} Lina Liu, “Zhongguo Jingji Zengzhbang Fangxia 'Bao 8' Baofu” (China Scrapped the 8 Percent GDP Growth Target), Zhonghua Gongshang Shibao (China Business Times), Feb. 6, 2015.
\textsuperscript{29} Li Keqiang, “Zai jiuye gongzuozuo zuotanhui shang de jianghua” (A Speech at the Meeting on Employment Work, May 6, 2016), Qiushi (Qiushi Journal), July 14, 2016.
\textsuperscript{31} John Wong, “Why China will not fall into the middle-income trap,” The Straits Times, April 23, 2016.
As shown in Figure 3, investment, or capital formation, contributed around half of China’s GDP growth in most years during the 2000s, except the years of 2002 and 2005. During 1978 and 2015, the average level of investment in China was 39.5% whereas this came up to an appalling rate of 45.3% in average between 2006 and 2015, and in 2011 it even hit 48%. As a comparison, investment rate in the US hovered around 20% for a long time. Based on a cross-country panel, Lee et al found that China’s investments in its GDP were in the order of 10 percent, a level significantly higher compared with other emerging economies in their take-off periods. By contrast, domestic consumption used to play a large role in the late 1990s, but it lost such supremacy in the 2000s. In recent years, its role is looming larger, and in 2011 consumption even overtook investment for the first time since 2005; however, it is far from being able to substitute the other engines. In fact, China transitioned from an export-based to investment-driven economy after the global financial crisis thanks to shrinking external market.

![Figure 3 China: Contributions to GDP Growth](image)

Investment-led growth mode has caused more and more problems. Most prominent is the serious overcapacity problem existing in a host of sectors, such as steel and iron, steam coal, nonferrous metals, concrete and cement, and so on. In fact, it is even hard to ascertain one sector not suffering from overcapacity. As those sectors buttress not only a large number of workers but also local tax revenues, efforts to curtail excess capacity have been watered down despite repeated emphasis of the government to condense them, which has further undermined the government’s effort of industrial upgrading. A second side effect is the decreasing return to capital as it cannot escape from the iron law of decreasing rate of marginal utility in economics. One typical symptom is the plunge of private investments in recent years. According

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to the IMF, the return on assets in Chinese listed non-financial companies declined sharply from 4.6% in 2010 to 1.8% in 2015, thus greatly eroding their ability to service their debt obligations.\footnote{International Monetary Fund, Global Financial Stability Report: Potent Policies for a Successful Normalization, April 2016, pp. 13-14.}

The third problem is a squeeze effect on small and medium-sized enterprises (SMEs) by state-owned enterprises (SOEs). There is a systematic bias in China’s state ownership-dominated banking and financial system. These institutions are more inclined to allocate funds to large state-owned institutions such as SOEs,\footnote{Lauren Hilgers, “SMEs in China”, Insight, April 2009.} making most SMEs very difficult to get timely financing. For instance, by the end of 2010, the loans issued to SMEs were only 14.3% of the total loan, which was a sharp contrast with the 60% for SOEs.\footnote{Hu Rongping, “Zhejiang Private Loan Interests Rate Reaching 30%”, Daily Economic Observer, 28 May 2011.} In a similar vein, in the four trillion yuan stimulating package formulated by the Chinese government and the seven trillion yuan loan added by Chinese banks after the 2008/9 global financial crisis, most went to the pockets of SOEs. Funds to SMEs only accounted for five percent or so of the stimulus package.\footnote{Wu Gangliang, Guozi Miju (The Labyrinth of State-owned Assets), Beijing: Renmin University Press, 2010, p. 120.} Consequently SMEs have to rely on unofficial costly lending channels. Nonetheless, this also raises concerns about the mounting debts that SOEs have to bear and concurrently, surging nonperforming assets on the books of the state-owned banks if those investments fail to be commercially viable. Furthermore, around 4 percent of China’s investment to GDP ratio was financed through a hidden transfer of resources from households and SMEs toward large corporates every year.\footnote{Il Houng Lee, Murtaza Syed and Liu Xueyan, “Is China Over-investing and Does it Matter?” IMF Working Paper WP/12/277, November 2012.} The SOEs further harness their deep pockets to make forays into those competitive sectors which used to be dominated by SMEs, thus squeezing the space of the latter and arousing such concerns about “guojin mintui” (state-ownership advances while private ownership withdraws) in China.\footnote{Shaofeng Chen, “Are Chinese Small and Medium Enterprises Victims of Institutional Pitfalls?” in Wang Gungwu and Zheng Yongnian (eds.), China: Development and Governance, New Jersey, London & Singapore: World Scientific Press, 2013.} At last, this pattern of growth also has deleterious consequences on the environment and increases China’s reliance on resource imports.

China’s export-driven growth has also hit the wall under the percussions of the global financial crisis. China used to rely on households and government consumption to bolster its rapid economic growth after China’s reform and opening-up, but since 2001, consumption was left in the backseat while exports and fixed investment came to the fore.\footnote{Andong Zhu and David M. Kotz, “The Dependence of China’s Economic Growth on Exports and Investment,” JEL, July 2010.} Within two decades has China risen as an unparalleled merchandise exporter thanks to its rich skilled labor pool, a golden period of globalization favorable to foreign trade, highly-developed productivity-enhancing infrastructure, and so forth. In 2006 the proportion of exports to China’s GDP reached a staggering point of 36 percent. However, such an export-driven growth mode is unsustainable owing to changes both at home and abroad. Internally, China is eventually losing its
comparative advantage in low costs of production, a buttress for its status as an assembly hub, thanks to surging costs in labor and land in recent years. Externally, China suffered great losses due to shrinking external markets in developed countries that Chinese exports used to rely on. Moreover, the significant trade imbalance has become another contentious issue between China and its major trade partners. Hence, China’s future export growth will largely hinge upon its ability to adapt to these new changes through upgrading its exports to more sophisticated goods and services with high value added. However, it seems unlikely that such an export-led model can be persisted in the future.

With both investments and exports running out of steam, China has to find alternative engines to underpin its continued rise. To that end, expanding domestic consumption is widely believed to be the only viable way. Indeed there are some positive signs showing that consumption has played a larger role in recent years, but it is far from being able to shift away from the preceding economic growth trajectory. Therefore, the Chinese government is eager to search for other motors that can continue to drive China’s economic growth so as to head off the middle income trap. The OBOR was mapped out largely to serve such a purpose. As the renowned economist Justin Yifu Lin proclaimed, China put forth the OBOR in a hope to “overcome the middle-income trap and develop into a high income country” so as to accomplish great national renaissance.43

Rationale of China’s OBOR
What are the rationales of the OBOR to fuel China’s economic growth? In essence, the OBOR is conducive to fully capitalizing on two types of prominent comparative advantages that China has nurtured. One is its strong international competitiveness in common manufacturing and construction, which has greatly enhanced its provision capacity of merchandise. The other advantage is huge capitals that China has built up, as evidenced by China’s high savings, surging foreign investments, and massive foreign reserves.44 Combination of both types of comparative advantages has furnished China with a special prowess that helps facilitate implementation of the OBOR.

(1) China’s Manufacturing and Construction Capacities

One benchmark gauging China’s high production capability is its role as world manufacturing powerhouse. Over the past years, China’s industrial sector keeps expanding. As shown in Figure 4, the value added by industry in the U.S. was almost 4 times of China’s in 2000, but in 2010 for the first time China has overtaken the US, and by 2014, its industrial manufacturing scale was 134 percent higher than that of the U.S.

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A second benchmark is China’s distinctive competence in infrastructure construction. For a long time in the past China’s economic growth had been plagued by poor transportation systems, which retarded delivery of goods across the country, such as coal from the North to the South, and its foreign trade. Hence, long embedded in the minds of Chinese leadership is such a philosophy that in order to get rich, a community need build roads first. It was estimated that China spent around 9 percent of its GDP on infrastructure, whereas the U.S. spent less than 2 percent. After years of construction, the country has developed very extensive infrastructure networks of highways, railways, oil and gas pipelines, electric grids, telecommunication facilities, and so on.

As indicated in Table 1, the mileages of railways in operation, highways, regular civil aviation routes, and petroleum and gas pipelines in China have reached 111.8 thousand kilometers (Tk), 4463.9Tk, 4637.2Tk, and 105.7Tk in 2014, which are 1.8, 3.9, 4.1 and 6.1 times of their total lengths in 1995, respectively. China has also witnessed a soaring number of users of telephone and mobile phone, which increased 24 times and 313 times during the same periods. Almost starting from scratch in the mid 1990s, the number of internet users reached 648.8 million in 2014, turning China into a country with the largest number of netizens (see Figure 5).

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Among which:
Expressway

Among which:
International Routes

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Among which:
Expressway

Among which:
International Routes

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<td>10.31</td>
<td>410.60</td>
</tr>
<tr>
<td>2014</td>
<td>11.18</td>
<td>463.72</td>
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Source: National Bureau of Statistics of China

Other than growth in quantity, China has developed strong capabilities in technology integration, product innovation and standard creation in a number of areas such as high-speed train, nuclear power plant, high-end equipment, building materials, production line, and so on. A proof of it is its rapid expansion of high-speed railways.

![Figure 5 Use of Telecommunications and Internet in China](source: National Bureau of Statistics of China)
and express way, whose mileages reached 19 Tk and 120Tk, an increase of 103% and 25% respectively relative to the mileages in 2012.46 Besides the length of express ways in China sitting atop in the world, China also owns the most extensive network of high-speed railways in the world, accounting for more than 60 percent in world total mileages. At present, the high-speed railway network “operates with high traffic volumes on its core corridors, and with good reliability.”47

More notable is China’s lower production costs. Chinese construction companies have a significant cost advantage relative to their foreign counterparts. For instance, the construction costs of high-speed railways in China are at most two thirds of its foreign counterparts’.48 Furthermore, several decades of development has also trained a batch of high-quality workforces in infrastructure construction. Among the 225 top international project contracting enterprises, China owns more than 70 enterprises, most of which have the abilities of undertaking lump-sum contracts including project design, financing, and project implementation.49

In the context of economic new normal, both the manufacturing sector and infrastructure development in China, however, are plagued by the problems of overcapacity and consequently the surplus labor forces. As such, its capabilities in manufacturing and construction run the risk of being out of use as domestic market for manufactured goods and infrastructure construction come close to saturation. SANY Heavy Industry Co., Ltd. and Zoomlion Heavy Industry Science and Technology Co., Ltd., two giants in the manufacturing sector of engineering machinery, are a microcosm of the Chinese heavy industry. As shown in Figure 6, despite the GFC, the operating income and net profit of both SANY and Zoomlion kept growing before 2011-2012 thanks to flood of paper money and fiscal stimulation, but after that, their operating income were more than halved by 2015, and compared the figure in 2011, their net profit in 2015 shrank 62.4 times and 96.6 times respectively. Due to such excess capacity, such an investment-driven mode primarily relying on large-scale financial input can hardly work for many industries in China.

48 Ibid.
Associated with the problem of excess production capacity is another problem of surplus labor forces. In 2014 the number of employees working in the secondary industry came up to 230.99 million, among which there were 52.431 million employees working in the manufacturing sector in urban units and 29.212 million working in the construction sector in urban units.\(^5\) Since urbanization and infrastructure development has already passed the record-breaking growth periods, China does not need to build so many new expressways, railways, airports and ports. Neither can domestic market weather another round large-scale upsurge of infrastructure development, notwithstanding the implementation of new-type urbanization and other stimulating domestic demands measures.\(^6\) Therefore, it is conceivable that domestic construction growth is set to slow down in the future, but what remains a daunting challenge for Beijing is how to relocate so many workers.

To alleviate such problems, China has either to upgrade its industrial structure and move up the global value chain, or to find more foreign markets which could help absorb those surplus products and labor forces. The Chinese government is endeavoring to play both tactics, but apparently the first approach takes time and remains a formidable challenge. The second way appears more a “shortcut” that China has been more accustomed to. Hence, what we can see is that the Chinese companies have spared no effort to carve out more foreign markets. As a report says, “One of the clear objectives (of the OBOR) is to get more contracts for Chinese construction companies overseas.”\(^7\)

Beijing has been keenly aware that there exists a huge infrastructure gap in the world, and that China can find a niche in bridging the gap. China’s own development experience reveals that investments in infrastructure fuelled economic growth as it set up the backbone for other economic activities such as manufacturing.\(^8\)

\(^5\) Data from National Bureau of Statistics of China.
countries across the globe, particularly developing countries, suffer from poor or inadequate infrastructure facilities. According to World Bank,

“Over 1.3 billion people—almost 20 percent of the world’s population—still have no access to electricity. About 768 million people worldwide lack access to clean water; and 2.5 billion do not have adequate sanitation; 2.8 billion people still cook their food with solid fuels (such as wood); and one billion people live more than two kilometers from an all-weather road.”

It was estimated that each year the world need to spend $3.3 trillion to meet expected economic growth, but in effect the world only spends some $2.5 trillion a year on big infrastructure projects, resulting in at least an $800 billion annual gap. Even developed countries suffer from underinvestment in infrastructure as numerous facilities, after many years of uses, need to be revamped or reconstructed in a large scale. Aging and rusty infrastructure there has constituted a check on growth and a pernicious hidden cost of doing business. To improve their infrastructure, UK, Australia, Japan, New Zealand, and other developed countries, all worked out their infrastructure development schemes, planning to spend massive capitals for that end, which is also a way of stimulating their economic recovery and buttressing sustained economic growth. Infrastructure gap in developing countries is much more serious. For instance, estimates by the Asian Development Bank shows that its 32 developing members in Asia call for around US$8.22 trillion for infrastructure investments between 2010 and 2020 (see Table 2). Africa also requires US$93 billion annually until 2020 to close its infrastructure deficit. Being in the initial or expediting stages of their industrialization and urbanization, developing countries are desperate for more investments in infrastructure, a precondition critical for their economic catch-up, socioeconomic competitiveness, job creation and poverty alleviation. Moreover, with deepening of regional integration, there is a growing need for cross-region infrastructure connectivity. With a budget of 27.4 billion euro, an ambitious program entitled Connecting Europe Facility is under way in EU. By way of targeted infrastructure investment at European level, EU aims to promote growth, jobs and competitiveness. In Southeast Asia, countries in this region mapped out a Master

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57 The US$8.22 trillion does not include investment demands for inter-region infrastructure such as projects linking Southeast Asia and South Asia.
Plan on ASEAN Connectivity, aiming to deepen and widen the production and distribution networks in the ASEAN region. Prominent among this program are two infrastructure projects: ASEAN Power Grid and Trans-ASEAN Gas Pipeline. African countries are also pushing forward an infrastructure development plan aiming to improve intra-region connectivity.60

<table>
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<th>Central Asia</th>
<th>The Pacific</th>
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<td>-</td>
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<td>2370.5</td>
<td>373.66</td>
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<td>8222.5</td>
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While Chinese construction companies have strong incentives to invest overseas with domestic market being eventually saturated, through the OBOR the Chinese government also encourages them to do so. In the eyes of Beijing, not only are there ample commercial opportunities for Chinese enterprises in the outside world, but also they can vie for more markets in the international market by virtue of their technologies, skills and cost advantage. Indeed, some Chinese construction companies have already invested abroad. The value of turnover fulfilled of those foreign contracted projects undertaken by Chinese companies surged from 5 billion dollars in 1995 to 142 billion dollars in 2014 (see Figure 7), while the number of people undertaking foreign projects rose from 38.4 thousand to 408.9 thousand during the above periods (see Figure 8). Despite such a progress, the Chinese companies still lack far behind. For instance, the overseas businesses accounted for merely 7 percent

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60 Huixi Xu, “Quanqiu jichusheshi jianshe yinglai fazhan xin jiyyu” (Global infrastructure development greets new opportunities), *Jingji Ribao* (Economic Daily), Jan. 9, 2015.
and 8 percent in the China South Locomotive Group (CSR) and the China Northern Locomotive & Rolling Stock Industry (Group) Corporation (CNR), whereas their foreign counterparts, Siemens, Alstom and Kawasaki all have over 50 percent of their businesses in overseas markets, and Bombardier even has 93 percent. Moreover, in the process of helping Chinese construction companies to go abroad, Beijing expects that a spate of products made in China, such as cement, steel and iron, various complete sets of equipments, etc, would be sold to foreign countries along with Chinese construction companies’ venturing abroad. In so doing, it contributes to resolving the serious problem of overcapacities.

Therefore, China’s capabilities in manufacturing and infrastructure construction have laid a solid foundation for implementing the OBOR while the OBOR has provided an outlet for China to draw upon such capabilities. On one hand, its massive manufacturing scale, along with the diversified industrial structure, can find a niche in catering to demands of many countries along the OBOR to speed up their industrialization. On the other hand, many analysts believed that the OBOR may help China resolve overcapacity. In my view, it may be of some help, but we should not overrate its role in this regard. Thus far it is unclear how the OBOR could ‘export China’s overcapacity’. On paper there are two ways. One is to spare no effort to continue expanding production of polyvinyl chloride (PVC), steel and iron, cement, electrolytic aluminum, etc, and then export those products to countries along the OBOR. The other way is to conduct greenfield investment and build new factories by Chinese companies majoring in the above businesses in countries along the OBOR. If it is the first means, what China encounters is the problem of high transportation costs in view that those products are of large size but of low value. Even if it is economic viable, how will China be able to sustain such a growth mode once again given that it has already faced such considerable constraints in energy and environment? It is also questionable that other countries would be willing to absorb those overcapacities that China wants to scrap. If it is the second way, then it should not be called ‘exporting overcapacity’, but ‘helping countries along the OBOR to develop their production capacity’. That comes to the question whether China would erect a rivalry emulating with Chinese companies. In reality, local governments are reluctant to see the shift of local factories as that directly affect their revenues and job creations.

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61 They were two major manufacturers of railway transportation equipment in China, and were formally merged and formed China Railway Rolling Stock Corp (CRRC) on June 1, 2015.
62 “Nanbeiche hebing huo pi jiang yinbao liangda zhuti gainian” (Approval of the Merge between CSR and CNR would Trigger Hike of Stocks on Two Types of Concepts), Zhengquan Shibao (Securities Times), March 5, 2015.
63 http://news.xinhuanet.com/fortune/2015-06/26/c_1115737141.htm
65 Author’s interview with anonymous official at China’s National Development and Reform Commission, Aug. 27, 2016.
(2) China’s Capital Advantage

The capital advantage that China enjoys has created conditions for it to push forward the BRI, but on the other side of the coin, this advantage also goes with a thorny issue regarding how to maintain the values of those huge capitals. Above all, the capital advantage rests in China’s expanding domestic savings, which kept accumulating like a snowball over the past two decades and grew 37 times during 1990-2014. In 2000 China’s domestic savings were merely one fifth of the U.S., but by 2014, they were 1.7 times of the U.S. after China has surpassed it for the first time in 2009 (see Figure 9). The second component of China’s capital advantage is its higher gross fixed capital formation. High savings have shored up China’s high investing capability. As shown in Figure 10, highly pertinent to the growth trajectory of gross domestic savings, the magnitude of America’s gross fixed capital formation was almost 14 times of that of China in 1990, but in 2010 it was overtaken by China, and by 2014, the scale of fixed capital formation in China was almost 1.4 times of that in the U.S. Lastly, China’s capital advantage is also hallmarked by its tremendous
foreign reserves, which skyrocketed from 74 billion US$ in 1995 to 3843 billion US$ in 2014 with an average annual growth rate of 24% (see Figure 11).

![Figure 9 Gross domestic savings: China vs U.S.](image)

Source: World Bank national accounts data

China’s financial prowess has enabled it to provide financing for infrastructure development in developing countries along the BRI. Most credits are used to finance investment activities whereas consumption-related credit has been very low thanks to some precautionary concerns stemmed from underdeveloped social security net. In the past the abundant domestic savings have buttressed the government’s propensity to using investments, particularly in infrastructure and real estate, as a way to spur economic growth. In recent years, debates arouse concerning whether China overinvested, but the mainstream view tends to believe that “China has over-extended itself with regards to capital investment”. As of 2014, capital investment as a percentage of GDP reached 46.9 percent, and from 2008 to 2014, this percentage touched 56.8 percent in average (see Figure 3). If compared with other 20 largest economies in the world, their investment ratio in average was about half of China’s, far exceeding other developed or Asian economies. No matter whether it is excessive or not, the key to China’s economic growth is the efficiency of investment. Studies on China’s return on capital (RoC) or total factor productivity (TFP), two indexes gauging investment efficiency, have yielded different outcomes, but they basically hold the view that in conformity with other industrialized countries, China’s RoC investment is falling; most scholars agree that SOEs have a much lower asset returns compared to private firms. Although it may be hard to conclude that China should halt extending credit lines to domestic enterprises, it is safe to conjecture that the country will shift more capital investments to foreign markets for more lucrative commercial opportunities, which has also been evidenced by China’s surging FDI in

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**Figure 10 Gross fixed capital formation: China vs. U.S.**

(last three years: China 3.8 trillion vs. US 4584.4 billion)

**Source:** World Bank national accounts data

Recently, a third component of China’s capital advantage stems from its largest foreign exchange reserves in the world. As indicated in Figure 10, China’s foreign reserves soared to 3.8 trillion dollars in 2014, from merely 73.6 billion in 1995. Majority of the reserves were used to purchase the U.S. government debts, which have very low returns. Such a way amounts to lending huge money to the US at a very low interest rate. It also helps push down borrowing costs for American companies and households, which, in return, has provided opportunities for many American companies to capitalize on those capitals by investing in China. By doing so, the American companies can receive a much higher RoC from the Chinese market. Ni and Pan calculated the scale, structure and return rate of bilateral investments between China and the U.S. during 1999-2009. They found that America’s liabilities to China were seven times its claim, whereas the nominal return rates of America’s FDI, investment on Chinese stocks and other assets in China were 18.11%, 15.65% and 2.9%, respectively, much higher than the return rate of China’s FDI (3.8%), investment on American stocks (2.45%), other assets (4.76%) and American government and institution debts (4.58%).

This has been echoed by a survey conducted by AmCham China in 2006, saying that the return rate of its 254 member companies in China in 2004 was 19.2%, 9.1% higher than the global average return. It means that the U.S. can borrow money from China at low cost but can receive high returns from its investment in Chinese assets while the returns that the Chinese side can gain even cannot cover the loss resulted from RMB appreciation. Moreover, China’s huge foreign reserves are exposed to the risk of being evaporated whenever the US dollar loses its value. Because the American dollar works as the central international reserve currency and the US Fed actually acts as the world central bank,

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70 Quansheng Ni, Yingli Pan, "Zhongmei Xianghu Touzi Shouyilv jiqi Yunhan de Zhengce Qishi" (Differences of Return Rate of Mutual Investments between China and the US and Their Policy Implications), *Shanghai Jinrong* (Shanghai Finance), No. 12, 2010, pp. 10-15.

other countries are vulnerable to the policy effects brought about by the US Fed policy, such as the pains of property and debt bubbles, inflated prices of staple foods, resultant political instability.\textsuperscript{72} Thus, it has also posed a daunting challenge on Beijing concerning how to manage such capital resources and how to increment their values.

The BRI has provided chances for China to capitalize on its capital advantage. As aforementioned, there is a huge investment gap that needs to be bridged to put the necessary infrastructure in place in developing countries. Since large infrastructure projects are often capital-intensive and long-cycle, many developing countries cannot afford due to limited domestic savings. Without a trigger of government investment or investment by international organizations, private investors are often either unwilling or unable to engage in infrastructure construction projects. In theory, developing countries can get financing to build infrastructure projects from global financial market, but in reality it does not work either because of special risks associated with financing large infrastructure or because of their low solvency. In fact, different kinds of international development financial institutions, such as the World Bank, Asia Development Bank (ADB), etc, have attempted to conquer such difficulties by virtue of their reputation and ability. Indeed they have made some progress, but funds they can raise can hardly meet the demands of most developing countries. For instance, the loans provided by the World Bank and the ADB to Asian countries in 2014 were merely 16.8 billion dollars and 8.5 billion dollars respectively, whereas annual infrastructure investment gap in Asia comes up to 820 billion dollars.\textsuperscript{73} Ferrari \textit{et al} also found, while there is unfilled demand for financing in infrastructure, there is unfulfilled supply of funds by the private sector.\textsuperscript{74} Therefore, most developing countries are in desperate need of more financial gunpowder. By diverting more Chinese capitals to overseas infrastructure development, the BRI has not only provided an outlet for China to better tap in domestic capital resources, but also contributed to adjusting investment structure for its foreign reserves and enhancing investment returns. To that end, the Chinese government has taken initiative to set up BRICS Development Bank, AIIB, and Silk Road Fund.

\textsuperscript{72} “Will the Dollar Remain the Reserve Currency?” \textit{International Economy}, Fall 2014, p. 17.


All in all, the BRI is conducive to making full use of China’s comparative advantages in both capital and manufacturing and construction capacities. If the BRI works well, it will not only enhance returns of China’s tremendous capitals, but also save a large body of workers in the construction sector from staying idle. In the process of helping other countries to develop their infrastructure facilities, it is conducive to boost China’s industrial products, thus partially helping resolve the problem of overcapacity existing in a number of industries. More importantly, the infrastructure, once being put in place, could significantly facilitate China’s trade with countries along the BRI, as well as ameliorate their environment for foreign investment.

There are other benefits pertaining to the BRI, but in my view they played a less significant role in Chinese decision making. First, the BRI was deemed a response to the international society’s expectations that China should take more duties. It has showcased that China is not only willing to furnish other developing countries with the necessary human and capital resources, but also ready to share its experience with them to help promote their development. Moreover, economic growth across the world still remains enervated after the GFC in 2008 and is desperate for new growth engines. By placing large-scale investment in infrastructure, it is expected that the BRI would be able to become a trigger and lay a solid foundation for global economic growth. Indeed, as John Wong argued, the BRI could act as a mega continental ‘economic bridge’ integrating resource-rich Central Asia and manufacturing-based East Asia, thus bearing a win-win fruit beneficial to the whole world.75 Second, the BRI is conducive to improving China’s energy and economic security. By diversifying access routes from different countries, the BRI can spread the risk and help secure energy and other resources needed to sustain Chinese economy, thus reducing China’s vulnerabilities.76

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75 John Wong, “From silk road to economic bridge - China’s "One Belt, One Road" initiative has the long-term strategy of integrating Central and East Asia”, The Straits Times, June 17, 2015.
76 Lucio Blanco Pitlo III, “China’s ‘One Belt, One Road’ To Where?” The Diplomat, Feb. 17, 2015.
**Caveats of the BRI**

Will China’s goals embedded in its BRI be able to come true? Most countries in the world are struggling in finding new engines for world economy growth after the global financial crisis, but thus far the world seems to be lost in direction. Major economies are flooding relentless liquidities, hoping global economy could get on fast track by printing more money. To be fair, the Initiative, having identified infrastructure connectivity as the most important carrier and breakthrough, indeed may work as a dose of prescription to world economic slump. It is true that on paper “the world is flat”, but in reality, the world is far from being integrated; it has still been intercepted by national borders and rugged regulations and laws. By enhancing connectivity and reducing barriers in a number of areas, the BRI has created a win-win opportunity for all, providing an alternative avenue to fuel global economic growth. In that regard, the Initiative originates from China, but should not be simply deemed as a Chinese property. Rather, the BRI could serve as an important global public good not only for countries being involved, but also for third parties in view that it would greatly facilitate cross-border trade and investment.

In particular, if China can take the opportunity of implementing this Initiative to deepen domestic reform, such as breaking monopolies, slashing unnecessary government red tapes, and enhancing market access, there are ample chances to harvest more fruits, not only for China itself but also for the world.

Having said that, the effectiveness of China’s Initiative should not be blown up. First of all, infrastructure is not a panacea that can resolve a variety of maladies that developing countries are facing. For some developing countries, they are underdeveloped mainly because of lack of necessary infrastructure. Putting in place those facilities they are in urgent need could pave the way for their economic takeoff. For others, it is primarily other factors that lead to their backwardness, such as social and political upheavals, religious conflicts, low capability in state governance, lax rule of law and social governance, and or a mixture of the above factors. Infrastructure construction might be a trigger and lay a foundation for economic growth, but it cannot get rid of those conflicts or institutional flaws.

Second, once being launched, infrastructural projects can help create jobs and boost local GDP growth; however, once being in place, they will be put to a test of utilization. The case in the west of China may provide a vivid lesson. Many highways and other infrastructural facilities have been built in recent years particularly after 2001 when China started to carry out the strategy of developing the West, but economy in the west has not seen a big boost as originally expected. A large number of roads and other facilities in fact have a very low rate of utilization.

Third, more worrisome is the potential risk associated with implementation of this Initiative, particularly when it comes to the very poor records of China’s foreign investments in the past. Apparently the BRI calls for relevant countries’ strong support, or as Chinese Foreign Minister Wang Yi wishes, “China's Belt and Road initiatives are not its ‘solo’, but a ‘symphony’ of all relevant parties.” According to Wang, there were more than 70 countries and organizations expressing their support and willingness to join the BRI, and 34 countries and international organizations
clinched inter-governmental cooperation agreements with China to implement the BRI.77 Meanwhile, it remains unclear how they will join and to what extent they are willing to orchestrate China’s call. Furthermore, some countries along the OBOR have strong misgivings, misperceptions and comprehensions towards China’s BRI. India, for example, is concerned that China might gain more regional influence through connectivity, and thus the BRI would break the current geopolitics in Asia. Particularly, “the Indian government has particular concerns about the China-Pakistan Economic Corridor that is part of OBOR and that includes projects in territory that India claims.”78 A Beijing-based company conducted a survey on 18 countries along the OBOR, investigating their populace’s attitudes towards China. The survey found that countries which are comprehensively positive include Pakistan, Kenya, and Tanzania, that countries which are prone to the positive side include Singapore, Malaysia, Thailand and Russia, that countries worrying about China encompass Germany, France, Italy, Spain, Ukraine, Saudi Arabia, Egypt and India, that countries lacking of trust on China include Israel and Indonesia, and that Vietnam was the only one which is comprehensively negative towards China.79

The market of infrastructure construction naturally goes with the problems of moral hazard and adverse selection. Long duration of investment means that political, economic and social stability in the recipient country is a must for successful infrastructure development. However, chilly is a reality that countries with poor infrastructure urgently calling for investments are often those plagued by different kinds of political, economic and social troubles, whereas those countries with political and socioeconomic stability are not so eager to get financing for their infrastructure projects. In other words, countries and projects with relatively low investment risks have low demands for loans while countries in urgent need of infrastructure construction are often those with high investment risks. According to the risk rating over countries along the OBOR by China Export and Credit Insurance Corp, there were 43 countries whose risk rating was above 5, among which 10 countries had a rating of 7, while the mean value of all the 64 countries was 5.5, implying the overall risk level is quite high.80 It is beyond this paper to analyze the specific risks, but one undeniable fact is that many countries along the OBOR are more often than not, subject to terrorism, political turmoil, and or ethnic, religious and sectarian clashes, causing significant security risks for foreign investments. Even in those countries whose governments expressed vocal support to the Initiative, the BRI may still come across various troubles, such as too many red tapes, passing the buck among

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79 Lingdian Yanjiu Zixun (Horizon Consulting), “‘Yi Dai Yi Lu’ yanxian, tade minzhong zui bu xinren Zhongguo” (Are the populace in countries along “One Belt, One Road” most distrustful on China?) August 17, 2015. [http://chuansong.me/n/1618984](http://chuansong.me/n/1618984)
80 Risk rating from 1 to 9 (1 indicates lowest risk, 9 indicates highest risk). See Hong Xin, “‘Yi Dai Yi Lu’ 64 guo zuixin fengxian jiance jiegou fabu” (The latest risk surveillance result over 64 countries along the OBOR released), Fazhi Ribao (Legal Daily), Aug. 25, 2015.
different departments, over-complicated customs procedures, project land disputes, strict foreign exchange control, and so on. All these troubles would cast a pall over those projects that may bring about mutual benefits. Apparently many countries along the OBOR are poor in rule of law and lack of good governance. As Fukuyama pointed out, “Infrastructure-led growth has worked well in China up to now because the Chinese government could control the political environment. This will not be the case abroad, where instability, conflict and corruption will interfere with Chinese plans.”

Should majority of those projects under the Initiative be undertaken by China’s state-owned enterprises facing no hard budget constraint, the prospect of fulfilling the vision might be chilly.

Fourth, there are some potential risks to China itself. Most prominent is the risk of hampering rather than expediting China’s economic structural adjustment. If the view that China’s BRI aimed to resolve domestic industrial overcapacity stands true, and as such, domestic relevant industries would be revitalized, it is very likely that China’s economic restructuring would be interrupted by the BRI, just as what the four trillion stimulation package did in 2008. More seriously, as Ansar et al found, if unchanged, poorly managed infrastructure investments would even result in national financial and economic crisis in China. Additionally, thanks to the BRI, other countries’ misgivings about China’s rise may be aggravated rather than alleviated. As verified by many international experiences, rather than being grateful to home states, investment recipient countries may have more qualms and resistance.

At last, money can buy projects, but can hardly buy hearts. Having tried to sweeten bilateral relations by virtue of generous aid or growing economic interdependence, the Chinese have stumbled for many times when carrying out diplomacy with foreign countries. Earlier cases could trace back to its relations with Vietnam during Mao Tse-tung’s ruling periods. Since 1950 China offered substantial military and economic aid to the Vietnamese to help them with their war against France and latter against the U.S. Mao even promised Ho Chi Minh that China would offer "whatever support was needed by the Vietnamese" notwithstanding extreme grinding poverty suffered by the Chinese. However, China’s aid was repaid with injury. Only three years after their reunification in 1975, Vietnam began to brand China a leading enemy and even used the weapons provided by China to kill the Chinese. A recent instance is China’s relations with Myanmar. “As an example for friendly relations between countries with different social systems,” China has become the Burmese largest trading partner, foreign investor, aid donor, and the strongest supporter during Myanmar’s isolation from the West. Despite the close relationship, Beijing gradually finds that its investment projects there became punching bags with political reforms in Myanmar. Likewise, being North Korea's biggest trading partner, major source of food, arms, and energy, and to a large extent patron to help sustain

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Conclusion

Any foreign policy has its domestic roots, which is also applicable to comprehend China’s motives in formulating the BRI. Politically, any top leader will work out his/her overarching foreign strategy, and Xi Jinping is not an exception. The author does not the geopolitical ramifications derived from the OBOR, but we should overexaggerate that aspect. In my view, the economic considerations seem to be the central and decisive factors that motivated Beijing to map out the BRI. We may borrow the summarization – “One context”, “Two comparative advantages”, and “Three primary purposes” – to account for China’s motives. “One context” is that the BRI was put forth in the context that Chinese economy has phased into a “new normal”, characterized by economic slowdown, overcapacity prevalent in a wide range of sectors, and declining exports. The BRI has been utilized, in a great measure, to deal with the challenges stemming from the “new normal”. Specifically, it is expected to serve three primary purposes, that is, to find new engines for China’s economic growth, to settle related surplus labor forces, and to enhance capital returns. Lastly, the “two comparative advantages” that China enjoys – industrial and construction capacities and capital advantages – have laid a solid foundation to ensure the successful implementation of the BRI.

Essentially, if the title of BRI is a ‘new bottle’, what the initiative contains is ‘old wine’. That the ‘new bottle’ holds ‘old wine’ can be construed in both economic and diplomatic aspects. In the economic sphere, fundamentally the Initiative is merely an external extension of China’s investment-driven mode of economic growth in space. At least two traits of this Initiative are akin to China’s erstwhile internal economic growth mode. Firstly, both underscore the importance of infrastructure construction through large-scale investments. As manifested by a Chinese saying goes, “Wanna be rich? Build roads first,” the Chinese government endeavored to spur economic growth by pumping substantial money into real estate development and infrastructure construction, such as highways, railroads, ports, pipelines, electrical grids, telecommunications, and so on. Furthermore, many localities pursue superlatives in infrastructure provision. Even in the four-trillion-yuan stimulus plan deployed by China’s cabinet in 2008, most of the budget was spent on infrastructure projects.\(^{84}\) Through massive, systematic, and broad-based investments in infrastructure and real estate, such a growth mode has sustained China’s rapid economic growth. Although the Initiative has highlighted five areas, infrastructure building is not only key to success of the across-the-board plan, but also acts as the pioneer, springboard, and a platform necessitated by trade promotion, financial integration and cultural

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\(^{84}\) Yongnian Zheng and Minjia Chen, “How effective will China’s four trillion yuan stimulus plan be?” Briefing Series – Issue 49, China Policy Institute, The University of Nottingham, March 2009. For specific spending categories, see [http://www.infzm.com/content/28912](http://www.infzm.com/content/28912).
exchange. Hence, to a large extent this is a refurbished version of China’s previous investment-driven growth mode. What differs between the new Initiative and the previous investment-driven growth mode is the spatial scope of their applications. The latter was put into force merely within China, whereas the BRI has extended such a growth mode beyond Chinese borders and is anticipated to apply it to other countries.

Secondly, both heavily rely on government. The previous economic growth mode laid emphasis on investment, while government was a heavyweight investor. Not only were those investment projects required to get government approval, but also most funds had to be allocated by the government or through the state-owned banks, and even the specific projects were primarily picked up and undertaken by the government or its proxies of SOEs. The BRI per se has followed a similar top-down approach. Designed and initiated by the government, it has to rely on the government to put the Initiative into practice. Conceivably, most funds for those projects along the belt and road will derive from central coffers of China although Beijing also calls for active involvement of other countries and private investors and will make fundraising in the international financial markets.

In the diplomatic sphere, in nature the Initiative follows China’s conventional thinking of conducting diplomacy, hoping to lubricate bilateral political relations through developing closer economic ties or trying to harness its colossal financial powerhouse to swap ameliorative political relations. One typical example is China’s charm offensive with its Southeast Asian neighbors. Against a backdrop of rising tensions in the contested South China Sea, the 21st Century Maritime Silk Road was initiated. By developing closer economic ties and offering more economic inducements, China has placed high hopes that this move could help smooth out turbulence in the unquiet waters and reassure Southeast Asian nations about its rise. Unequivocable is it the last scenario for China to see a united ASEAN antagonistic to China and gravitating to the US and Japan, in view that some of the ASEAN states are already unnerved by Beijing's assertiveness, celebrating the US’ "Pivot to Asia", and staking their hopes in the US to strike back China.

Despite the problems, it deserves emphasizing that the BRI is a global public good that can benefit not only China but also other countries in the world. If successful, it would spur global economic growth and facilitate global trade and investment. Indeed, as the Chinese saying goes, “The fire burns high when everybody adds wood to it.”