



CHINA'S ONE BELT, ONE ROAD: A REALITY CHECK

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Since joining the WTO in 2001, around every four years China has presented the world with a new concept, strategy, or programme. These concepts are deeply rooted in the Chinese political system, but encapsulated in simple and memorable slogans. They have caused a great deal of both excitement and confusion abroad and within China. Past examples include *'Peaceful Rise'*, a *'Harmonious World'*, and *'New Great Power Relations'*.

The latest fashion is the *'Belt and Road Initiative'*, commonly known as One Belt, One Road in public. No other policy in the world has launched as many global debates, with both serious doubts and some enthusiasm seen from academics, policymakers, and entrepreneurs. In May 2017, Beijing hosted the first ever 'Belt and Road Forum' in its usual lavish and choreographed style, attended by 29 head of states and delegates from 130 countries, to consolidate what China has achieved so far and to further promote the initiative (Xinhua, 2017).

In September 2013, Chinese President Xi Jinping visited several Central Asian republics. He reiterated China's intention of pursuing a policy of large-scale investment. He emphasised the revival of the economic and cultural ties that once characterised China's relations with Eurasian countries during the past glory of the Silk Road, and promoted recreating the Silk Road Economic Belt in connection with the Maritime Silk Road. But despite the trade statistics, numerous conferences, tailored financial derivatives, and new rail connections, defining the OBOR initiative is still difficult for the world outside China. It remains "longer on sweeping vision than on nuts-and-bolts practicalities" (De Jonquieres, 2015).

Global analysts focus on the impact, positive or negative, of this ambitious undertaking while remaining vague about what OBOR is and what aims China are pursuing through it. Few analysts understand who in Beijing decides on OBOR projects and how the overall budget is distributed through the government.

A key reason for this tendency to overlook the complications of OBOR and Chinese foreign policy decision-making in general is the assumption that China is a static and authoritarian state where policy is simply dictated from the top. This perception may have been valid under Mao, but is certainly no longer the case in contemporary China.

Dramatic changes in the distribution of power and devolution of authority within Chinese bureaucracies have been happening since Deng Xiaoping's momentous economic reforms. OBOR is one of the best illustrations, perhaps the best, of institutional power distribution below the top Party Leadership.

Central ministries and provincial governments have scrambled to give OBOR a meaning, gauge what it means for them, and most importantly, how OBOR could be used to get hold of or justify the use of project funds.

Another key feature of OBOR often ignored by pundits is the supremacy of domestic interests. This initiative is designed mostly to consume China's excessive industrial capacity, to secure its long-term energy supply, and equally importantly to stabilise the troublesome Western borders of the Middle Kingdom that have been threatened by rampant home-grown Islamic jihadists.

This Strategic Update doesn't examine every stakeholder in OBOR or detail all its projects, but takes an inside-out approach to offer a concise guide to OBOR is and how it is run.

WHAT IS ONE BELT, ONE ROAD?

Chinese President Xi Jinping first used the term *One Belt, One Road* at the Conference on Interaction and Confidence-Building Measures in Asia, held in Shanghai in May 2014 (Xi, 2014).

Based on published documents, the OBOR consists of a staggering numbers of infrastructure projects, railways, ports, and oil pipelines (NDRC 2015).

To be more specific, **the Silk Road Economic Belt (One Belt)** aspires to connect China with Central Asia, South East Asia, South Asia, Russia, and Europe by land while **the 21st Century Maritime Silk Road (One Road)** links China's coastal regions with Southeast and South Asia, the South Pacific, the Middle East, and Eastern Africa (ibid). So far, over 60 countries have expressed an interest in participating in OBOR.

The planned scale of OBOR is astronomical. The countries it plans to include comprise 55% of World Gross National Product, 70% of the world's population, and 75% of known energy reserves. The initiative is funded with \$100 billion from the Asia Infrastructure Investment Bank (AIIB) and \$40 billion from the Silk Road Fund (Xi, 2013).

Some Chinese pundits insist that OBOR demonstrates China's intention to offer 'public goods' to the world in general, with the economic might of the West has been in relative decline (Wu, 2015). Alternatively, that has provided an opportunity for China to flex its economic muscles and acquire greater political and geostrategic clout. China's unexpected success in launching the AIIB, joined by 57 founding member states, will continue to provide impetus for OBOR.

Beijing is aware that most participating countries are in fragile economies with poor infrastructure and an unskilled labour force. Some of the participating countries have natural geographic challenges such as weather conditions and scattered populations. For example, there are very few arable lands for crop production and a wide area of permafrost between Europe and

West Siberia where China plans to establish railway and telecom facilities to achieve connectivity.²

A CONTAINER FOR DOMESTIC AFFAIRS?

As argued earlier, too many pundits and policy practitioners in the West stress the geo-economic and geo-political significances of OBOR without paying attention to how domestic politics dictate the policies, budgetary distribution and detail of OBOR.

No discussion of major Chinese policy can ignore the ultimate aim of the Chinese Communist Party (CCP): staying in power and keeping absolute control. This requires stability, and in turn requires the CCP keep its 'social contract' with ordinary Chinese people of growth and employment. OBOR is no exception.

Against the backdrop of the Chinese economic slowdown and much discussed efforts economic rebalancing, China is searching for a new engine of economic growth. In particular, the government is looking for a way to reduce the regional economic development imbalance, one of the negative legacies left by Deng Xiaoping's landmark reforms. OBOR has become key to this, connecting China's diverse regional development and revival programmes such *Developing the Great West*, *Raising the Central Region*, and *Revitalize The Old Northeast Industrial Bases*.

To this extent, one could argue that OBOR is not a brand new initiative that was created by President Xi and his team overnight. Rather, it serves as a 'bag' or 'container' that virtually everything can be thrown into. Since

the convening of the Central Financial and Economic Conference in December 2014, where the launch of the OBOR initiative was officially decided, all 31 provincial level governments from Hainan to Hei Longjiang have scrambled to list their preferred projects and industries to be supported by OBOR (Xinhua, 2015a). Some foreign pundits and even President Xi himself have commented on its lack of clarity (Xi, 2015).

In a broader sense, OBOR is seen as an essential element of China's further economic reform process itself. It was explicitly linked to the economic reforms of the Third Plenum of the 18th Party Congress, which focused on market allocation of resources with discussions indicating the senior leadership's thinking. To this extent, OBOR may also offer an 'upgraded' version of China's '*Go Global*' strategy of making overseas investments, infrastructure building, and conducting mergers and acquisitions, mostly by the Chinese state owned enterprises (SOEs). Chinese SOEs played a crucial role in the '*Go Global*' strategy, but despite their advantage of sheer size, they remain short of global business exposure and corporate governance. The Chinese leadership intends to use OBOR as an efficient vehicle to deepen its reforms to debt-laden SOEs and further their global footprint.

The OBOR initiative aspires to consume the excessive industrial capacity triggered by governmental intervention and under-performing Chinese companies. Ironically, it could also further exacerbate this long-standing symptom of the current economic structure established by Beijing. Regardless of the type of OBOR project, participating companies are most likely to base their production model on the assumption of successful implementation of OBOR.

However, the eventual success of delivering OBOR projects is not only dependent on China's financial resources and political capital, but equally importantly determined by the willingness of foreign partners. Both Beijing and Chinese participants must have a well thought out Plan B to avoid waste in financial resources and manpower if some OBOR projects do not come to fruition.

THE BUREAUCRATIC LAND RUSH

Like implementation of any Chinese policy, the cornerstones are laid on the domestic front.

OBOR is no exception. However, it is suffering from a lack of policy and bureaucratic coordination. Xi's ambitious initiative raises two key questions for Beijing and its OBOR partners and loan providers: Which departments or ministries carry the overall responsibility for OBOR? What are the selection criteria for categorising infrastructure projects as parts of the initiative?

According to the official document published in 2015, the lead organisation for coordinating efforts to pursue the initiative is the National Development and Reformation Commission (NDRC) with some shared responsibility from the Ministry of Commerce (MOFCOM) and Ministry of Foreign Affairs (NDRC, 2015).

NDRC remains the most powerful institution in Beijing's central administration, probably the most powerful in China's macroeconomic policymaking in general. However, there is a key difference between the policy in the official document and

practice in the corridors of power at the 'Court of Zhongnanhai'.

Using the normal CCP bureaucratic procedure, a 'Small Leading Group' has been set up for coming to key decisions on OBOR. This group, consisting of the most senior policymakers and meeting monthly, is for tackling difficult and outstanding issues when disagreements arise and final judgements are required.

The Small Leading Group for OBOR is based at the State Council and chaired by Zhang Gaoli, Standing Committee Member of the Party. Four deputy chairs share responsibilities equally:

- Wang Huining, Head of Policy Planning for the CCP and the so-called chief advisor for Xi
- Wang Yang, the Deputy Premier in charge of Economic and Trade issues
- Yang Jiechi, the State Councillor for Foreign Affairs
- Yang Jing, the Secretary General for the State Council.

Looking at the chair and deputy chairs alongside the official policy paper, can we really say that the NDRC is leading the policy? It has no power to override the decisions of any of the five chairs. It has become 'sandwiched' between the Small Leading Group and the relevant central ministries. Each of the five chairs has their corresponding ministries to brief. It is almost impossible for the ministries to speak with one voice.

Apart from the above four mentioned ministries and Small Leading Group, there are other 15 different ministries and

agencies that hold the lion's share of votes in the central government, influencing which projects are chosen to be part of OBOR. It would be naive to assume that the Ministry of Finance and Ministry of Transportation have similar views while selecting high-speed railway projects across OBOR-related countries. The former looks for project with a solid return on investment, and the host country's potential financial risks and credibility for loans, whereas the latter looks for companies that can build high-speed railway tracks within the shortest period of time.

Nearly 32 provinces across China are also participating in ensuring their preferred projects being chosen. In doing so, each provincial government will receive a generous budgetary support in developing the chosen projects. Some provinces have begun to form alliances with certain central ministries to bid for project approvals, while other provincial governors and some CEOs of the State Owned Enterprises have taken to bypassing central ministries and communicating directly with the members of the Small Leading Group to gain their approvals.

A crucial reason why a selected number of provincial governors and CEOs of State Owned Enterprise can bypass the central administration for project approvals is because they outrank some ministers within the Party. Even though in the hierarchy of the state they cannot influence ministers, their party seniority holds huge sway.

For example, the Minister of Transportation is not a member of Politburo and ranks No.41 within the Central Committee of the CCP whereas the provincial governor of Chongqing³ (an important Western

Municipality) ranks No.14 in the Central Committee and is a member of Politburo. In practical terms therefore, the governor of Chongqing can override the decisions made by a government minister in relation to OBOR.

This bureaucratic opaqueness and overarching policy-related uncertainty presents a major obstacle in China's efforts to convince the foreign partners to make a monetary or political investment in OBOR without providing an ultimate underwriter.

Deng described his ethos for reform in 1978 as "crossing rivers by feeling the stones". Xi has clearly adopted this approach in leading OBOR. However, Deng used this tactic when China was isolated in the immediate aftermath of the Cultural Revolution, whereas Xi needs the involvement of over 60 countries for his vision.

Beijing's lack of a clearly defined set of guidelines for the OBOR development suits the Chinese pragmatic approach, which allows the Party and the government simply to shift plans during the implementation process whenever new opportunities arise. However, to fully engage with other stakeholders China must invent a bureaucratic framework with reasonable consistency, setting up clear criteria for selecting potential projects that are credit worthy. This consistency must be spelt out loud and clear, and practiced diligently to reassure partners. Beijing is still at a very early stage of getting its house into good order on OBOR, and Xi must tidy up quickly.

GEOPOLITICAL RISKS

Much of the Western discussion of OBOR is focused on Xi Jinping's 'new' and 'proactive' approach to foreign affairs, in stark contrast to his predecessor Hu Jintao's 'risk-averse' style. However, OBOR is also true to Deng Xiaoping's essentially conservative maxim to Chinese foreign policy: "to create a stable external environment for China's domestic economic growth"⁴ (Deng, 1982).

Many pundits both in China and the West inevitably compare OBOR to the US policy of rejuvenating Europe through the Marshall Plan and the re-construction of Japan in the immediate aftermath of the Second World War. These policies created global alliances between prosperous countries that supported the US economically and politically.

The Chinese leadership has clearly learnt from the Marshall Plan ethos and attempted to imitate it to some extent. Beijing is fully aware that it can only prosper if its partners prosper, and it can only achieve resource security and border stability if its Northwest if Islamic extremist movements cease to spread rampantly in the Middle East, North Africa, and Central Asia.

However, China faces a far more complex and vulnerable geo-political environment around its periphery than does the US. While many Americans demand a border wall with one of their two neighbours, China shares a land border with 17 different countries - many amongst the least economically prosperous countries in the world and therefore prone to ethnic conflict. China also has long-term border disputes with some of them. Most of China's neighbours are unsure about what China's motives are, and

wary of China posing a direct challenge to the established players, such as Russia and India.

In addition, many of the participating countries in Central Asia and Africa are ruled by elderly authoritarian leaders. The Chinese government has been able to develop amicable relationships with those current leaders, but Beijing has neither the ability nor the desire to predict the next generation of leaders. The Chinese principle of 'non-intervention' in bilateral relationships could jeopardise its economic interests, such as return on investments, if domestic power transitions prove problematic or create anti-Chinese feeling.

THREE EXISTENTIAL CHALLENGES TO OBOR

Russia's Ambivalent Attitude

China is a neighbour, partner, and a market to Russia. It has become a key to Moscow's post-Crimea foreign policy. After the Cold War, Sino-Russia rapprochement began immediately with the normalisation of relations in 1989 and has been steadily strengthened from Boris Yeltsin to Vladimir Putin.

Beijing's march to the west with OBOR is accompanied by Russia's move to the east. While OBOR puts Eurasia region centre stage of China's geo-political power play, Moscow has traditionally viewed itself as a quintessential Eurasia power.

Despite Putin and Xi agreeing to "harmonise" the Silk Road Economic Belt (One Belt) with the Moscow led Eurasia Economic Union, harmonisation in policy

and on the ground has developed at a slow pace (Xinhua, 2015b). Economically, many Russians fear Chinese 'takeover' of their country's sluggish economy and infrastructure. Chinese investors for their part do not believe investing in Russia will guarantee returns.

Politically, despite Xi and Putin being labelled as 'strongmen' on various occasions, each of them comes from different political background, with a very different ethos on how to make One-Party state work (Rachman, 2016).

Each country wants to generate greater political clout globally, but their strategies for achieving this goal are contradictory. For Russia, economics matters, but it is only a part of Moscow's geopolitical calculation. Whereas for China, economic developments take precedence, with growth Beijing's answer to the question of how to become a great power.

Each country sees itself as deserving to be a great power, and values highly the independence of their respective decision-making. Neither wants to be a senior or a junior partner in a coalition and each dreams its own dreams. However, if Beijing wants to deliver the OBOR initiative, it needs to have Moscow's backing or at least Putin's acquiescence.

The Need for Soft Power and Followers

The Marshall Plan has not only created global economic and military alliances, but also most importantly, a global network of liberal democracies that share many common values with the US, and speak with a similar cultural frame of reference.

One of China's insurmountable challenges in implementing OBOR remains if China can produce values echoed by its potential partners and attract followers that endorse Beijing's conduct in domestic politics and foreign policy. Xi puts forward the phrase *A Community of Shared Destiny*, yet its precise definition remains unclear to the rest of the world. Beijing is in dire need of some PR work on this particular term. "The challenge for China going forward may be one of hearts and minds rather than dollars and pounds" (Shi, 2015).

Unprecedented excitement from Chinese investors and companies about OBOR can stand in sharp contrast to the reticence and anxiety of its potential foreign partners.

Beijing has to realise that it is vital to fully engage with countries whose sovereign land and infrastructure system are to be built, and this includes conducting far wider international consultation on projects under the OBOR initiative. The often-used term 'win-win' cannot be China's wins but others' losses.

China should not automatically assume that the growth through gigantic infrastructure investments, which drove China's economic success in the past, is a panacea and embraced by all stakeholders. Many OBOR participant countries have doubts and fears about issues in sovereignty, autonomy, local employment, distribution of budgets, and the general returns on investments.

China's words and deeds should make genuine attempts to generate positive influences and not merely treat the involved partners as vehicles to achieve China's benefit alone. However, as so often is the case with China's foreign affairs, OBOR seems

fundamentally rooted in a Sino-centric approach to the world, driven chiefly by inward-looking impulses and intended primarily to meet pressing domestic needs.

Short in expertise and economic viability

Another imminent challenge for OBOR's success derives from inside China. China is not yet equipped with an extensive network of home-grown experts who have strong command of knowledge of the regions within the OBOR framework.

According to the proposed OBOR development plan, infrastructure investments and connectivity projects will run through more than 60 countries across Central Asia, Europe, West Africa, South Asia, and Southeast Asia. Apart from a large number of engineers, evaluating the viabilities of OBOR projects requires geopolitical strategists who know the respective regions inside-out, it needs financial experts to understand the host countries' fiscal and monetary policies, and it needs demand project management teams having special knowledge of the local labour market.

However, at the moment there are only a handful (less than 20) Central Asia and Middle East specialists inside China who are closely following the geopolitical situation within the two regions⁵.

Most of those experts have no direct access to the key government officials, influential academics, and business leaders of countries in Central Asia and the Middle East. Much of their existing research outputs are based on

arbitrary collections of evidence rather than systematic analyses of the target countries.

Most of the senior management teams of large Chinese SOEs who may potentially engage with OBOR-related projects are appointed by the Party and equipped with industrial expertise, but not the necessary management skills and general market knowledge of the host countries. For example, they are usually unfamiliar with the market environments of host countries with little understanding of local labour union politics.

SOEs may hire leading global professional services firms to develop their potential OBOR projects. Some Chinese companies believe that outsourcing professional services firms is equivalent to possessing sound project-management skills themselves and therefore readiness to pursue OBOR projects.

Chinese companies utilise professional services firms mostly on the basis of their reputations rather than their specific knowhow. In part, this reflects the fact that engaging such major multinationals is often primarily a signal of their determination to pursue OBOR projects in line with central government objectives.

While OBOR encourages the participation of Chinese private companies to in public-private partnerships, most Chinese private companies are prioritising profit maximisation over paying attention to building local relationships. Such an attitude deviates from what OBOR goals for both parties and risks reputational damage.

CONCLUSION

OBOR is very much in line with the distinctive Chinese character of past grand initiatives. That is fluid in nature, opaque in implementation plan, and flexible in concrete measures of projects. Such unique features are well understood and practiced by Chinese political elites in their corridor of power, yet frustrate foreign partners both at the governmental level and in entrepreneurial communities outside China.

It is important for the Chinese leadership to not become too Sino-obsessed, and to retain a keen interest in what others want, expect, or fear from their interactions with China under the OBOR framework. Like many other issues in China's foreign affairs it should not be forgotten that OBOR, whilst clearly dependent on Chinese objectives and actions, is also dependent on how others interpret these objectives and how they act on these interpretations.

Close scrutiny of the official OBOR document published in 2015 reveals it to be largely an effort to advertise the OBOR initiative. It suggests the proposed achievements of the initiative at the economic and strategic level, rather than referring any concrete methodology to achieve them. The document does not offer any time frame or deadline, and more importantly, does not suggest any business model to make the initiative work. Sooner or later, the Chinese government must have concrete answers to fill in those conspicuous omissions if OBOR is going to be a success.

A central challenge to any future Chinese leadership will be how to develop a global foreign policy and respond to concerns in regions that are historically little known in China, but will affect and be affected by the country's economic growth. In order to improve its global diplomacy, China needs to draw on policies that go beyond the simple purposes of securing China's own economic interests. One hopes Beijing will learn this very quickly from its long march to the new Silk Road. ■

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ENDNOTES

- 1 The author is deeply in debt to many contributors from the public and the private sectors who shared their candid views.
- 2 From a [recent interview at the Chinese State media with Russian delegation who participated in Belt and Road Forum](#).
- 3 A key post for those who want to step into the Standing Committee of the CCP Politburo of the CCP Central Committee.
- 4 Please refer to Deng's 24 characters summary on the Chinese foreign policy when he met with the then UN Secretary General Javier Pérez de Cuéllar.
- 5 Courtesy of some Chinese senior academics and diplomats in Beijing.

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The world is excited, yet confused about the potential of China's One Belt, One Road (OBOR) initiative. What exactly is it? This Strategic Update explains the origins of the idea, who in Beijing really runs OBOR, and the existential challenges to the project.

