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# THE BELT AND ROAD INITIATIVE

*Formation, Development, and Digression*



**The Belt and Road Initiative:  
Formation, Development, and Digression**

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ANBOUND

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## About ANBOUND

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Established in Beijing over three decades ago, ANBOUND is an independent global research organization dedicated to providing strategic insight, analysis, and policy solutions to help policymakers in a course toward a better world.

We specialized in topics including macro-economic studies, geopolitics, urban development, industrial policies, and international relations. In the past thirty years, ANBOUND gradually became one of the most influential think tanks in China and enjoyed a professional reputation in the areas of strategic forecasting, policy solutions, and risk analysis.

Since the founding of ANBOUND, we have always committed to independence, objectiveness, and openness as our operating principles. ANBOUND's research and policy advisory help thousands of institutional clients in China and abroad. We always believe that only an objective analysis could help our clients to better achieve their goals.

As probably the only Chinese Think Tank with no government background, ANBOUND has no sustainable government funding, and all of our cooperation with the Chinese government are contract-based. Due to our timely and objective service, we have built a close relationship with various levels of Chinese governments.

This report was the latest product of ANBOUND's research program regarding the Belt and Road Initiative, which was launched in August 2019. We do not have external sponsorship for this project.

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## Foreword

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Context and logic are more than essential in understanding specific issues, especially for a grand project like the Belt and Road Initiative (BRI). For researchers and analysts, it is critical to realize that it did not drop from the sky, and the formation of the BRI was actually a quite intricate process, which also indicated uncertainties regarding its future.

In the fall of 2008, ANBOUND organized a full-scale field research in Xinjiang, China. We walked over 15,000 kilometers and tried to make a comprehensive evaluation of the actual result of the *China Western Development* strategy. This strategy was launched in 2000, including four major aspects: *West-to-East Power Transmission Project*, *South-North Water Transfer Project*, *West-East Gas Pipeline*, and the Qinghai-Tibet Railway. Three of them, except *the South-North Water Transfer Project*, were generally finished by 2010. However, our trip indicated that the imbalanced regional development was still preeminent. The original design of the *China Western Development* was to comprehensively improve the economic and social status of the Western provinces by utilizing the surplus of the Eastern coastal areas. It had further concerns because the stability of Western provinces was (and still is) related to the safety of Chinese sovereignty. Our trip was a little absurd in the eyes of our colleagues because the majority in the Chinese policy circle was quite optimistic about China's future, especially in economics. Nonetheless, we were skeptical about this optimism as we already noticed the hidden problems such as overcapacities, debt, and the increasingly ill-structured developing model, which heavily relied on the real estate and infrastructure building, even without considering the already growing cost in the manufacturing business in China.

As a research organization focusing on strategic issues, we wanted to find a policy solution then, which was another reason for our Xinjiang trip in the first place. After years of research, we concluded that a Chinese version of the *New Silk Road Initiative* might be the silver bullet. This initiative was firstly mentioned by the UN around 1990. The Obama Administration later picked it up and redecorated it as its core strategy in West Asia. Frankly, Washington used to be quite enthusiastic about this project. It wants China to participate, given that the U.S. was still on the track of engagement policy toward China. In light of this, the U.S. Department of State and the U.S. Embassy in Beijing invited ANBOUND to research *the New Silk Road Initiative* and provided necessary support after we decided to step in.

However, we did not represent the majority in Chinese policy circles at that time. The Chinese government was still on its domestic-oriented mindset, and many scholars and policymakers were immersed in an optimistic mind. They believed the rapid development of the Chinese economy could continue in the foreseeable future, which means there was no reason to look beyond the Chinese border. Indeed, China made significant achievements during those years, including an express railway network,

rapid urbanization, booming real estate industry, and growing asset prices. The short-term stimulus of the massive infrastructure-building programs kept the entire nation (over) ruptured and made it quite hard for many people to realize the structural problem that was already brewing inside the Chinese economy.

Such optimism went beyond the masses and gradually comprised the majority of ideas in the Chinese policy circle as well. Many observers believed the rise of China was unstoppable. Furthermore, many researchers genuinely believed the regional cooperation project, especially those proposed by Washington, was merely a deception against China, which indicated that Beijing should not get involved in such projects. In short, many people believe China's growth was almost independent of the world, and we were totally fine without other states.

However, it did not take too long before Chinese economic growth decreased from 12% to 6%; The real estate market had begun to shrink. The debt began to haunt the local and even the central government. People used to believe that globalization would never stop; the overcapacity, therefore, was not a severe problem, because the world needed Chinese manufacturing capabilities. The trade war between Beijing and Washington clearly was a slap in the face of this argument.

In this context, as one of a few research institutions focusing so much on the principle of objectiveness, our proposal regarding "the New Silk Road" was not promising in many eyes. Nevertheless, it is luckily for us that we have built a growing network with Chinese policymakers at relatively high levels who are soberer regarding this nation's future. Via this network, our research findings ultimately left some marks on Chinese policy.

For Western observers, it is not so easy to understand the Chinese policymaking process. It generally includes four different stages: policy formation, policy preparation, policy resolution, and, finally, policy implementation. Almost every primary strategy of China will go through these processes, and various organizations could participate accordingly. In light of this, our argument about the New Silk Road affects mainly the policy formation stage.

Even though we cannot conclude that our argument was the sole origin of the BRI (in fact, it was not since we did not mention the 21<sup>st</sup> Maritime Silk Road), from the logical deduction perspective, the Chinese central government accepted our proposal to a certain extent. In September 2013, President Xi Jinping announced the "New Silk Road Economic Belt" in Kazakhstan, which further developed into a comprehensive geopolitical grand strategy known as the BRI. Given the policy environment, then, this announcement surprised many people. President Xi actually announced the BRI twice: first the Belt and then the Road. This fact indicated two things: the BRI was an evolving concept, and there might be some pushback inside the government that required multiple "education" and signaling. Judging by the actual development of the BRI, it is reasonable to believe that, even for the governmental agencies, the BRI was, more or less, a surprise. It was only after 2015 that Beijing set up a group to coordinate the entire project.

Six years have passed, and the achievements were astonishing. So far, Beijing has finalized the primary institutional building, fund-raising, and infrastructure building work. By March 2019, the Chinese government has signed 173 agreements with 125 states and 29 global organizations; built a transportation network that covers 16 states and 108 cities; and the total trade between China and the BRI states has reached six trillion dollars. However, it seems that the BRI has come to its bottleneck that we can hardly observe progress regarding the construction of the common market.

More importantly, we believe a digression could be explicitly observed along the BRI. The SOEs and the infrastructure programs took too many shares, while the New Silk Road Economic Belt is still under-developed. We will cover more details in this report, and by doing so, we hope to provide an objective analysis of the BRI's current status rather than only seeing its bright side. We acknowledged that there might be some mistakes or limitations in our work, but we will try our best to give a comprehensive picture of this gigantic project.

Finally, we wanted to clarify one point: this report was not trying to tear the BRI apart. We do think Beijing has made tremendous progress, especially considering the limited time it spent in doing so. Furthermore, in an unprecedented project like the BRI, China, like most nations around the world, does not really have enough experience, which means mistakes and limitations are somehow inevitable. China is a land-power for thousands of years, whereas it must adapt to the current sea-dominant structure. In this regard, our report may have some theatrical limitations, while more data and field research is certainly necessary. Nonetheless, we believe the BRI will continue to face all kinds of challenges. The real key issue is how Beijing should act accordingly.

*Cheng Gong*

**Founder & Chief Researcher**

**ANBOUND**

**December 2019**

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## Acronyms

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World Trade Organization	WTO
Gross Domestic Products	GDP
Consumer Price Index	CPI
International Monetary Fund	IMF
The New Silk Road Initiative	NSRI
Central Asia Regional Economic Cooperation	CAREC
Regional Economic Cooperation Conference on Afghanistan	RECCA
The Atlantic Trade Axis	ATA
The Pacific Trade Axis	PTA
The New Silk Road Trade Axis	NSRTA
The Belt and Road Initiative	BRI
The One Process and Three Tracks in Chinese Policymaking Process	OPTT
State-owned Enterprise	SOE
The Model of SOE plus Infrastructure	S+I
Asian Infrastructure Investment Bank	AIIB
Chinese Communist Party	CCP
New Type Major Power Relations	NTMPR

## Executive Summary

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As the most crucial grand strategy of China in the 21st century, the Belt and Road Initiative (BRI) has reached its sixth year since its revelation in 2013. Although its influence continued to grow, the challenges are also prominent for Beijing. Compounding such challenges is the Chinese opaque policy-making process, which led most researchers to regard 2013 (Xi Jinping's remark in Kazakhstan) as the initiative's starting point. The authors believe that this idea has caused some misunderstandings among the Western observers toward this project in terms of its goal and current circumstances.

In this context, this report was designed to review the entire history of the BRI and provide a plain illustration regarding the policy formation and the actual development of this grand project. As a summary, we found the following conclusion:

- The Belt and Road Initiative was launched as a tool to solve the economic problems left from the rapid growth of China from 2000 to 2010.
- The Belt and Road Initiative also carried a geopolitical goal, that is, by developing a new trade route through the Eurasia continent, China could have an alternative in its future development without trying to challenge the U.S. supremacy as a sea-power.
- However, certain digressions can be observed in the actual development of the BRI. It manifested in two major aspects: First, the imbalance of resources distribution between the Belt and the Road; Second, the BRI has evolved into a model of the mechanical combination of the State-owned Enterprises (SOEs) plus infrastructure building program (S+I).
- The Digression caused various problems: First, it failed to achieve its geopolitical goals because the development of the 21<sup>st</sup> Maritime Silk Road requires a modern naval force and an advanced power-projection capability, which will inevitably generate opposition from Washington. Second, the imbalance of resources distribution impeded Beijing from solving its regional development problems between western and eastern provinces. Third, the S+I model has made the entire BRI increasingly unsustainable. Finally, the S+I model cannot solve the domestic problems left from the Chinese surge in the first decade of the 21<sup>st</sup> century.
- The structural reasons inside the Chinese governments are the most influential factors of the Digression mentioned above. Besides, the nature of the BRI and the interaction among the states along the BRI are also responsible for the Digression.
- To be noted, this report does not try to tear the BRI apart. On the contrary, we actually believe that it was incredible for Beijing to finish the institutional building work and to achieve so much in terms of infrastructure in just six years. However, it is also apparent that Beijing must realize the digression and figure out a way to overcome it before they could achieve their original target in the BRI.

# I、 What Happened Before? - The Formation of the Belt and Road Initiative

As the most crucial grand strategy of China in the 21<sup>st</sup> century, the Belt and Road Initiative (BRI) has reached its sixth year since its revelation in 2013. Although its influence continued to grow, the challenges are also prominent for Beijing. Compounding such challenges is the Chinese opaque policy-making process, which led most researchers to regard 2013 (Xi Jinping's remark in Kazakhstan) as the initiative's starting point. The authors believe that this idea has caused some misunderstandings among the Western observers toward this project in terms of its goal and current circumstances. In this context, the first section of the report provides a plain background for the viewer to better understand the reasons behind Beijing's decision to launch the BRI.

## 1. The Golden Age of Chinese Economy

### 1) Economic Development Model

As the Chinese Communist Party (CCP) officially acknowledged the rightful position of the market economy in its 15<sup>th</sup> National Congress,<sup>1</sup> the long debate of the coherence between socialism and market economy had reached a tentative conclusion. Beijing began to use the market as a tool to boost its economy and then became a member of the WTO in the eve of the 21<sup>st</sup> century. After that, the Chinese economy has experienced a "golden age" from 2000 to 2010: more than 400% increase of its GDP from 10 trillion (CNY) to 41 trillion (CNY);<sup>2</sup> average GDP rate of increase of 11.5%;<sup>3</sup> quadrupling of GDP per capita into ¥30,808 as in 2010.<sup>4</sup>

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<sup>1</sup> Jiang Zemin, "Report at the 15th National Congress of the Communist Party of China (In Chinese)", Sep. 12, 1997. Accessed on Aug. 14, 2019. [http://www.gov.cn/test/2008-07/11/content\\_1042080.htm](http://www.gov.cn/test/2008-07/11/content_1042080.htm)

<sup>2</sup> National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

There were multiple reasons for this economic miracle, and the most prominent one is the irritant effects of the market. Taking 2008 as a critical divide, this golden age can be separated into two different phases.

From 2000 to 2008, Beijing shared a common view with most western observers, that the most significant stimulators of the Chinese economy were international trade and investments based on the manufacturing industry<sup>5</sup> — made possible by the ‘population dividend’ of China. Based on data from the *National Bureau of Statistics of China*, the total trade amount increased from ¥ 3.92 trillion in 2000 to ¥ 17.9 trillion in 2008, generating billions of revenue to the Chinese government annually.<sup>6</sup> In terms of trade composition, raw materials and electromechanical parts took a significant share,<sup>7</sup> creating a vast amount of jobs, improving the manufacturing capacities, and significantly accelerating the urbanization process in China. Also, more than 90-million jobs were created as a result of urbanization during this period, a 50% rise in 9 years.<sup>8</sup> In terms of increases in investments, the figures were also noteworthy from 2000 to 2008: the growth of actual use of foreign capital from \$59 billion to \$95.2 billion; the skyrocketing of fixed asset investments from ¥3.2 trillion to ¥17.2 trillion; the increase of government’s financial expenditure from ¥1.5 trillion to ¥6.2 trillion.<sup>9</sup> In this context, China’s tertiary sector achieved rapid development and, for the first

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<sup>5</sup> See, as examples, Hu Jintao, “Report at the 17th National Congress of the Communist Party of China (in Chinese)”, Oct.24, 2007. Accessed on Aug.14, 2019. [http://www.gov.cn/lidhd/2007-10/24/content\\_785431\\_5.htm](http://www.gov.cn/lidhd/2007-10/24/content_785431_5.htm) ; CRS Report, “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States”, Updated on June 25, 2019, Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>; and CRS Report (RL33534), “Is the Chinese “Economic Miracle” Over?”, Updated on Feb.28, 2016.

<sup>6</sup> National Bureau of Statistics of China, “Trade”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

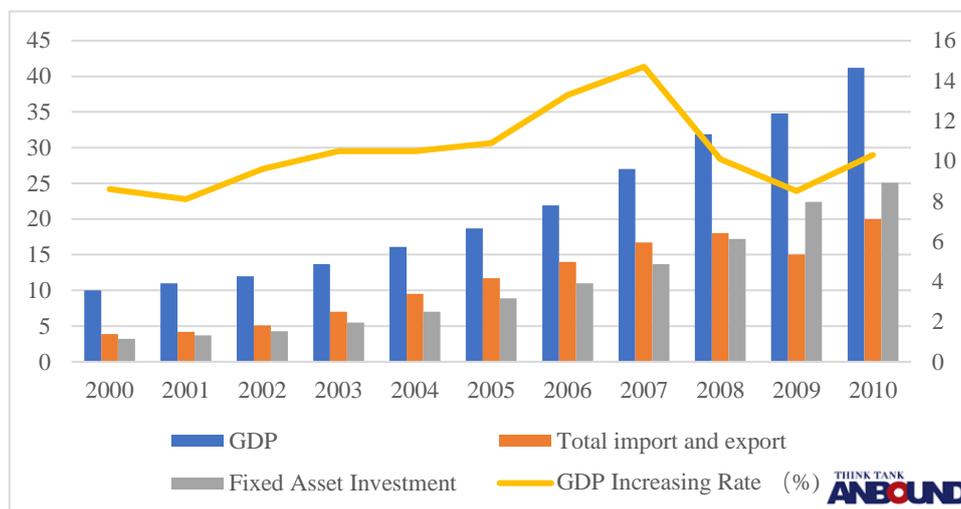
<sup>7</sup> Ibid.

<sup>8</sup> National Bureau of Statistics of China, “Jobs”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

<sup>9</sup> Data from National Bureau of Statistics of China, “Trade & Investment”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

time, reached a similar level regarding its contribution to the GDP comparing to the secondary sector in 2008.<sup>10</sup>

**Figure 1: 2000-2010 China Economy Data (GDP, Trade, Fixed Asset Investment, and GDP Increasing Rate) (Trillion, CNY) <sup>11</sup>**



Nevertheless, despite all these positive indicators, there are three main challenges to the continuation of the Chinese economic miracle.

As witnessed from 2000 to 2008, the unsustainability of the economic model that is predicated on high trade and high investments was fading. As shown in *Figure 2*, an explicit slowdown existed in the Chinese economy around 2008. While China's GDP increased by about 10.1% in 2008 (the lowest since 2001), the country's Consumer Price Index (CPI) continued to rise and hit the highest point in eight years. Since the CPI regularly depicts a country's general price level, a high CPI suggested that China was facing an inflation problem around 2008. In fact, according to *inflation.eu*, the Chinese inflation rate reached 6.58% in 2007, which was far higher than other major economies.<sup>12</sup> A deterioration in economic growth, together with the high CPI, clearly pointed to stagflation in the Chinese economy around 2008. In other words, such a

<sup>10</sup> Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019.

<http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

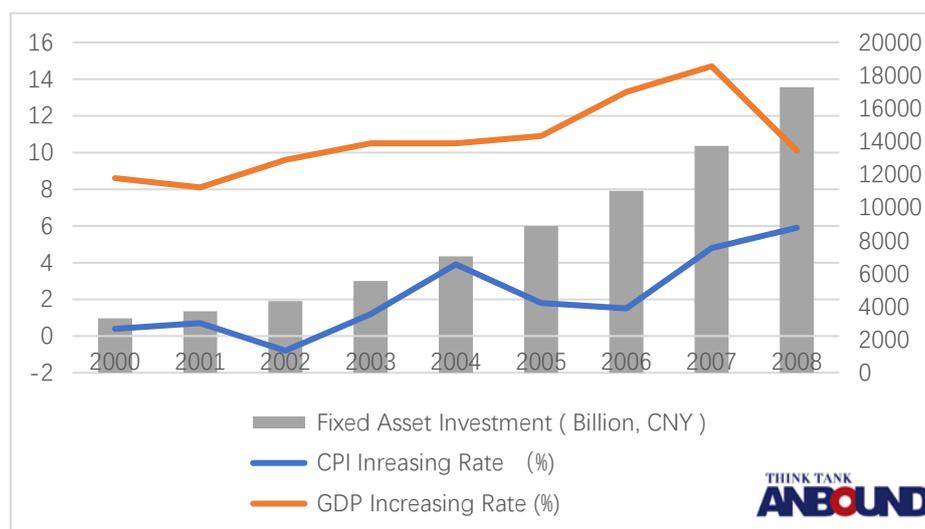
<sup>11</sup> Data came from the National Bureau of Statistics of China

<sup>12</sup> Inflation.eu, "Historic inflation China - CPI inflation". Accessed on Aug. 19, 2019.

<https://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx>

situation showed that the previous trade- and investment-oriented model started to lose its luster, which, in turn, generated a noticeable pressure on the Chinese central government to find an alternative approach.

**Figure 2: 2000-2008 Chinese Economy Data (Fixed Asset Investment, CPI Increasing Rate, and GDP Increasing Rate)<sup>13</sup>**



## 2) The Imbalanced Regional Development

The challenge to China's development continuity also came from the imbalanced development between the western and the eastern provinces. Although Beijing had long noticed this problem and launched *The Great Western Development Strategy* in 1999, this strategy did not achieve its initial goals based on the official data. As shown in *Figure 3*, the economic size of the western provinces was nearly negligible compared to their eastern peers. Furthermore, the real-estate prices in western provinces showed that even after undergoing a decade of policy inclinations, the urbanization process was only at its beginning stage in these provinces.

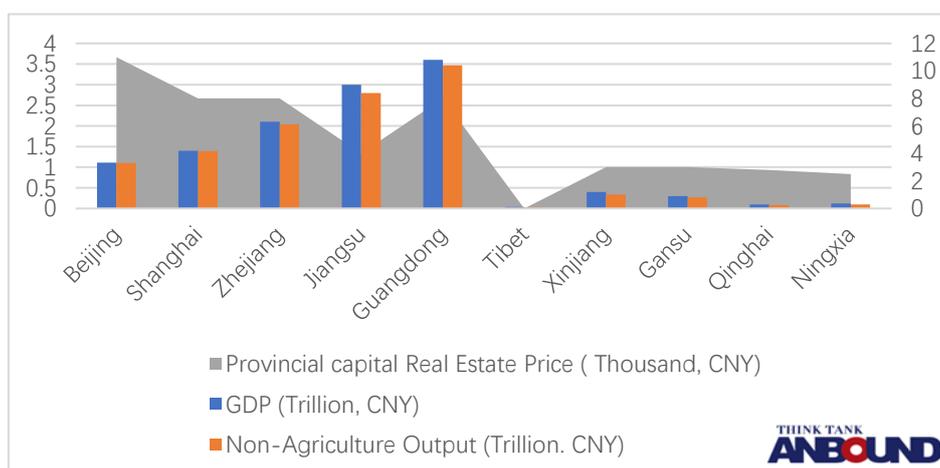
Such an under-development situation in the western region is a reflection that the problem cannot be solved merely by direct economic aid. ANBOUND has launched several field studies on this issue since 2000. Our studies indicated that the previous

<sup>13</sup> Data from National Bureau of Statistics of China, "CPI". Accessed on Aug. 14, 2019.

<http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0901&sj=2018>

approaches of *The Great Western Development Strategy* were beset with various shortcomings despite an increase in the economic size of the region. Take Xinjiang as an example, to date, the autonomous region has been heavily relying on external assistance from other provinces or the central government - a scenario made possible by government orders or policies. Nevertheless, such an assistance-oriented approach still failed to solve fundamental problems such as unemployment, capital outflows, unsustainable development, social class gaps, and the minority identity issue. As Islamic fundamentalism rose up in the Middle East and separated globally via social networks, ethnic-religious tensions started to take hold in Xinjiang. According to the data provided by the Chinese government, there were about 190 terrorist attacks organized by the separationists just in 2012 alone.<sup>14</sup> Alarming, such a trend continued in 2013 and 2014, with the attacks in Tiananmen Square and Kunming Railway Station served as wake-up calls to Beijing that terrorism is quite alive in their neighborhood. Given such urgency, Beijing certainly needs a new solution for the under-developed western provinces.

**Figure 3: Economic Performance by Province (2008)<sup>15</sup>**



<sup>14</sup> Tencent, "Terrorist Attack by East Turkistan Islamic Organization (盘点近年“东突”制造暴恐案)".

Accessed on Aug. 20, 2019. <https://new.qq.com/rain/a/20140302005359>

<sup>15</sup> Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019.

<http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

### 3) The Impact of The Great Recession

The occurrence of the 2008 global financial crisis (namely the Great Recession) further aggravated the problems mentioned above and compelled the need for a new developing strategy from another perspective. Although the global crisis in 2008 did not directly hit China's financial system due to its relatively tight currency regulations, the Great Recession severely hurt the global demands of the Chinese goods.<sup>16</sup> In 2009, China's international trade shrank about 16% for the first time in a decade,<sup>17</sup> shocking the Chinese manufacturers and destabilizing the Chinese workers. Considering the fact that the processing trade industry supported about 40 million jobs for China, the decrease in international orders could render significant numbers of exporting companies facing the prospects of bankruptcy.<sup>18</sup> In other words, the overcapacities issue finally began to have substantial impact. Furthermore, as the fluctuation of the global financial market posed a distinct threat for investors, international capitals flocking to safe havens such as China, which further aggravated the ongoing production overcapacity and inflation within China.

To cope with the impact of the Great Recession, Beijing launched a four trillion CNY stimulation package, which was designed to expand the domestic demand and to mend the damage caused by the stagnation of international trade.<sup>19</sup> Meanwhile, the local governments also followed this track, launching their own stimulation plans, which was about 12.8 trillion CNY in total.<sup>20</sup> That said, most of the funds were put into

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<sup>16</sup> Zheng Yang, "How Much Damage Could the 2008 Financial Crisis do to Chinese Economy? (美次贷危机对中国经济影响到底多大)", People.cn, Mar.20, 2008. Accessed on Aug. 19, 2019. [http://paper.people.com.cn/gjjrb/html/2008-03/20/content\\_48318932.htm](http://paper.people.com.cn/gjjrb/html/2008-03/20/content_48318932.htm)

<sup>17</sup> National Bureau of Statistics of China, "Trade". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

<sup>18</sup> Zheng Yang, "How Much Damage Could the 2008 Financial Crisis do to Chinese Economy? (美次贷危机对中国经济影响到底多大)", People.cn, Mar.20, 2008. Accessed on Aug. 19, 2019. [http://paper.people.com.cn/gjjrb/html/2008-03/20/content\\_48318932.htm](http://paper.people.com.cn/gjjrb/html/2008-03/20/content_48318932.htm)

<sup>19</sup> CNR.CN, "Wen Jiabao presided over the State Council executive meeting to propose ten measures to expand domestic demand (温家宝主持国务院常务会 提出扩大内需十项措施)", Nov. 14, 2008. Accessed on Aug. 20, 2019. [http://www.cnr.cn/2008zt/sxcs/hxyd/200811/t20081113\\_505149639.html](http://www.cnr.cn/2008zt/sxcs/hxyd/200811/t20081113_505149639.html)

<sup>20</sup> NetEase Finance, "Local Version of 4 Trillion Stimulation (地方版“四万亿”来袭." Accessed on Aug. 20, 2019. <http://money.163.com/special/difangzhengfutouzi/>

the real estate or infrastructure sectors, producing an average increase of 8.7% in its GDP from 2009 to 2013.<sup>21</sup> Considering that most states were struggling in recession during this period, it seemed that the plan successfully maintained the Chinese economic growth by large.

Nonetheless, this vast investment plan has created a production overcapacity problem throughout China and left three side-effects to the Chinese economy. The most prominent one was overcapacity in the raw material industry.<sup>22</sup> Due to the needs of infrastructure-building, a tremendous amount of funds found their ways into the steel and cement industries - where production overcapacity had long existed. As noted by the *Congressional Research Service (CRS)*, China's production of raw steel recorded a staggering increase of 459.9% from 152 million metric tons in 2001 to 805 million metric tons in 2006. Also, China's share of global production rose from 17.9% to 50.3% in six years, occupying 87.1% of the increase in global steel production.<sup>23</sup> To put it in the global context, the increased Chinese steel production during this period was more than the combination of the U.S. and the EU.<sup>24</sup>

The second side-effect is the sustainability of state-owned enterprises (SOEs). With the enormous increase in production that was generated by the governmental policy rather than the market demands, it was clear that many steel companies (most of which were SOEs) could not get equivalent revenues after the stimulation projects, and

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<sup>21</sup> Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019.

<http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

<sup>22</sup> CRS Report, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", Updated on June 25, 2019, Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>; Mamta Badkar, "China Stimulated Its Economy Like Crazy After The Financial Crisis ... And Now The Nightmare Is Beginning", *Business Insider*, Jun.17, 2013. Accessed on Aug. 20, 2019. <https://www.businessinsider.com/chinas-excess-capacity-problem-2013-6>; and Peter Cai, "Understanding China's Belt and Road Initiative", Lowy Institute for International Policy, March 2017. Accessed on Aug. 20, 2019.

[https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative WEB\\_1.pdf](https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative_WEB_1.pdf)

<sup>23</sup> CRS Report, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", Updated on June 25, 2019, p.26. Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>

<sup>24</sup> World Steel Association Data. Accessed 8 August 2016, Accessed on Aug. 20, 2019.

<https://www.worldsteel.org/dms/internetDocumentList/statisticsarchive/production-archive/steel-archive/steel-monthly/Steel-monthly-2015/document/Steel%20monthly%202015.pdf>.

must rely on government bailouts or else, mired in high-debt situations. As revealed by a *Wall Street Journal's* report, more than half of the SOEs in the steel industry was operating in this “zombies” mode.<sup>25</sup>

The third one is the mounting debt for the Chinese government, especially at the local level. While infrastructure projects remained to be the foundation of thriving commercial businesses, most of them are not profitable in nature. They are more like public service rather than an economic investment. With most of the projects launched by different levels of governments that could not make enough revenues, a vast amount of debts has piled up.

According to the IMF's data, China's general government gross debt (Percent of GDP) grew from 27% in 2008 to 37% in 2013.<sup>26</sup> Even though this was not too high compared to other OECD countries, the symbiotic relationship between the Chinese government and the state-owned banks posed a potential threat. Once the Chinese economy ceased to grow exponentially as it did in the golden age, which will happen eventually, the government would be incapable of paying its debts to the banks—whose funds are made up by the substantial savings of the masses. In other words, such a high-debt situation posed a direct threat to the bank savings of the populace. In a high-saving society like China, such a problem could generate serious social discontent that would threaten CCP's legitimacy.

In all, although Beijing successfully achieved rapid economic growth during the first decade of the 21<sup>st</sup> century and successfully managed the impacts from the Great Recession, it is also facing severe challenges left by its previous successes since 2008. Considering that the 2008's market stimulus failed to rejuvenate its domestic market, the international corporation became the next possible direction in solving China's domestic problems. In this context, *The New Silk Road Initiative* proposed by the

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<sup>25</sup> World Steel Association Data. Accessed 8 August 2016, Accessed on Aug. 20, 2019.

<https://www.worldsteel.org/dms/internetDocumentList/statisticsarchive/production-archive/steel-archive/steel-monthly/Steel-monthly-2015/document/Steel%20monthly%202015.pdf>.

<sup>26</sup> IMF, “General Government Gross Debt”. Accessed on Aug. 26, 2019.

[https://www.imf.org/external/datamapper/GGXWDG\\_NGDP@WEO/CHN/ADVEC/DA](https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/CHN/ADVEC/DA)

Obama administration significantly inspired the Chinese central leadership, and directly influenced the launch of the BRI in later years.

## 2. The New Silk Road Initiative

During the Obama administration, *the New Silk Road Initiative* (NSRI) did not receive enough attention from most Chinese policymakers comparing to the famous “Pivot.” In fact, a similar idea focusing on the development of Central Asia, namely the ancient Silk Road,<sup>27</sup> was proposed quite a long time before by the United Nations (UN). Based on the UN’s proposal, the Obama Administration launched a revised version of the Silk Road development project to better achieve its geopolitical interests. In specific, the NSRI was to form a new trade route from southern India to under-developed Central Asia in the north. The primary purpose of the NSRI, as outlined by former Secretary of State, Hillary Clinton, was to create a stable regional environment and to build a new regional economic network that could alleviate the situation in Afghanistan after the U.S. troops’ withdrawal from the country.<sup>28</sup> In October 2011, *the U.S. Department of State* officially notified its embassies that the NSRI would serve as the core strategy in this region.<sup>29</sup>

The NSRI was rooted in a theoretical context, of which the Greater Central Asia was the core. In his *The New Silk Roads: Transport and Trade in Greater Central Asia*, Frederik Starr first proposed such an idea based on his systematical analysis of a Central Asia-based economic institution.<sup>30</sup> Later in 2010, Starr and Kuchins further developed

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<sup>27</sup> See details at The UNESCO, “THE SILK ROADS PROJECT “INTEGRAL STUDY OF THE SILK ROADS:ROADS OF DIALOGUE” 1988-1997”. Accessed on Aug. 26, 2019.

<https://unesdoc.unesco.org/ark:/48223/pf0000159189>

<sup>28</sup> See details about the NSRI in Hillary Clinton, “Remarks on India and the United States: A Vision for the 21<sup>st</sup> Century”, U.S. Department of State (Obama Administration), July 20, 2011. Accessed on Aug. 21, 2019.

<https://2009-2017.state.gov/secretary/20092013clinton/rm/2011/07/168840.htm>

<sup>29</sup> Steve LeVine, “New Afghan exit strategy: When in doubt, call it the New Silk Road”, *Foreign Policy*, November 7, 2011. <https://foreignpolicy.com/2011/11/07/new-afghan-exit-strategy-when-in-doubt-call-it-the-new-silk-road/>

<sup>30</sup> S. F. Starr (edt), *The New Silk Roads: Transport and Trade in Greater Central Asia*, SAIS - Central Asia-Caucasus Institute and Silk Road Studies Program (2007).

this idea, arguing that Washington should use the northern transportation system in Afghanistan as a base to build a regional economic network and, thus, solved the Afghanistan problem fundamentally.<sup>31</sup> While the NSRI did not position Central Asia precisely the same as Starr and Kuchins' idea, it certainly drew much inspiration from the latter.<sup>32</sup>

Regarding the NSRI, it was evident that the Obama administration hoped to transform Afghanistan into a regional transportation hub. Considering the rapid growth of the Indian economy and the enormous economic potentials of Central Asia, Afghanistan could serve as a bridge between and thus, achieved long-term stability. More importantly, the rapid growth of Central Asia made this proposal particle. Based on data from the *World Bank*, from 2000 to 2008, Central Asia had been one of the most rapid-growing regions: its total GDP increased by about 400%, and almost every state in this region achieved distinguished growth.<sup>33</sup> Furthermore, even though it did not become a fully functional yet, many regional economic institutions already began to form up in this area, including the *Central Asia Regional Economic Cooperation (CAREC)* and *Regional Economic Cooperation Conference on Afghanistan (RECCA)*.

In order to achieve the NSRI, Washington zealously invited countries outside this region to participate, including Japan and China.<sup>34</sup> However, the NSRI did not go as planned for several reasons. First and foremost, the region is far from American soil, meaning that Washington must rely on its partners, mainly India and Afghanistan, to achieve the Initiative. Also, prospective member countries in the region have their own sets of problems (such as corruption or insurgencies), which diverted their attention away from the NSRI. Besides, the U.S. only devoted limited resources to the Initiative

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<sup>31</sup> S. Frederick Star, Andrew C. Kuchins (ed.), *The Key to Success in Afghanistan - A Modern Silk Road Strategy*, published by the Central Asia-Caucasus Institute & Silk Road Studies Program In Cooperation with the Center for Strategic & International Studies (2010).

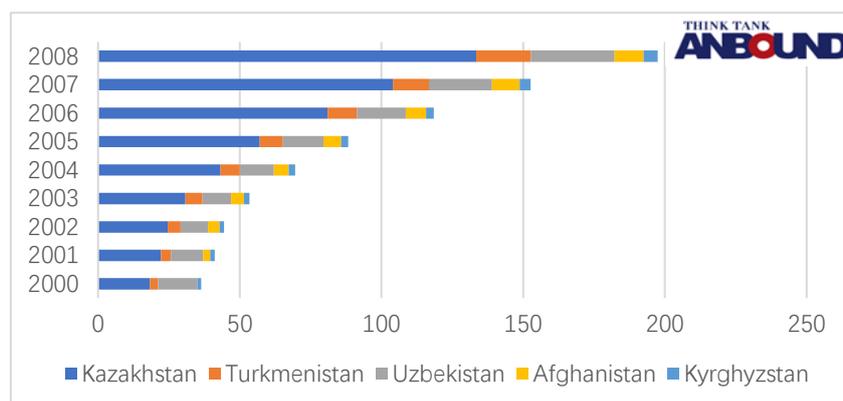
<sup>32</sup> *Central Asia, Afghanistan and the New Silk Road: Political, Economic and Security Challengers*, The Jamestown Foundation (2011).

<sup>33</sup> World Bank. "GDP". Accessed on Aug. 21, 2019. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

<sup>34</sup> In this regard, the U.S. Embassy reached ANBOUND multiple times to discuss the possibility of the cooperation in the New Silk Road Initiative in 2012.

because the Pivot clearly matters more to the Obama administration. Finally, major players in this region, such as China, Russia, and Iran, were either hesitant or hostile toward the NSRI, rendering it hard to be adopted by these powers. As a result, this project was never really implemented by the Obama administration.

**Figure 4: GDP in Central Asia (2000-2008, Billions, USD)<sup>35</sup>**



However, the NSRI did leave its mark on the Chinese policymakers, and it was directly related to the BRI. ANBOUND was one of the significant participants during this process. As noted before, most Chinese observers were hesitant about the NSRI as they viewed it as an American deception to draw China into the chaotic Middle East.<sup>36</sup> However, ANBOUND<sup>37</sup> did not share this view, and with help from the U.S. Embassy,

<sup>35</sup> Data collected from World Bank. Accessed on Aug. 21, 2019.

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

<sup>36</sup> See examples at ZHAO Hua-sheng, “Towards U.S Strategy on the New Silk Road (In Chinese)”, Journal of Xinjiang Normal University (Social Sciences), Nov.2012 (VOL.33 NO.6); Wu Zhaoli, “Research on the U.S ‘New Silk Road Initiative’ (美国‘新丝绸之路’计划探析)”, Contemporary International Relations, 2012 (Vo.7); He Maochun, and Zhang Yibing, “An Analysis on ‘New Silk Road Initiative’ – Chinese Opportunity, Challenge, and Possible Response (新丝绸之路经济带的国家战略分析——中国的历史机遇、潜在挑战与应对策略)”, People’s Tribune. Frontiers, 2013 (Vol.23); Yang Lei, “Objectives of the U.S.’ New Silk Road Initiative and It’s Potential Influence (美国“新丝绸之路”计划的实施目标及其国际影响)”, Social Sciences in Xinjiang, 2012 (Vol.5); and etc.

<sup>37</sup> ANBOUND is an independent think tank founded in 1993. We provide different kinds of analysis to our clients in areas like economics, geopolitics, and others. We have built a close cooperation with various level of Chinese government in the last three decades, which makes it possible for us to convey our research result to the leadership.

we conducted multiple field researches on the NSRI.<sup>38</sup> Unlike most of our Chinese peers, we believe that the NSRI was not only an opportunity, it was also a case study showing China how to utilize international economic cooperation to solve its economic problems.

From 2008 to 2013, ANBOUND conducted multiple field studies in those potential countries that lay within the NSRI. Based on the research findings, we subsequently proposed a geopolitical explanation of the NSRI.

First, China has always been a land-power throughout its long history. Even though Beijing was (and still is) trying to convert China into a sea-power in the contemporary period, this process would inevitably generate conflicts of interests between China and the U.S., namely the most formidable sea power in the current age. Such confrontation was against the Chinese interests since China still needed a stable international environment to continue its economic development. In this context, building a new trade-axis that across the Eurasia continent, on the bases of the rapid development of Chinese railways, could create a new market for the Chinese enterprises and help them to solve the problems left from the golden age. Furthermore, given the features of land trade, this new trade axis would also provide the under-developed western provinces the opportunities to become starting nodes of such route and thus, achieved economic independence from the Chinese central government and other relatively developed provinces.

To further articulate the proposal, throughout global history, there have been two principal Trade-axes: the Atlantic Trade-Axis (ATA) and the Pacific Trade Axis (PTA). Thrived since the 16<sup>th</sup> century, the ATA was initially dominated by the European states, and after the US became a superpower, it balanced out the overall trade structure in the Atlantic Ocean. The PTA, meanwhile, generated the various economic miracles in the

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<sup>38</sup> Some of relative research can be found in ANBOUND's *The Strategic Observation* (战略观察) (Vol.451 - Vol.455), 2015. The Strategic Observation is a weekly product of ANBOUND, which routinely discusses the strategic issues. Sadly, it is only for the eyes of ANBOUND's clients; And in Relative research can be found in Chen Gong, *Think like Anbound – Understand China and the World* (像安邦那样思考-读懂中国和世界), Beijing: China Financial & ECONOMIC Publishing House (2017); and in ANBOUND's *The Strategic Observation* (战略观察) (Vol.451 -Vol.455), 2015

Asian. Nevertheless, both trade-axes have the U.S. as the central link, and thus, it naturally became the most robust economy in the world. Furthermore, as South Asia began to rise, the two trade-axes founded a new connection route through the sea lanes in the Indian Ocean and the South China Sea (SCS). In this sense, Washington's Pivot to Asia' strategy and the Indo-Pacific vision, to a certain extent, is its attempts in adapting to this new scenario.

In light of this, we deemed that the next growth point lay on the Eurasian continent (or 'heartland' as proposed by Mackinder)<sup>39</sup> that would become another trade-axis on top of those explained above. ANBOUND termed it as the New Silk Road Trade Axis (NSRTA): an alternative route connecting the ATA and PTA, with potential in boosting the economic developments of Central Asia, the Balkans, and the Middle East. Comparing with the previous two trade-axes, the NSRTA would be more balanced in terms of the industry chain: China to provide capital and products; the European countries to provide intellectual properties (IP); And the under-developed regions in the middle to provide markets for both of them. In this context, the NSRTA has fewer possibilities to be ruined by the geopolitical concerns as there are no strategic conflicts among the members like it did in the Middle East.

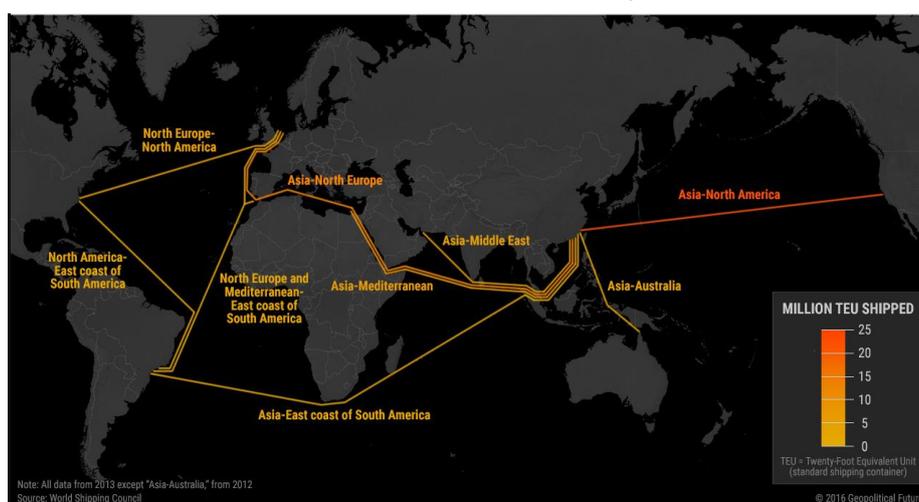
To be noted, ANBOUND does not believe the NSRTA is incompatible with the traditional sea trade route. We acknowledged that sea trade is still and will continue to be the most critical economic means for quite a long time. This fact means Beijing should not exclude itself from this trend and should continue to build its naval forces because such a force is the key to secured overseas interests.<sup>40</sup>

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<sup>39</sup> H.J. Mackinder, "The geographical pivot of history", *Geographical Journal*, 1904 (23): 421–37.

<sup>40</sup> A. T. Mahan, *The Influence of Sea Power upon History*. Little, 1980.

*Figure 5: The Atlantic Trade Axis (ATA) and the Pacific Trade Axis (PTA) (2013)<sup>41</sup>*



However, the NSTRA may be more suitable for the Chinese case. Based on the NSRTA model, it generated four comparative advantages to China.

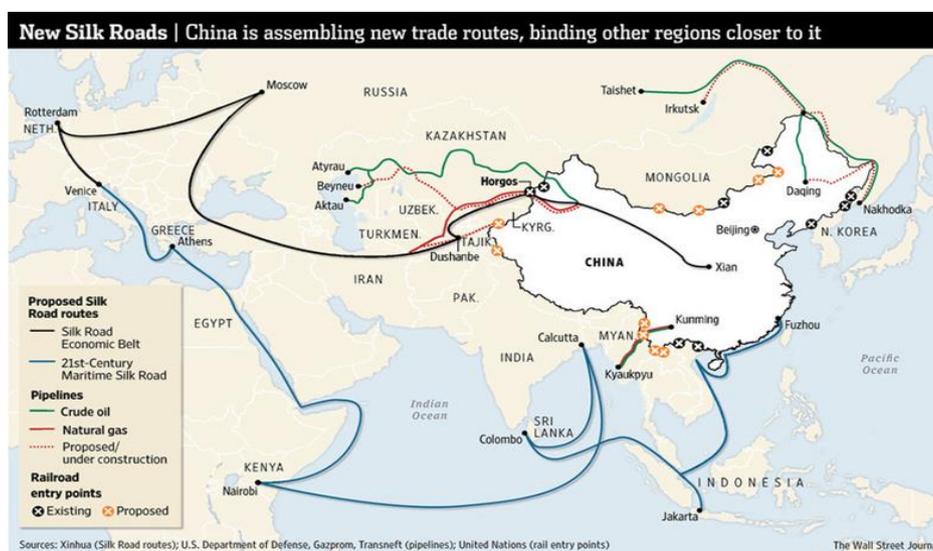
- First, the NSRTA seeks to affirm and extend the historical status of China as a land-power.
- Second, the U.S. has lesser interests in this hinterland (as opposed to maritime routes), and as such, it reduced the chances of head-to-head confrontation between Beijing and Washington.
- Third, the NSTRA has the potential to solve the unbalanced development between eastern coastal and western inland regions of China.
- Fourth, as a region occupying the lower-end of economic development, Central Asia fits well into China's plans to upgrade its own industries, industrial transfer, and expansion into new markets.

Collectively speaking, ANBOUND viewed the NSRI as an insightful case that could potentially solve China's ongoing developmental problems outlined earlier, despite that so many others held a contradictory view, arguing that China should not rush into a regional cooperation network. Via different channels of communications, our proposal ultimately reached the tables of Chinese leaders. Even though we cannot presume our proposal was the sole reason for the leadership's decision toward the BRI,

<sup>41</sup> This graph clearly sketches the ATA and the PTA. It was made by *Geopolitical Futures*. Available at <https://geopoliticalfutures.com/one-belt-one-road-trade-route-isnt-trade-route/>

it is reasonable to believe it did have a certain extent of impact because not many people had the same ideas. To better understand this process, a brief discussion of Chinese policymaking process is necessary.

*Figure 6: The Third Trade Axis: The Road Map of the BRI* <sup>42</sup>



### 3. A Brief Discussion of the Chinese Policy-Making Process

Given continuous developments in the discipline of political science, it has become increasingly clear that the method in the natural science field could be utilized to analyze the policy-making process even for an authoritarian regime like China. After decades of involvement, ANBOUND believes that, in comparison to its Western peers, China has a relatively black-boxed policy-making process that is divided into four stages: formation, preparation, resolution, and implementation.<sup>43</sup> After decades of interactions with the Chinese government, we believe that almost every major policy (or strategy) must be fulfilled through One Process and three tracks. The One Process can be articulated into four stages:

#### 1) Policy Formation

<sup>42</sup> The “Belt” Part is the latest adaption of the NSTRA. Graph is made by the Wall Street Journal (WSJ). Available at <https://www.wsj.com/articles/chinas-new-trade-routes-center-it-on-geopolitical-map-1415559290>

<sup>43</sup> This is only a summary of the most cases. Views can also refer this mechanism to the Democratic Centralism.

The first stage is the policy formation, which could also be understood as policy-design at the top level. Unlike the U.S., where the policy usually started from the details, the top Chinese leadership preferred to reach a consensus about a strategic issue before they moved to detailed approaches. In other words, Beijing will decide the general direction of its policy first. The clearest example is the famous judgment of “Peace and Development” proposed by Deng Xiaoping in the early 1980s.<sup>44</sup> Every policy or strategy of China proposed after that (such as *Tao Guang Yang Hui* (hide one’s capacities and bide one’s time)) was basically predicated upon such judgment.

From 1949 to 1978, the top Chinese leadership was relatively closed to the external input, partly due to their ideology and experiences of a long-time insurgency that makes most of them quite sophisticated in strategic designs. However, as Beijing decides to open up and reform, external parties such as scholars, analysts, and think tanks, began to provide their insights on grand strategic issues via their own channels. This change was, mostly, generated from the gap caused by the Cultural Revolutions.

## 2) Policy Preparation

The second stage is policy preparation. Up to this point, Zhongnanhai<sup>45</sup> usually already has a general idea about what it wanted, and the rest of the tasks are delegated to the lower-level government agencies (between the Central Politburo and State Council). The latter, in turn, must propose a more detailed approach on how to achieve the goals proposed by the top leadership in the previous stage. This is where most governmental think tanks get involved, as most of them served under different government agencies. After cooperation and discussions among these government agencies, certain documents will be adopted, which then will be sent to the Politburo for further discussion.

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<sup>44</sup> CPC.CN, “Peace and Development”. Accessed on Sep.3, 2019.

<http://dangshi.people.com.cn/GB/221024/221027/14907094.html>

<sup>45</sup> Zhongnanhai is the place where the central leadership resides in Beijing. It is next to the Tiananmen Square.

### 3) Policy Resolution

The third stage is a thorough examination of the entire policy, which generally ends up with a policy resolution. Most departments or individuals would brief the top leadership about their respective positions on selected issues. In this stage, Zhongnanhai would also like to hear more feedback from the third parties, as long as they are not profoundly hostile to the CCP. Following such a diversified input process, leaders would adjust the original policy accordingly, and after that, it is ready to be implemented. This stage generally ends up with a red-file (红头文件) documents, which will serve as the guideline for lower governments.

### 4) Policy Implementation

The final stage is the execution of the policy that also included its propaganda dissemination.<sup>46</sup> In the previous experience, the targets of such propaganda were mainly the domestic entities because the “Tao Guang Yang Hui” indicated that China would not be systematically involved in global affairs. In this context, propaganda is a means for Chinese society to better understand and collaborate with the government. Also, as the policy is open to public feedback at this stage, everyone could comment or even criticize the policy as long as they do not use it to jeopardize the CCP. The media, state-owned or private-owned, also joined such a process at this point. Having said that, any dramatic adjustments toward the policy is hardly seen unless unanticipated events occurred.

Besides, when a policy evolves into this stage, it will then have three different tracks: the project design, the propaganda work, and the actual implementation of the projects. In other words, the lower governmental agencies (provincial and below) will gradually take over the policy to put it into practice.

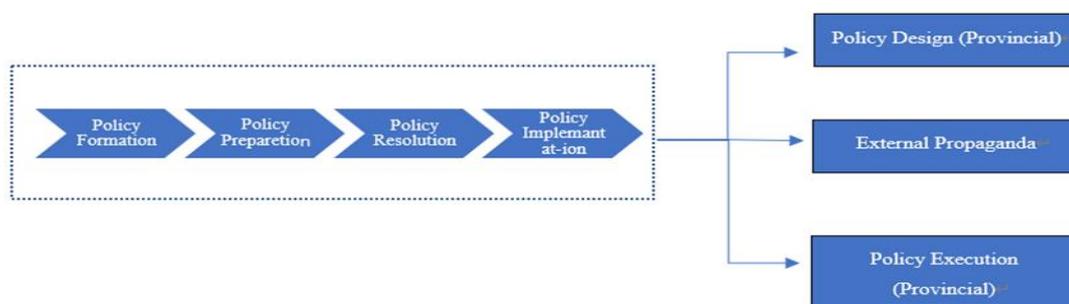
As a private think tank founded in 1993, during our past experiences, we have built a close relationship with the Chinese government at all levels. We are one of the few

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<sup>46</sup> The authors did not use the propaganda in negative means. In the Chinese environment, propaganda is not a negative thing necessarily.

organizations that have channels to nearly all stages of the Chinese policy-making process. Moreover, by our channels, ANBOUND's findings regarding the NSRI ultimately reached the tables of top leaders.<sup>47</sup> Regarding the lower governmental level, ANBOUND was also active. For example, Mr. Chen Gong (Founder and Chief Researcher of ANBOUND) used to give an eight-hour internal briefing in Xinjiang, articulating ANBOUND's argument regarding the NSRTA. It is true that such an argument needs some external proof, whereas, in a black box process like the Chinese one, it is nearly impossible to find out actual evidence in such a circumstance. Further, despite the fact we do know its existence, we cannot determine the actual scale of our impacts on the BRI as well. In this regard, even though it is impossible to determine the sources for the Chinese central leadership's position on the BRI and we do not deem that we are the only source, it is reasonable to believe that ANBOUND's long-standing engagements with various levels of the Chinese governments influenced, to a certain extent, Zhongnanhai's initial thoughts about the BRI.

**Figure 7: The One Process and the Three Tracks of Chinese Policymaking Process**<sup>48</sup>



<sup>47</sup> The author wants to make clear that this part is not for self-glorification, rather, it is to prove that the Chinese leadership's decision over the BRI was indeed influenced by our research regarding the NSRI. In other words, this is first-hand information.

<sup>48</sup> As noted, before, Chinese policy-making process generally contains four stages, and once it reached the execution stage, it will become extremely hard to change the policy. However, this does not mean there are no feedbacks. On the contrary, the leadership was absorbing feedback all the time. Depends on the scale and the importance of the policy, they will adjust their policy accordingly. The BRI case is a little bit unique because it is not a domestic policy. As a result, the propaganda part actually starts in the second and third stages because the leadership has to make sure the foreign countries did not oppose this project at least.

*Note 1: The left side in the dashed box was finished at the state council level (and above). This phase can be seen as the “policy design” in a more general perspective. It normally ends up with a “Red header file (红头文件).”*

*Note 2: The right side was the actual “execution” part, which is handled by the provincial (and below) government.*

It was not so easy to be an anomaly in China. As hierarchical as it may be, the Chinese government also must cope with problems of policy consensus as well. In fact, the very fact President Xi actually announced the BRI twice, first the Belt in Kazakhstan<sup>49</sup> and then the Road in Indonesia<sup>50</sup>, indicated two things: First, the BRI was still an evolving concept and, second, there might be some pushbacks inside the government that requires multiple “education” and signaling.<sup>51</sup> However, the “Silk Road Economic Belt” was too coherent with the NSTRA to discard its relations.<sup>52</sup> After series of significant events like the 18<sup>th</sup> National Party’s Congress, in November 2013, the “One Belt One Road” was written into the national strategic documents and officially become the unparalleled grand strategy of the Chinese central government.<sup>53</sup> Up to this point, the One Process of the BRI was general finished, and the lower governmental agencies began to take over. Judging by the actual development of the BRI, it is reasonable to believe that, even for the governmental agencies, the BRI was, more or less, a surprise, because only after 2015, Beijing finally set up a leading group

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<sup>49</sup> Xi Jinping, “Promote Friendship Between Our People and Work Together to Build a Bright Future (弘扬人民友谊, 共创美好未来),” Sep. 7, 2013. Accessed on Aug. 26, 2019.

<http://politics.people.com.cn/n/2013/0908/c1001-22842914.html>

<sup>50</sup> Xi Jinping, “Building the 21st Century “Maritime Silk Road (共同建设二十一世纪 “海上丝绸之路”),” *cpcnews.cn*, Oct. 3, 2013. Accessed on Aug. 26, 2019. <http://cpc.people.com.cn/xuexi/n/2015/0721/c397563-27338109.html>

<sup>51</sup> It is rare, not only in China but also around the world, to declare one strategy, especially considering that the Belt and the Road did not really have many aspects in common. A possible explanation is that, the original strategy was mainly about the New Silk Road Economic Belt, whereas after its declaration, Beijing found some push back from the inside, and the 21<sup>st</sup> Maritime Silk Road was a trade-off to ease those oppositions.

<sup>52</sup> Xi Jinping, “Promote Friendship Between Our People and Work Together to Build a Bright Future (弘扬人民友谊, 共创美好未来),” Sep. 7, 2013. Accessed on Aug. 26, 2019.

<http://politics.people.com.cn/n/2013/0908/c1001-22842914.html>

<sup>53</sup> The Third Plenary Session of the 18th CPC Central Committee, “Decisions of the CPC central committee on several major issues concerning comprehensively deepening reform (中共中央关于全面深化改革若干重大问题的决定),” *GOV.CN*, Nov. 15, 2013. Accessed on Aug. 26, 2019. [http://www.gov.cn/jrzq/2013-11/15/content\\_2528179.htm](http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm)

to coordinate the entire project and cope with the actual design of the BRI. However, although it may be incomplete in 2013, the BRI has officially become the most important national project until today. The emergence of the BRI further indicated one significant issue, that is, Beijing finally began to look beyond its border. After becoming an great economic power, China began to learn to think coequally.



*Picture of Mr. Chen Gong at the Internal Brief in Xinjiang*

## II、 Six Years After: The Development and the Digression of the BRI

Taking 2015 as a rough divide, we split the actual development of the BRI into two different stages: From 2013 to 2015, Beijing primarily focused on the institutional building and fund-raising work; and since 2015, it gradually shifted to the area of improving regional connectivity. However, a noticeable digression (The Digression hereafter) can be observed through the actual development of the BRI, and such a digression is highly possible to impede the further development of the BRI. It manifested in two major aspects:

- The imbalance of resources distribution between the Road and the Belt;
- The BRI has evolved into a mechanical duplication of SOEs plus infrastructure building programs.

The Digression leads to four major problems:

- First, the digression caused tremendous international blowbacks from other countries, hindering the BRI from achieving its geopolitical purpose and leaving China an increasingly intensified international environment.
- Second, because of the imbalance between the Road and the Belt, the BRI failed to boost the development of the underdeveloped provinces in Western China.
- Third, the SOEs plus infrastructure (S+I) model has made the entire project less favorable economically.
- Fourth, rather than helping Beijing solve its domestic economic problems, the S+I model made it even worse concerning issues like overcapacity.

The most significant purpose of this report was to find out the reason behind the Digression. Our findings indicated that many reasons carry a symbolic meaning, which may also exist in other Chinese policies.

## 1. The Digression of the BRI

### 1) The Essence of the BRI

Six years have passed since the revealing of the Belt and Road Initiative (BRI) in 2013. So far, Beijing has finalized the primary institutional building, fund-raising, and infrastructure building work. Until March 2019, the Chinese government has signed 173 agreements with 125 states and 29 global organizations;<sup>54</sup> Built a transportation network that covers 16 states and 108 cities;<sup>55</sup> and the total trade between China and the BRI states has reached six trillion dollars.<sup>56</sup>

In general, China's way of handling the BRI was quite coherent with its previous maneuvers on national policy, which is composed of One Process and Three Tracks (OPTT). The One Process includes four different phases: policy formation, policy preparation, policy resolution, and policy implementation. This process typically ends up in the state council level with a red file document (红头文件) as the guideline for more detailed policy execution in the provincial governments. Following this, the policy steps into the actual execution period, where the provincial government takes over, and they have their own design, propaganda, and execution methods, which the report summarized as the Three Tracks.

Sadly, an explicit inconsistency emerged in the OPTT of the BRI. An internal source informed the author that, in the early stage of the BRI (around 2014), there was a relatively detailed guideline inside the Chinese government, which focused on the using the BRI as a geopolitical leverage to boost Chinese further development and reduce the outside pressure through the New Silk Road Trade-Axis (NSRTA).<sup>57</sup> More specifically, this document specifically mentioned the significance of the "three communities: Community of Interest, Community of Responsibility, and Community

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<sup>54</sup> *Office of the Leading Group for Promoting the Belt and Road Initiative*, "The Belt and Road Initiative Progress, Contributions and Prospects (2019)", Apr.22, 2019. Accessed on Sep.16, 2019. <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201904/201904220254037.pdf>

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Regarding the NSTRA, see more details in Chapter One.

of Destiny.”<sup>58</sup> Observers can easily find similarities between the three communities and the idea of Jean Monnet regarding his argument on the unification of Europe. Both strategies aim to form a super-sovereignty institution to both boost the economy and solve the security dilemma.<sup>59</sup>

The problem was that this document was (and still is) access-limited, and not every administrative unit laid their eyes on it.<sup>60</sup> Judging from the open sources, China published a similar guideline in 2015, which was already two years after the reveal of the BRI, and this document was highly vague in methods and already abridged, given that only the community of common destiny was kept comparing to the new information.<sup>61</sup> We believe there were already some kinds of digression between these two documents, and the BRI, even in this stage, has already begun to show its stress-responsive features. For example, some projects before the BRI, like the China-Pakistan Economic Corridor, was not only re-classified into this project but also became its flagship program.<sup>62</sup> This was clearly not logical if there was a general guideline for the executive unit because the old project can hardly be fit into a new, systematic project

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<sup>58</sup> Some observers may see the three communities as a “influence area”, which is not entirely wrong. However, it is also worth to point out that the U.S. did not strictly oppose China in building its own influence area in Central Asia because it will help to stabilize the situation in Afghanistan and the Middle East in general. To conclude, the Obama Administration used to have a quite different attitude toward Beijing

<sup>59</sup> Jean Monnet was a key figure in the European unification process. He firmly believed the unification of the Europe cannot be simply about the economics. Rather, the economic integration was just a mean to the culturally, politically, and even militarily unified Europe, which must be equipped with a well-designed institution. See details about his thoughts on "Jean Monnet: Father of Europe" documentary, BBC. Available at <https://www.brookings.edu/blog/brookings-now/2014/03/14/jean-monnet-father-of-europe-the-1971-bbc-documentary/>; Franssen, Frederic J. *The Supranational Politics of Jean Monnet: Ideas and Origins of the European Community*. Westport Conn.: Greenwood Press, 2001; and Duchene, Francois, and George W. Ball. *Jean Monnet: The First Statesman of Interdependence*. New York: W.W. Norton, 1996.

<sup>60</sup> Even if it does, there could be problems like miscommunications as well. In general, the communication inside the Chinese government is not quite smooth. This will be discussed in following sections.

<sup>61</sup> *National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road"*, Mar. 28, 2015. Accessed on Sep.16, 2019. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)

<sup>62</sup> Wang Rong, Zhu Cuiping, *ANNUAL REPORT ON THE DEVELOPMENT OF THE INDIAN OCEAN REGION (2017)*, Social Sciences Academic Press(Beijing),:2017.

without significant changes.<sup>63</sup> In this context, like many other observers have pointed out, the actual execution of the BRI was more like a developing process around a core idea or a simple direction.<sup>64</sup> The provincial government and below actually became the real factor of how the BRI will unfold.

Despite all these, a common market remains critical for Beijing, even if no geopolitical design was behind the BRI.<sup>65</sup> Thus, the BRI, logically, had to go through four different stages: Institutional building and fund-raising – Infrastructure building – The development of international Trade inside the system – and the construction of the regional economic body. In fact, this judgment was coherent with the Chinese official narrative: Policy Coordination – Facilities Connectivity- Unimpeded Trade- Financial Integration – People-to-People Bonds.<sup>66</sup> Even though Beijing did not mention it specifically, one can easily find the logical connection between the five stages.<sup>67</sup>

Judging by the facts, until the end of 2019, Beijing has finalized the basic work of the first two stages. However, even by this official framework, it is hard to neglect that the BRI has come to a focal point: From the facilities connectivity to the unimpeded trade, whatever is on Beijing's mind, a prosperous trade inside the BRI will be the cornerstone of what is coming next.

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<sup>63</sup> There are no such changes in the China-Pakistan Economic Corridor.

<sup>64</sup> For example: Alice EKMAN, Françoise NICOLAS, John SEAMAN, Gabrielle DESARNAUD, Tatiana KASTOUEVA-JEAN, Şerif Onur BAHCECIK, Clélie NALLET, “Three Years of China’s New Silk Roads: From Words to (Re)action?”, IFRI, February 2017. Accessed on Sep. 16, 2019.

[https://www.ifri.org/sites/default/files/atoms/files/ekman\\_et\\_al\\_china\\_new\\_silk\\_roads\\_2017.pdf](https://www.ifri.org/sites/default/files/atoms/files/ekman_et_al_china_new_silk_roads_2017.pdf); and Martin Hart; Landsberg, “A critical look at China’s One Belt, One Road initiative”, Cadtm House, Oct. 10, 2018. Accessed on Sep. 16, 2019. <http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative>

<sup>65</sup> Author strongly disagree this point, but it is hard to conclude the truth because of the transparency issue.

<sup>66</sup> *Office of the Leading Group for Promoting the Belt and Road Initiative*, “The Belt and Road Initiative Progress, Contributions and Prospects (2019)”, Apr.22, 2019. Accessed on Sep.16, 2019. <http://gy.china-embassy.org/eng/xwfw/P020190726108428530970.pdf>

<sup>67</sup> Although the author believes this notion of “five stage” already indicated a skewing between the leadership and the execution unit because, beside a common market, a “community of interests and destiny” also involves common principles, common standards, and common geological interests as well, for the purpose of clarity, the author will use this model to illustrate the actual development of the BRI.

*Figure 8: Five Contents of the BRI based on Official Narrative* <sup>68</sup>



## 2) The Actual Development of the BRI

Taking 2016 as a rough demarcation, the actual development of the BRI so far can be separated into two different phases: From 2013 to the beginning of 2016, Beijing clearly put its focus on the institutional building and fund-raising work.

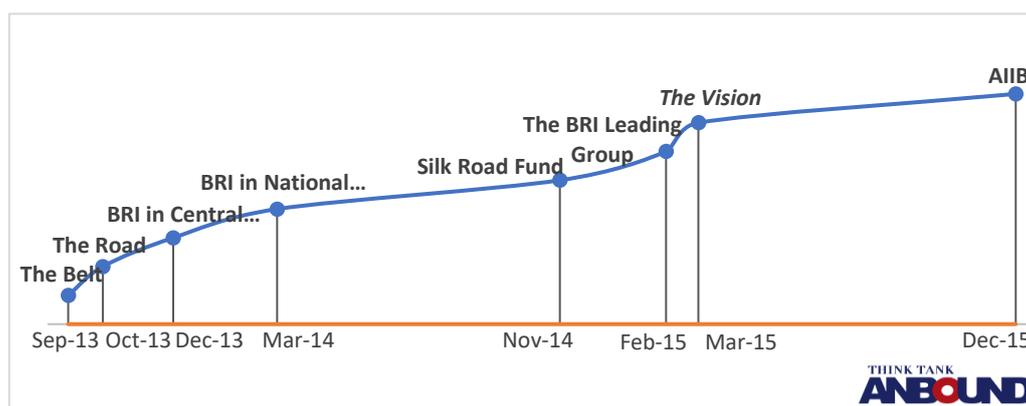
Before we dive into the details of this process, several unique characters are worth mentioning.

First, regarding the institutional building and resources, although Beijing repeatedly tried to bring other countries into the BRI, China is still the unquestionable dominant state of the BRI. For example, in the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, Chinese capital is both taking the lion's share.<sup>69</sup>

<sup>68</sup> Figure made by Deloitte. Retrieved from *Deloitte*, "BRI update 2019–recalibration and new opportunities", Apr. 15, 2019. Accessed on Sep. 22, 2019. <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/ser-soe-br/deloitte-cn-bri-update-2019-recalibration-and-new-opportunities-en-190422.pdf>

<sup>69</sup> Yidaiyilu.Gov.cn, "Xi Jinping made recommendations on the Belt and Road Initiative to invest 40 billion US dollars to establish Silk Road Fund (习近平就一带一路提建议 出资 400 亿美元成立丝路基金)", Nov. 8, 2014. Accessed on Sep. 16, 2019. <https://www.yidaiyilu.gov.cn/yw/gnyw/2049.htm> ; AIIB, "Introduction". Accessed on Sep. 16, 2019. <https://www.aiib.org/en/about-aiib/index.html>

*Figure 9: The Initial Stage of the BRI (2013-2016)* <sup>70</sup>



Second, observers can easily notice that the governments beneath the state council level were taking over the BRI as they are the direct executive units. Whether their actions were on the same track with the central leadership was another question, and this paper, as noted before, believes negatively. Even though Beijing has set up a “leading group” as the central coordinating body, each department issued its own guidelines based on their own specialties and preferences. In details, per the remarks of Xi Jinping, in 2014, Beijing issued an internal document named *The Strategic Guideline of the New Silk Road Economic Belt and 21<sup>st</sup> Maritime Silk Road* (丝绸之路经济带和21世纪海上丝绸之路建设战略规划),<sup>71</sup> whereas this document has not been fully published to all executive units.

Third, it was clear that different agencies or departments were competing with each other over the policy resource, including both material and immaterial contents. This constituted the early signs of the digression.

Finally, although this paper separates the actual development of the BRI into two stages, it is mainly to seek clarity. These two stages are not mutually exclusive. In fact, as early as 2013, many infrastructure projects were already being designed and processed inside the government. Different departments and agencies also began to issue their own “guidelines” as well. This was their way of echoing the central

<sup>70</sup> Information collected by the author.

<sup>71</sup> President Xi mentioned the existence of this document, whereas he did not get involved in its details. This could be the document the sources referred to the authors. See its origin in Xi Jinping, “Remarks at Symposium of Promoting the BRI (习近平：让“一带一路”建设造福沿线各国人民)”, Aug. 17, 2016. Accessed on Aug. 16, 2019. <https://www.yidaiyilu.gov.cn/yw/gcdt/8.htm>

leadership on the one side, whereas on the other side, such activities also prove the argument of competing interests and “free-ride” inside the Chinese government. For example, in July 2016, the Department of Education issued a guideline document for educational activities along the BRI.<sup>72</sup> This document was out of context in some sense because, in that period, preparing for the educational work along the BRI was a little bit too soon. Similar documents include but are not limited as follows: *Sino-European Train Construction and Development Plan (2016-2020)* (中欧班列建设发展规划(2016-2020),<sup>73</sup> *Ministry of Culture "One Belt, One Road" Cultural Development Action Plan (2016-2020)* (文化部“一带一路”文化发展行动计划(2016—2020年)),<sup>74</sup> *One Belt And One Road action plan of standard unification (2018-2020)* (标准联通共建“一带一路”行动计划(2018-2020年)),<sup>75</sup> and *Guiding Principles on Financing the Development of the Belt and Road*.<sup>76</sup>

However, without any questions, the infrastructure building has become the core of the BRI since 2016. The detailed program so far can hardly go beyond this category, and, as shown in Figure 4, China has already built an infrastructure network across the Eurasia Continent.

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<sup>72</sup> *Ministry of Education of the People's Republic of China*, “Promote the “One Belt, One Road” Education Action (推进共建“一带一路”教育行动)”, March 16, 2017. Accessed on Sep.17, 2019.

<https://www.yidaiyilu.gov.cn/zchj/jggg/2397.htm>

<sup>73</sup> National Development and Reform Commission, “Sino-European Train Construction and Development Plan (2016-2020) (中欧班列建设发展规划(2016-2020))”, Oct.24, 2016. Accessed Sep.17, 2019.

<https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201701/201701100443041.pdf>

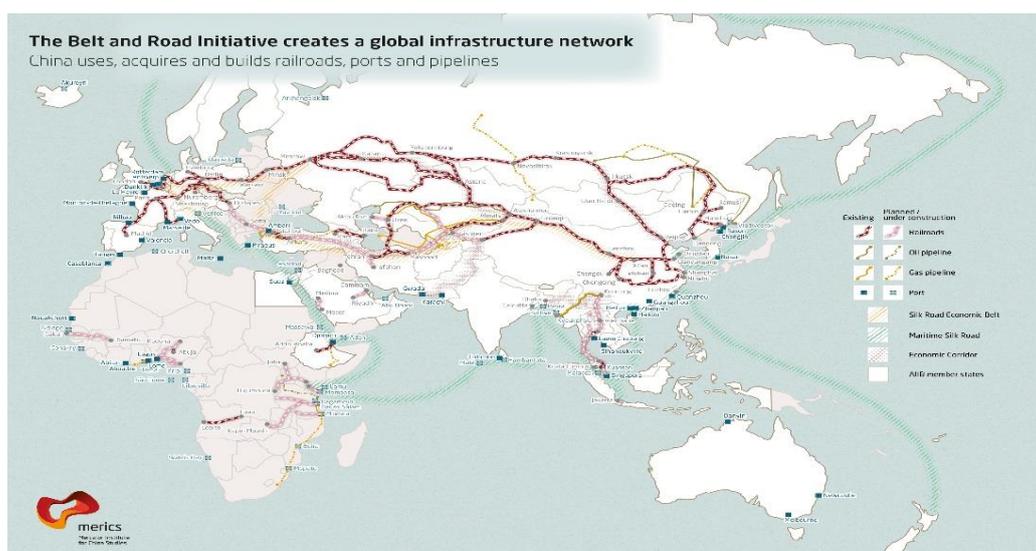
<sup>74</sup> *Ministry of Culture of the PRC*, “Ministry of Culture “One Belt, One Road” Cultural Development Action Plan (2016-2020) (文化部“一带一路”文化发展行动计划(2016—2020年))”, Mar.1, 2017. Accessed on Sep.17, 2019. <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201703/201703010312012.pdf>

<sup>75</sup> Yidaiyilu.gov.cn, “One Belt And One Road action plan of standard unification (2018-2020) (标准联通共建“一带一路”行动计划(2018-2020年))”, Jan.11, 2018. Accessed on Sep.17, 2019.

<https://www.yidaiyilu.gov.cn/zchj/qwfb/43480.htm>

<sup>76</sup> *Ministry of Finance of the PRC*, “Guiding Principles on Financing the Development of the Belt and Road”, May 16, 2017. Accessed on Sep.17, 2019. <https://eng.yidaiyilu.gov.cn/zchj/qwfb/13757.htm>

**Figure 10: Infrastructure Building in the BRI <sup>77</sup>**



In detail, this network covers almost all areas in this domain, including highway, railroad, air routes, sea-lines, energy, and telecommunications.<sup>78</sup> Among them, China has added 1,239 new airlines with states along the BRI, taking about 70% of the total global amounts;<sup>79</sup> Beijing also signed 38 bilateral or multilateral agreements on maritime transportation with 47 states and 18 multilateral highway agreements with 15 countries.<sup>80</sup> Regarding the railroad, the number of China-EU express railways increased from 80 in 2013 to 6,363 in 2018, which is an 800% increase.<sup>81</sup> Meanwhile, during this dramatic infrastructure building process, many SOEs achieved enormous developments. For example, the market share of the China Communications Construction Corporation (CCCC) doubled over the last six years, reaching 24.4 billion dollars and making it the most prominent infrastructure building operator in the world.

<sup>77</sup> Credit to the *Mercator Institute for China Studies*. Retrieved on Sep. 17, 2019. <https://www.merics.org/en/bri-tracker/mapping-the-belt-and-road-initiative>

<sup>78</sup> *Office of the Leading Group for Promoting the Belt and Road Initiative*, “The Belt and Road Initiative Progress, Contributions and Prospects (2019)”, Apr.22, 2019. Accessed on Sep.16, 2019. <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201904/201904220254037.pdf>

<sup>79</sup> *Ibid.*

<sup>80</sup> *Ibid.*

<sup>81</sup> *Yidaiyilu.gov.cn*, “BRI’s Achievement in Figures (图解: “一带一路”成绩单)”, Sep. 09, 2018. Accessed on Sep. 17, 2019. <https://www.yidaiyilu.gov.cn/xwzx/gnxw/102792.htm>

Similarly, China State Construction Engineering (CSCEC)'s share price also trebled, causing the company to become one of the most profitable SOEs in China.<sup>82</sup> In general, until the end of 2019, Beijing built a massive infrastructure network along the BRI. The “Facilities Connectivity” has been improved significantly.

**Figure 11: Development of China-Europe Freight Trains**<sup>83</sup>



### 3) The Digression of the BRI

However, the development of the BRI has increasingly deviated from its purpose, which is, in the official narrative, “to realize high-quality development, bring benefits to local people, and build a global community of shared futures.”<sup>84</sup> This paper defines this phenomenon as the Digression of the BRI, which manifested mainly in two aspects.

#### i. Imbalance Resources Inputs Inside the BRI

One of the major phenomena of the Digression is the imbalance of the resources input between “the Belt” and “the Road.” Specifically, the 21<sup>st</sup> Maritime Silk Road (The Road) took too many resources, while the New Silk Road Economic Belt (The Belt)

<sup>82</sup> See CSCEC's financial details at <https://finance.yahoo.com/quote/601668.SS/> Accessed on Sep. 17, 2019.

<sup>83</sup> Data collected from Yidaiyilu.gov.cn, “BRI's Achievement in Figures (图解: “一带一路”成绩单)”, Sep. 09, 2018. Accessed on Sep. 17, 2019. <https://www.yidaiyilu.gov.cn/xwzx/gnxw/102792.htm>

<sup>84</sup> Office of the Leading Group for Promoting the Belt and Road Initiative, “The Belt and Road Initiative Progress, Contributions and Prospects (2019)”, Apr.22, 2019, p.3. Accessed on Sep.16, 2019. <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydy/gw/201904/201904220254037.pdf>

should be the more important one.<sup>85</sup> Per data from the Chinese government, among the top-twenty states receiving Chinese foreign aid in 2017, only Kazakhstan and Russia were strictly the Belt- countries, listed as the eighth and the twelfth.<sup>86</sup> In terms of trade, also in 2017, the amounts between China, ASEAN countries, and Australia were 817.86 million dollars, which was about 56.8% of the total amount inside the BRI perimeters. The trade amount between China and Central Asian states was only 360 million dollars, although it did represent the fastest growing rate.<sup>87</sup> In fact, the most significant import to China along the BRI was electronic products from Pacific countries, more specifically, South Korea and Japan.<sup>88</sup> Furthermore, based on the information from the AIIB, it has approved 23 projects along the 21<sup>st</sup> Maritime Silk Road and only three along the Belt.<sup>89</sup> At the provincial level, as the Eastern provinces are generally better developed, their maritime programs naturally had a better outlook, which, in return, draws more attention and resources to their programs. As the data shows, Eastern China invested about 642 million dollars internationally in 2017; Nevertheless, the Middle and the Western parts only spent 200 million dollars in total, which is less than one-third of the Eastern provinces.<sup>90</sup> By combing all these data, it is rather easy to understand that the actual distribution of resources in the BRI has been significantly skewed, even though Beijing always treated the Belt and the Road as a comprehensive

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<sup>85</sup> In general, “The Belt” part was backed by the idea of rejuvenating China as a land-power based on its advanced express railway technology, while “The Road” is more of an adaption of the current global trend of sea-power and maritime trade. See details at Yu (Tony) Pan, Chen Gong, “What Happened Before? - The Formation of the Belt and Road Initiative”, ANBOUND, Sep. 10, 2019. Accessed on Sep.16, 2019.

[http://www.anbound.com/UploadFiles/201909/UPFile\\_6645\\_20190910164048.PDF](http://www.anbound.com/UploadFiles/201909/UPFile_6645_20190910164048.PDF)

<sup>86</sup> MINISTRY OF COMMERCE OF THE PEOPLE'S REPUBLIC OF CHINA, “REPORT ON DEVELOPMENT OF CHINA'S OUTWARD INVESTMENT (2018)”, Sep. 15, 2019. Accessed on Sep.18, 2019.

<http://images.mofcom.gov.cn/fec/201901/20190128155348158.pdf>

<sup>87</sup> National Information Center “Belt and Road” Big Data Center (国家信息中心 “一带一路” 大数据中心), and SINOIMEX, “Big Data report on Trade cooperation under the Belt and Road Initiative”, May 2018. Accessed on Sep. 24, 2019. <http://www.sic.gov.cn/archiver/SIC/UpFile/Files/Default/20180509162109827517.pdf>

<sup>88</sup> Ibid.

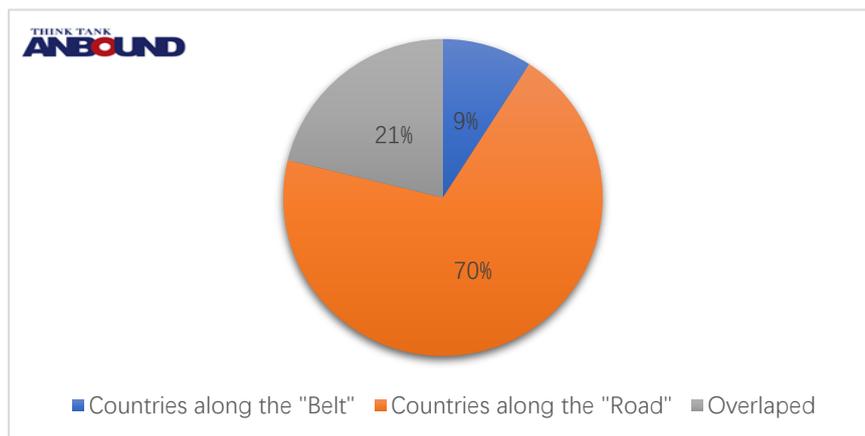
<sup>89</sup> AIIB, “Approved Projects”. Accessed on Aug. 18, 2019. <https://www.aiib.org/en/projects/approved/index.html>

<sup>90</sup> MINISTRY OF COMMERCE OF THE PEOPLE'S REPUBLIC OF CHINA, “REPORT ON DEVELOPMENT OF CHINA'S OUTWARD INVESTMENT (2018)”, Sep. 15, 2019. Accessed on Sep.18, 2019.

<http://images.mofcom.gov.cn/fec/201901/20190128155348158.pdf>

program. From the geopolitical perspective, such imbalance would undoubtedly jeopardize the future of the BRI because, as a new-comer, while China began to increasingly evolve into a sea-power through the development of the Road, the current balance of power that is genuinely defined as state’s naval capabilities (or power projection capabilities) will inevitably tremble.<sup>91</sup>

**Figure 12: Approved Projects by the AIIB (by Region) <sup>92</sup>**



**Figure 13: Top countries for Chinese construction activity, 2005-2018 (Billion/U.S. Dollars) <sup>93</sup>**



<sup>91</sup> This will be discussed later in more details.

<sup>92</sup> Data from the AIIB. Accessed on Sep. 18, 2019. <https://www.aiib.org/en/projects/approved/index.html>

<sup>93</sup> Data from American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, <http://www.aei.org/china-global-investment-tracker>. Accessed on Sep. 22, 2019. Picture made by AEI, available at <https://www.aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf>

## ii. The Mechanical Duplication of SOEs plus Infrastructure

As the infrastructure building projects taking too many shares, the BRI has transformed into a mechanical duplication of SOEs plus Infrastructure (S+I)<sup>94</sup>. According to the governmental data, until the end of 2018, central-administrated SOEs<sup>95</sup> have taken 3,116 projects along the BRI, which was about 50% of the total amount and 70% in terms of the contract values.<sup>96</sup> The number grew to 3,428 by the end of 2019.<sup>97</sup> Per data from the *Refinitiv*, among the published programs, the contract value of SOEs was 851.2 million dollars, whereas the private accounted for 396.5 million dollars, which was less than a half of the SOEs'.<sup>98</sup> In this context, the SOEs have, without question, become the most significant participants of the BRI.<sup>99</sup>

<sup>94</sup> In fact, this has become an established fact rather than a trend.

<sup>95</sup> To be noted, central-administered SOE is apparently the most significant fleet in this regard, whereas there are also SOEs in local-level.

<sup>96</sup> Chinatradenews, "State-owned Enterprises and the BRI (中央企业在“一带一路”沿线承担 3116 个项目)", Oct. 31, 2018. Accessed on Sep. 16, 2019.

<http://www.chinatradenews.com.cn/content/201810/31/c42556.html>

<sup>97</sup> "SASAC: Help the SOEs to Go Abroad from Three Perspectives (国资委：三方面发力推动国企更好“走出去”)", People.cn, Dec.4, 2019. Accessed on Dec.5, 2019.

<http://industry.people.com.cn/n1/2019/1204/c413883-31488414.html>

<sup>98</sup> Refinitiv, "BRI Connect: An Initiative in Numbers", 2019. Accessed on Dec.1, 2019.

[https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/reports/refinitiv-zawya-belt-and-road-initiative-report-2019.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/reports/refinitiv-zawya-belt-and-road-initiative-report-2019.pdf)

<sup>99</sup> This argument has been made by multiple observers. For example, Xinhua News Agency, "Chinese SOEs' BRI projects faring well: official", March 9, 2019. Accessed on Sep. 16, 2019.

[http://www.xinhuanet.com/english/2019-03/09/c\\_137881572.htm](http://www.xinhuanet.com/english/2019-03/09/c_137881572.htm); Peter Cai, "Understanding China's Belt and Road Initiative", Lowy Institute for International Policy, March 2017. Accessed on Aug. 20, 2019.

<https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative%20WEB%201.pdf>; and Zhang Denghua, Yin Jianwen, "China's Belt and Road Initiative, from the inside looking out", *the Interpreter*, July 2, 2019. Accessed on Sep. 16, 2019.

<https://www.lowyinstitute.org/the-interpreter/china-s-belt-and-road-initiative-inside-looking-out>; and *Deloitte*,

"BRI update 2019—recalibration and new opportunities", Apr. 15, 2019. Accessed on Sep. 22, 2019.

<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/ser-soe-br/deloitte-cn-bri-update-2019-recalibration-and-new-opportunities-en-190422.pdf>; George Abonyi, "With Belt and Road Projects, Consider the

China Risk", *AsiaGlobal*. Accessed on Dec.1, 2019. <https://www.asiaglobalonline.hku.hk/with-belt-and-road-projects-consider-the-china-risk/>

*Table 1: Major Port Program along the BRI <sup>100</sup>*

<b>Program</b>	<b>Country</b>	<b>Conductor</b>
Kyaukpyu Deep Sea Tanker Port	Myanmar	A Chinese consortium led by the Citic Group
Hambantota Port	Sri Lanka	China Merchants Port & the EXIM Bank of the People's Republic of China
Gwadar Port	Pakistan	China Overseas Port Holding Company
Khalifa Port	UEA	COSCO Shipping Ports (CSP) and Abu Dhabi Ports
Doraleh Multi-Purpose Port	Djibouti	China Merchants Group, DP World
Haifa Port	Israel	Israeli Transportation Ministry & Shanghai International Port Group (SIPG)
Port Aktau	Kazakhstan	DP World & Unknown Chinese Companies
Kumport Terminal	Turkey	COSCO Pacific & China Merchants Holdings (International) & an unknown investor
Port of Piraeus	Greece	COSCO (51%) Hellenic Republic Asset Development Fund (23.1%)
Suez Canal Economic Zone	Egypt	Chinese industrial developer Tianjin Economic-Technological Development Area (TEDA) and several other Chinese Companies

<sup>100</sup> The port construction programs has become the “stars” of the BRI, and all of them was associated with the SOEs.

## 2. The Challenges of the Digression

The Digression obviously poses great challenges for the further development of the BRI.

### 1) Unnecessary Geopolitical Confrontation

As noted before, the imbalanced resource inputs have led to severe geopolitical challenges. As the author once argued, the very reason for the BRI (more specifically, the New Silk Road Economic Belt) was to solve the problems left from the golden age of the Chinese economy and reduce the confrontation between China and the U.S. through the rejuvenation of the traditional land-power theory.<sup>101</sup> It should help China to expand its perimeters into areas where the U.S. does not hold core interests or even where the U.S. has invited China to participate. Obviously, the 21<sup>st</sup> Maritime Silk Road does not fit into this category.<sup>102</sup> The development of the Road is an adaption of the current trend of sea-power dominance, which is not wrong in the first place. The problem, however, is that taking this road will inevitably generate a confrontation and conflicts of interests between China and the most muscular sea power, aka the United States of America.

In detail, in the early stage of the BRI, the Western world actually maintained a somewhat mixed attitude toward the BRI. Former President Obama even publicly declared “It is not a zero-sum game...One country’s prosperity does not come at the expense of another. The U.S. has helped integrate China into the global economy, and it is in America’s best interest and in the world’s best interest. We want China to do

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<sup>101</sup> See more details in Chapter One.

<sup>102</sup> Actually, the Central Asia has also become increasingly hot in the eyes of U.S. policymakers, despite its contradictory status around 2013. Based on ANBOUND’s experience, Washington actually wanted China to be more active in Central Asia and Middle East during the first term of the Obama Administration so that it could balance the pressure on the U.S. over the Afghanistan issue. See more details at Yu (Tony) Pan, Chen Gong, “What Happened Before? - The Formation of the Belt and Road Initiative”, *ANBOUND*, Sep. 10, 2019. Accessed on Sep.16, 2019. [http://www.anbound.com/UploadFiles/201909/UPFile\\_6645\\_20190910164048.PDF](http://www.anbound.com/UploadFiles/201909/UPFile_6645_20190910164048.PDF)

well.”<sup>103</sup> The reveal of the AIIB also received warm welcomes from the West, even generating a rare disagreement between Washington and London. Nevertheless, as Beijing continues to expand its horizon in the Indian Ocean, such attitude becoming history. The case of Hambantota explicitly proved this point. As the Chinese took over this strategically important port,<sup>104</sup> the West began to reevaluate the BRI as a whole, swiftly changing their previous friendly minds.<sup>105</sup> In 2018, the news that China would build its first foreign military base along the Road further consolidated the negative image.<sup>106</sup> In the *2019 China Military Report to Congress*, the Pentagon noted the geopolitical risk inside the BRI in a quite staring fashion.<sup>107</sup> *Stockholm International Peace Research Institute (SIPRI)* echoes this argument, stating that the Road carries more risks than opportunities to European states, and the EU should carefully consider the negative impacts on the free-trade principles, which was brought by the increasing roles of Chinese SOEs along the BRI.<sup>108</sup> In July 2018, 27 ambassadors of 28 EU

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<sup>103</sup> Simon Denyer, “China promotes ‘Asia-Pacific dream’ to counter U.S. ‘pivot’”, *Washington Post*, Nov. 11, 2014. Accessed on Sep. 23, 2019. [https://www.washingtonpost.com/world/chinas-promotes-asia-pacific-dream-to-counter-us-pivot/2014/11/11/1d9e05a4-1e8e-4026-ad5a-5919f8c0de8a\\_story.html](https://www.washingtonpost.com/world/chinas-promotes-asia-pacific-dream-to-counter-us-pivot/2014/11/11/1d9e05a4-1e8e-4026-ad5a-5919f8c0de8a_story.html)

<sup>104</sup> Kai Schultz, “Sri Lanka, Struggling With Debt, Hands a Major Port to China”, *The New York Times*, Dec. 12, 2017. Accessed on Sep. 23, 2019. [https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html?\\_ga=2.182764709.2008113035.1569224060-871835623.1565662693](https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html?_ga=2.182764709.2008113035.1569224060-871835623.1565662693)

<sup>105</sup> See more details in *Deloitte*, “BRI update 2019—recalibration and new opportunities”, Apr. 15, 2019. Accessed on Sep. 22, 2019. <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/ser-soe-br/deloitte-cn-bri-update-2019-recalibration-and-new-opportunities-en-190422.pdf>; Brookings Interview, “CHINA’S BELT AND ROAD”, Apr. 2019. Accessed on Oct. 16, 2019. [https://www.brookings.edu/wpcontent/uploads/2019/04/FP\\_20190419\\_bri\\_interview.pdf](https://www.brookings.edu/wpcontent/uploads/2019/04/FP_20190419_bri_interview.pdf); Carla P. Freeman and Mie Ōba, “Bridging the Belt and Road Divide”, Carnegie Endowment for International Peace (CEIP), Oct. 2019. Accessed on Oct. 16, 2019. [https://carnegieendowment.org/files/ChinaRiskOpportunity-Belt\\_and\\_Road.pdf](https://carnegieendowment.org/files/ChinaRiskOpportunity-Belt_and_Road.pdf); and etc. =

<sup>106</sup> See example at Jeffrey Becker, Erica Downs, “China’s Djibouti military base the first of many”, *East Asia Forum*, June 27, 2018. Accessed on Sep. 23, 2019. <https://www.eastasiaforum.org/2018/06/27/chinas-djibouti-military-base-the-first-of-many/>

<sup>107</sup> *US Department of Defense*, “ANNUAL REPORT TO CONGRESS - Military and Security Developments Involving the People’s Republic of China 2019,” May. 2, 2019. Accessed on Sep. 23, 2019. [https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019\\_CHINA\\_MILITARY\\_POWER\\_REPORT.pdf](https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019_CHINA_MILITARY_POWER_REPORT.pdf)

<sup>108</sup> Richard Ghiasy, Fei Su and Lora Saalman, “THE 21ST CENTURY MARITIME SILK ROAD - Security implications and ways forward for the European Union”, *SIPRI*, June 2018. Accessed on Dec. 22, 2019. <https://www.sipri.org/sites/default/files/2018-09/the-21st-century-maritime-silk-road.pdf>

countries drafted a report, specifically mentioning the industrial subsidies from Beijing to its BRI-related SOEs.<sup>109</sup> In December 2019, *Carnegie Endowment for International Peace (CEIP)* issued a report based on EU perspectives, specifically mentioning that the European states are becoming increasingly concerned over the stability in the Indo-Pacific region.<sup>110</sup> All in all, from Beijing's perspective, such negative attitudes was not in their plans or in their preferences; and many of the negative images associated with the BRI has a lot to do with the over-development of the Maritime Road.

## 2) Failed Promises for Under-developing Western China

The second problem generated by the imbalanced resources inputs is that Beijing can hardly rely on the BRI to boost the development of the western provinces. As a matter of fact, the under-developing status of the western provinces is one of the more significant reasons for imbalanced resource inputs between the Road and the Belt as the Eastern provinces have better economies, more sophisticated institutions and entities, and closer economic connections with the central government. In some ways, they are the better choice for Beijing to articulate its version along the BRI. However, the BRI was never about to adapt to the current trend of economic development: It was a grand strategy to pivot the trend through national adjustments.<sup>111</sup> The hope was that, through the late-comer advantages<sup>112</sup>, Beijing could help the western provinces to achieve “unnatural” developments. Judging by the facts, such a goal clearly failed, and

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<sup>109</sup> Heide, D. Hopper, T. Scheuer, S. and Stratmann, K., ‘EU ambassadors band together against Silk Road’, *Handelsblatt Global*, 17 Apr. 2018. <https://www.handelsblatt.com/today/politics/china-first-eu-ambassadors-band-together-against-silk-road/23581860.html>

<sup>110</sup> Erik Brattberg and Philippe Le Corre, “The Case for Transatlantic Cooperation in the Indo-Pacific”, Carnegie Endowment for International Peace (CEIP), December 2019. Accessed on Jan. 15, 2019. [https://carnegieendowment.org/files/WP\\_BrattbergLeCorre\\_FINAL1.pdf](https://carnegieendowment.org/files/WP_BrattbergLeCorre_FINAL1.pdf)

<sup>111</sup> See more details in previous chapter.

<sup>112</sup> See more details about the Latecomer Advantages in Justin Yifu Liu, “The Latecomer Advantages and Disadvantages: A new Structural Economics Perspective”, in Martin Andersson, and Tobias Axelsson eds. *Diverse Development Paths and Structural Transformation in Escape from Poverty*, Cambridge: Cambridge University Press, (2016): 43-67.

the imbalanced development still haunts the Chinese government by the end of 2019, which is not likely to change in the foreseeable future.<sup>113</sup>

### 3) Unsustainable Developing Model of the BRI

Third, as noted by many western observers, the S+I model has made the BRI increasingly unsustainable from an economic perspective;<sup>114</sup> and such a problem could impede the BRI in its evolution from “Facilities Connectivity” to “Unimpeded Trade” singlehandedly. Making no mistakes, the author does believe the infrastructure holds a key position for economic development in general, however, such projects are not economically cost-effective in general. The infrastructure building is more like a public service rather than a pure investment that pursues the revenues.<sup>115</sup> Taking the China - EU express railway as an example, as Brinza noted, “the myriad trade routes that once made up the ancient silk roads were driven by raw commercial need... the containers

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<sup>113</sup> See data of provincial economic performance at Data from National Bureau of Statistics of China, “GDP”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=E0103&zb=A0202&reg=370000&sj=2018>

<sup>114</sup> See examples at Derek Scissors, “Chinese Investment: State-Owned Enterprises Stop Globalizing, for the Moment”, *AEI*, January 2019. Accessed on Sep. 23, 2019. <https://aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf>; Peter Cai, “Understanding China’s Belt and Road Initiative”, Lowy Institute for International Policy, March 2017. Accessed on Aug. 20, 2019. [https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative\\_WEB\\_1.pdf](https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative_WEB_1.pdf); Martin Hart-Landsberg, “A critical look at China’s One Belt, One Road initiative”, *CATDM*, Oct. 10, 2018. Accessed on Sep. 23, 2019. [www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative](http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative); Jonathan Hillman, “China’s Belt and Road Is Full of Holes”, September 2018. Accessed on Sep. 23, 2019. [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180917\\_ChinasBelt\\_final.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180917_ChinasBelt_final.pdf); World Bank Group, “Belt and Road Economics – Opportunities and Risks of Transport Corridors”, June 18, 2019. Available at <https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors>. Accessed on Oct. 14, 2019; and OCED, “China’s Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, 2018. Accessed on Dec.1, 2019. <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>

<sup>115</sup> This subject may involve one of the key differences between the Socialism and the Capitalism, which refers to the proprietary rights. In general, Socialism does not believe in the private ownership in theory, although this fundamental notion has been adjusted in today’s socialist country. Furthermore, most of the modern Western countries also introduced a state-control model in terms of the infrastructure. This is a complicated subject which may need further research, whereas, the infrastructure project generally was not designed to achieve microlevel benefits today.

on the new routes come to Europe full of low-tech Chinese products — but they leave empty, as there is little worth transporting by rail that Chinese consumers want.”<sup>116</sup><sup>117</sup> The reason behind this problem is that even when considering the advanced express railway technology of China, this transportation method is still less competitive against the traditional shipping. In detail, the railway is faster but more expensive and has fewer capacities, whereas the shipping is cheaper and slower but can carry vast amounts of cargo at once. This does not mean the railway is less competitive necessarily. The problem is that it does not fit into the current trade structure along the Belt.

As shown in *Table 2*, the most significant share of Chinese exports along the Belt is the heavy-industrial products and processed products with very little technology, including nuclear reactors, boilers, machine parts, mechanical and electrical equipment, and so on, while the most significant import is raw materials.<sup>118</sup> This means that most cargos along the Belt require large carrying capacities but relatively loose time-limits, which means most of them are suited more in sea transportations. Among over 40 China-EU Express Highways, the Chongqing-Duisburg route is probably the only market-generated railway because the major products in this one are high-tech electronic components that are highly time-sensitive.<sup>119</sup> However, many other China-EU Express Railways must rely on government subsidies to survive.<sup>120</sup> Cities like

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<sup>116</sup> Andreea Brinza, “China’s Continent-Spanning Trains Are Running Half-Empty”, *Foreign Policy*, June 5, 2017. Accessed on Sep. 24, 2019. <https://foreignpolicy.com/2017/06/05/chinas-continent-spanning-trains-are-running-half-empty-one-belt-one-road-bri/>

<sup>117</sup> According to the Chinese officials, the problem of the China-EU Express Railway is, somehow, alleviated. However, such argument does not fit into the trade structure along the BRI still. Further research may be needed in this regard.

<sup>118</sup> Data from National Information Center “Belt and Road” Big Data Center (国家信息中心 “一带一路” 大数据中心), and SINOIMEX, “Big Data report on Trade cooperation under the Belt and Road Initiative”, May 2018. Accessed on Sep. 24, 2019. <http://www.sic.gov.cn/archiver/SIC/UpFile/Files/Default/20180509162109827517.pdf>.

<sup>119</sup> Andreea Brinza, “China’s Continent-Spanning Trains Are Running Half-Empty”, *Foreign Policy*, June 5, 2017. Accessed on Sep. 24, 2019. <https://foreignpolicy.com/2017/06/05/chinas-continent-spanning-trains-are-running-half-empty-one-belt-one-road-bri/>

<sup>120</sup> Ibid.

Wuhan and Zhengzhou used to spend over 30 million dollars in this regard, which is clearly not a healthy way to participate in the international economic activities.<sup>121</sup>

**Table 2: Trade Structure along the New Silk Road Economic Belt** <sup>122</sup>

	<b>China</b>	<b>Central Asia</b>	<b>Europe</b>
<b>Position in Industrial Chain</b>	Middle	Low	High
<b>Major Export</b>	Heavy Industrial Products & Processed Products & High-tech Products	Resources & Raw Materials	High-tech products & Agriculture Products
<b>Major Import</b>	Resources & Raw Materials	Heavy Industrial Products & High-tech Products	Processed Products

Meanwhile, another risk hides behind the massive infrastructure building programs, that is, such projects are highly likely to cause debt problems. It is undeniable that infrastructure programs hold a critical position in economic development, whereas they almost always come with huge investments and incredible long profit-cycle. As argued by Dollar, although some Chinese scholars do not really worry about the vast investment associated with infrastructure programs because they believe the increase of the GDP will balance the potential debt risks, they are fundamentally wrong as the debt and the revenue is not in the same valuation which means in many developing areas, the increase of the economic performance is too small to cope with the debts that keep growing.<sup>123</sup> Many Chinese officials failed to realize that, for the developing areas

<sup>121</sup> Jing Yang, "Silk Road subsidies undermine rail link", *South China Morning Post*, Dec.8, 2014. Accessed on Sep. 24, 2019. <https://www.scmp.com/business/economy/article/1657286/silk-road-subsidies-undermine-rail-link>

<sup>122</sup> Data from *National Information Center "Belt and Road" Big Data Center* (国家信息中心 "一带一路" 大数据中心), and *SINOIMEX*, "Big Data report on Trade cooperation under the Belt and Road Initiative", May 2018. Accessed on Sep. 24, 2019. <http://www.sic.gov.cn/archiver/SIC/UpFile/Files/Default/20180509162109827517.pdf>. This table only depicts a general picture, reality may various depends on the specific country involved.

<sup>123</sup> David Dollar in Brookings Interview, "CHINA'S BELT AND ROAD", Apr. 2019. Accessed on Oct. 16, 2019. [https://www.brookings.edu/wp-content/uploads/2019/04/FP\\_20190419\\_bri\\_interview.pdf](https://www.brookings.edu/wp-content/uploads/2019/04/FP_20190419_bri_interview.pdf)

in Central Asia or Africa, advanced infrastructures could involuntarily become their poison, not the silver bullets, for the local economies. Infrastructures must match the local developing status unless these areas receive consistently help from the outside, like how this is operating inside China. Furthermore, even though Central Asia was one of the fastest developing regions globally (as shown in *Figure 4*), most of them were still too weak to cope with such grand infrastructure programs.<sup>124</sup>

**Figure 14: Cost Overruns in Historical Infrastructure Megaprojects** <sup>125</sup>

Project	Cost overrun (%)
Suez Canal, Arab Republic of Egypt	1,900
Troy and Greenfield Railroad, United States	900
Furka Base Tunnel, Switzerland	300
Verrazano Narrow Bridge, United States	280
Boston's Big Dig Artery/Tunnel Project, United States	220
Denver International Airport, United States	200
Panama Canal, Panama	200
Minneapolis Hiawatha Light Rail Line, United States	190
Humber Bridge, United Kingdom	180
Dublin Port Tunnel, Ireland	160
Montreal Metro Laval Extension, Canada	160
Copenhagen Metro, Denmark	150
Boston–New York–Washington Railway, United States	130
Great Belt Rail Tunnel, Denmark	120
London Limehouse Road Tunnel, United Kingdom	110
Brooklyn Bridge, United States	100
Shinkansen Joetsu High-Speed Rail Line, Japan	100
Channel Tunnel, United Kingdom–France	80
Karlsruhe–Bretten Light Rail, Germany	80
London Jubilee Line Extension, United Kingdom	80
Bangkok Metro, Thailand	70
Mexico City Metroline, Mexico	60
High-Speed Rail Line South, Netherlands	60
Great Belt East Bridge, Denmark	50

<sup>124</sup> Data collected from *World Bank*. Accessed on Aug. 21, 2019.

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

<sup>125</sup> Graph made by Flyvbjerg. Retrieved from *World Bank Group*, “Belt and Road Economics – Opportunities and Risks of Transport Corridors”, June 18, 2019. Available at <https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors>. Accessed on Oct. 14, 2019.

In light of this, China and the receiving countries must gather the money by financial tools. Chinese banks could indeed be the answer to this problem as China has built a massive foreign exchange reserve during its economic golden age, and these state-owned banks could somehow lower their expectations in revenues for geopolitical reasons. In the end, however, these programs still must be profitable. The debts from Chinese banks are still debts. On the other hand, because of their abundant experiences in infrastructure building, the SOEs naturally become the best candidate for these programs which further lowers the banks' standards in approving the money.<sup>126</sup> As a result, the Chinese financial institution has to take over the ownership of the program when the debts become too big for receiving states. The case of the Hambantota Port is typical in this regard, which then generated massive opposition globally. The problem is, however, the taking-over of Chinese institutions does not fundamentally change the fact that these programs are not economically cost-effective. The Hambantota Port started operations in November 2010, and by the end of 2016, it had built a \$340 million deficit.<sup>127</sup> In other words, China took on a bad asset and they still need to find a way to reverse this trend. Furthermore, the case of Hambantota Port is, actually, quite common along the BRI. Based on data from the OECD, by the end of the second quarter of 2018, the total amounts of bad asset of China has added up to 101.8 billion dollars.<sup>128</sup> ANBOUND (the author's affiliate organization) conducted field research in Pakistan in 2015, and the results showed that such programs were already in a corner even at that time. Taking the Gwadar Port as another example, the Chinese SOE was quite enthusiastic in its propaganda-value while the actual development was quite slow, and there had been some negative feedback from the locals.

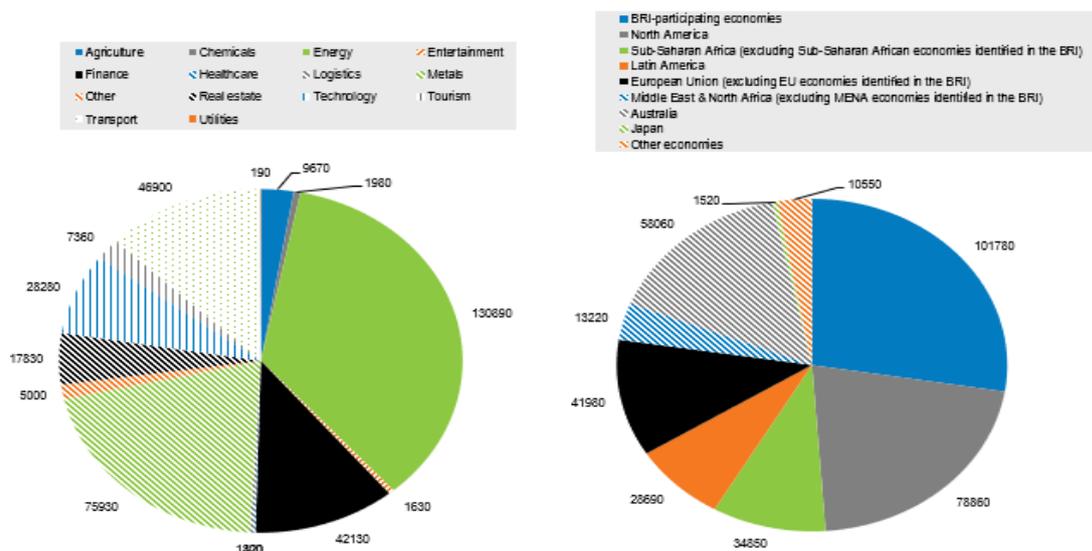
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<sup>126</sup> There is also problem like corruption, miscommunications, excessive price during this process.

<sup>127</sup> Li YanJun, "The Risk of Public Goods in the BRI ("一带一路"建设须防范国际公共产品与私人产品低效配置的风险)", in Ji Jinbiao, Liang Haoguang eds, *Annual Report on Investment Security of China's "the Belt and Road" Construction (2019)*, Beijing: Social Sciences Academic Press (2019), 67-79.

<sup>128</sup> OCED, "China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape", 2018. Accessed on Dec.1, 2019. <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>

**Figure 15: Troubled Assets in Past BRI/SOE Corporate Investments, Cumulative National Amount Expressed in USD Million Over the Period 2005–2018 Q2**<sup>129</sup>



#### 4) The S+I's Shortages in Solving Domestic Economic Problems

From 2000 to 2010, China achieved incredible economic developments. This is also known as the Chinese economic “Golden Age.” On the other side of the coin, it also left problems like overcapacities, an unsustainable developing model, and some sense of the stagflation as well. In this context, besides the geopolitical goal mentioned before, the other fundamental purpose of the BRI was to solve these problems by international economic corporations.<sup>130</sup> Such purpose demands an emergence of a new market and new demands from it. However, given the status quo along the BRI, Beijing failed to deliver such a result.

As noted before, infrastructure is the very foundation of a common market (or “unimpeded trade” in official narratives), whereas the S+I model impedes this transition

<sup>129</sup> Graph made by OCED, Available at OCED, “China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, 2018. Accessed on Dec.1, 2019. <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>. Data was collected by the OCED from the AEI American Enterprise Institute (AEI), China Global Investment Tracker Database. All investments of USD 100 million or greater are included. Ministry of Commerce, Republic of China (MoFCOM) data totals are around 10% higher for the same period due to the inclusion of small investments. Statink:

<http://dx.doi.org/10.1787/888933786458>

<sup>130</sup> See more details in Chapter One.

from happening. Many SOEs only mechanically copied their previous stereotypes into the receiving countries and did nothing really innovative.<sup>131</sup> Some SOEs did even allow the families to go with their workers, only seeing its work as a temporary project.<sup>132</sup> This is problematic because, without further interaction with the local communities, new demands or markets can hardly emerge. Moreover, most SOEs are unquestionable experts in their own lines of work, whereas they rarely step out of their comfort zones. As a result, because they kept doing what they are good at and nothing else, it is impossible to achieve a structural upgrade. Take the steel industry as an example, by date from Reuters, Chinese steel production in June 2019 was 87.54 million tons, which was a little lower than May.<sup>133</sup> Putting it into a global context, the U.S. and EU together produced about 21.15 million tons, which means Chinese steel production was four times higher than the combination of the U.S. and the EU.<sup>134</sup> This indicated one fact, that is, even though China was spending its overcapacities along the BRI, such spending was mechanical, which will never lead to structural upgrades and may further deepen the problems.

In conclusion, during the six years of the BRI's developments, it has evolved into a simple S+I model and become increasingly imbalanced regarding the distribution of its internal resources. This digression significantly hurts the BRI in achieving its geopolitical purpose and impedes it from solving the domestic problems left from the golden age. Furthermore, the digression also made the BRI more and more unsustainable in general. Therefore, it is crucial for Beijing to realize and began to

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<sup>131</sup> Li YanJun, "The Risk of Public Goods in the BRI ("一带一路"建设须防范国际公共产品与私人产品低效配置的风险)", in Ji Jinbiao, Liang Haoguang eds, *Annual Report on Investment Security of China's "the Belt and Road" Construction (2019)*, Beijing: Social Sciences Academic Press (2019), 67-79.

<sup>132</sup> Ibid.

<sup>133</sup> Muyu Xu, Tom Daly, "China churns out record daily steel output in June - Reuters calculation", *Reuters*, July 15, 2019. Accessed on Sep. 26, 2019. <https://www.reuters.com/article/us-china-economy-output-steel/china-churns-out-record-daily-steel-output-in-june-reuters-calculation-idUSKCN1UA051>

<sup>134</sup> *Trading Economics*, "United States Steel Production". Accessed on Sep. 26, 2019.

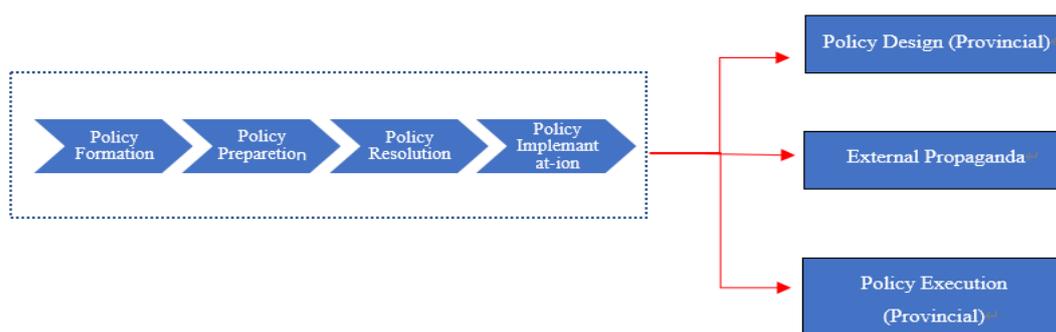
<https://tradingeconomics.com/united-states/steel-production>; *Trading Economics*, "European Union Steel Production". Accessed on Sep. 26, 2019. <https://tradingeconomics.com/european-union/steel-production>

reverse this trend. In this context, understanding the reason behind the Digression becomes more than critical.

### 3. The Reason behind the Digression

Before we dive into this subject, it is crucial to understand that the BRI is a grand project with trillions of dollars involved, which makes the reason for the Digression quite complicated in the first place. However, from a structural perspective, the inconsistency between the One Process and the Three Tracks is the direct cause of the Digression.

*Figure 16: The One Process and the Three Tracks of the BRI after the Digression*



*Note: The red line indicated the possible miscommunication between different levels*

In detail, the inconsistency mentioned above mainly manifested in three aspects: First, an obvious problem of miscommunication exists between the different levels of the Chinese governments. This is mainly generated by the fact that the policy documents are increasingly abstract as the level goes higher.<sup>135</sup> As such documents were passed along, misunderstandings and information-loss are, somehow, inevitable. As mentioned before, despite the existence of documents like *The Strategic Guideline of the New Silk Road Economic Belt and 21<sup>st</sup> Maritime Silk Road*, it is nearly impossible

<sup>135</sup> This is mainly because the structure and size of the Chinese government. This will be developed further in following sections.

for every government unit to fully understand the entire picture because of the multiple layers in the policy transmission process.

Besides, the inconsistency can be observed through the process of how the private economies were “forced out” of the BRI. It may be hard for Western observers to understand the real position of the SOEs in China. They are not merely an economic group. They are the most robustly vested interest group of the old Planned Economy system as well, which means, their interests will be jeopardized inevitably during the Open-Up and Reform process. In the 1970s, the CCP leaders had to bargain with the SOEs to persuade them to release a certain amount of market space. In return, the SOEs could keep their control in almost every significant industry like energy, telecommunication, infrastructure, and so on. The SOEs, in this context, could guarantee their survival because they basically held the keys to China’s economy, which, later, caused further degeneration among the SOEs: They became, perhaps, the best entities for infrastructure building programs around the world, whereas they also lost the chance to become a real modern commercial cooperation. All these facts set up a threshold for private companies to get into the related industries. As a result, in a government-oriented program like the BRI, the private entities were forced out, even though this was never Beijing’s intention amid the policy design process.<sup>136</sup>

Nevertheless, what are the reasons in the deeper level? Was this inconsistency inevitable? We will discuss these matters from three perspectives: the nature of the BRI, the structural problems inside the Chinese government, and the interaction between nations along the BRI.<sup>137</sup> In general, we believe that the inconsistency profoundly roots in the structure of the Chinese government, which makes it almost inevitable.

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<sup>136</sup> To encourage the private economies to “go out” has been a key subject in almost all official documents. For example, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, Mar. 28, 2015. Accessed on Sep.16, 2019. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)

<sup>137</sup> Author cannot guarantee these reasons are entirely comprehensive because of the size of the BRI and the complexity of China. Future researcher could pick this up and continue their research toward this end.

### 1) The Nature of the BRI

As discussed previously, many practitioners of the BRI did not get comprehensive guidance from the top level. In fact, it is hard to determine whether the central leadership had a clear roadmap based on open information as well. In the light of this, the provincial governments (and below) turned out to be the real pilot of the BRI.

The problem with this, however, is that, besides the “Open-up and Reform” in 1978, no entities in Chinese society have experienced a grand project like the BRI, which carries both strategic and tactical values. Furthermore, the BRI is even harder to achieve comparing the “Open-up and Reform” because the later one is merely an adoption of the global trend of market economies and the foreign enterprises were the vivid example in how to operate as the modern enterprise, whereas the BRI demands a sophisticated adaption of such trend. In other words, the BRI is innovative in nature. The BRI requires skills in multiple domains: First and foremost, both the designer and the performer must have a strategic vision. Namely, they must clearly understand the ultimate goal of the BRI. Second, vision is only the beginning as the practitioners have to make their program profitable to achieve their vision. Clearly, this is a delicate balance. Third, international activities are profoundly different from domestic ones because they involve subjects like the clash of civilizations, religions, traditions, norms, conflicts of interests, and even particular problems like language differences. Even Americans, who have been doing this for decades, failed in the Middle East in their democracy-building projects; Most Chinese, private or governmental, were only rookies even after six years of the BRI. As a result, it is reasonable for them to lean on their previous “successful experiences,” and the inertia becomes a barrier they can hardly overcome. For example, the temptation of copying the “Chinese Model” overseas is a noticeable case.

The “Chinese Model” refers to an economic-developing pattern: To use the vast governmental investment in industries like real estate or infrastructure to boost urbanization, which then will stimulate the economy. This model was summarized from Beijing’s “emergency response measures” during the Great Recessions after its failure in expanding the domestic markets. In other words, the Chinese Model was a measure

in special times, and it has not been carefully examined theoretically.<sup>138</sup> Indeed, it helped Beijing to prevent a massive recession after the global crisis in 2008, whereas in the end, it caused problems like overcapacities and potential stagflation. Nevertheless, for most Chinese performers, namely the SOEs, such a model was economically successful, and more importantly, politically safe in their minds. As mentioned by some U.S. scholars, many Chinese departments clearly were quite confident toward this model.<sup>139</sup> As a result, they began to copy this model along the BRI. Why did the central government stop them and prevent this from happening? This leads to our next section: the structural reasons inside the Chinese governments.

## **2) The Structural Reasons inside the Chinese Governments**

### **i. Oversize**

The structural reasons inside the Chinese governments are the most significant factors of the Digression. The first aspect in this regard is the size (oversize) of Chinese governments, which made it quite hard to maneuver swiftly and timely. Responsible for 14.3 million square kilometers of territory and nearly 1.5 billion people, China unambiguously has the biggest government in the world. This oversized status means a hierarchy system is the only and the least-worst choice in its governing mechanism because only in such a system could Beijing guarantee a stable order.

On the other hand, however, the oversize also leads to inevitable hysteresis regarding the timely adjustments of its policies. From Beijing's perspective, it normally cannot get enough policy feedback until years after its implementation and could only make certain adjustments. China previously relies on the "special zones" or "pilot projects" to cope with this issue, namely Beijing first tries something new in a rather small range and then launches a comprehensive policy national-wide based on the

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<sup>138</sup> To get rid of problems come along with this model, actually, was one of the main objectives of the BRI in the first place. See more details in u (Tony) Pan, Chen Gong, "What Happened Before? - The Formation of the Belt and Road Initiative", ANBOUND, Sep. 10, 2019. Accessed on Sep.16, 2019.

[http://www.anbound.com/UploadFiles/201909/UPFile\\_6645\\_20190910164048.PDF](http://www.anbound.com/UploadFiles/201909/UPFile_6645_20190910164048.PDF)

<sup>139</sup> David Dollar in Brookings Interview, "CHINA'S BELT AND ROAD", Apr. 2019. Accessed on Oct. 16, 2019.

[https://www.brookings.edu/wp-content/uploads/2019/04/FP\\_20190419\\_bri\\_interview.pdf](https://www.brookings.edu/wp-content/uploads/2019/04/FP_20190419_bri_interview.pdf)

feedback. Unfortunately, such an approach was not suitable for the BRI because its strategic level demands the grand scope of its implementation. In this context, the oversize of the Chinese government is one of the biggest reasons why the Digression has not been fixed yet. Beijing is absorbing and adapting for sure,<sup>140</sup> although their clock is ticking.<sup>141</sup>

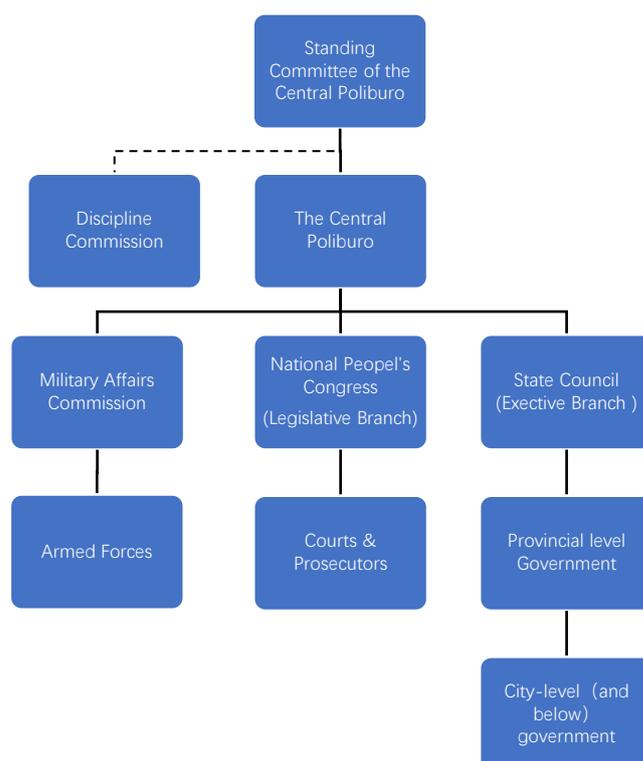
Furthermore, bigness does not equal effectiveness. In fact, these two features usually are contradictory. Western observers need to understand that, even a powerful hierarchy government like the Chinese government is not a billboard and simply cannot control everything in its reach. Beijing does not have enough energy to provide detailed guidance to every one of its subordinates. In general, what the practitioner gets is a grand direction and several core rules. To put it in another way, every policy in China has a transmission process, where the skewing of information is a destined phenomenon. Making no mistakes, this does not always end negatively, and the development of Shenzhen City is the most significant example. However, it certainly could and did in the BRI case, which comes with significant consequences. Because of the inertia problems, the performers, namely the SOEs, naturally took the path they are most familiar with. In general, the demands over the political stability and the status of Chinese society requires Beijing to be omniscient, but the fact is that this is an impossible mission even for Beijing. This paradox ultimately leads to the next subject: the institutional conflicts of interests inside the Chinese government.

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<sup>140</sup> This is a common argument even in the West. See example at Brookings Interview, “CHINA’S BELT AND ROAD”, Apr. 2019. Accessed on Oct. 16, 2019. [https://www.brookings.edu/wp-content/uploads/2019/04/FP\\_20190419\\_bri\\_interview.pdf](https://www.brookings.edu/wp-content/uploads/2019/04/FP_20190419_bri_interview.pdf)

<sup>141</sup> In fact, this report itself can be seen as an input of re-processing.

*Figure 17: Brief Structure of Chinese Government* <sup>142</sup>



## ii. Institutional Conflicts of Interests

Western observers need to understand a fact, that is, as hierarchic as the Chinese government is, it still is not a billboard with no cracks. Different apartments have their own institutional interests. For instance, even though the Digression is certainly unfortunate for China as a whole, it did provide excellent opportunities for the SOEs to grow despite the fact that it may lead to a deadlock in the long run. Besides, for the provincial governments and political leaders, if they could achieve something big under the umbrella of the BRI, which is a proposal from the highest level, they will have better chances in promotion, resource inclinations, and financial subsidies.<sup>143</sup> In this context, the participation of the local governments toward the BRI, fundamentally, is a competition, with winners and losers. As mentioned before, the coastal provinces have

<sup>142</sup> This graph was only designed to help viewers understand the basic framework. The reality is far more complicated.

<sup>143</sup> Unlike most Western countries, in most cases, future national leaders were chosen from provincial leaders who had significant achievement during their provincial posts.

advantages in almost every area comparing to their Western peers. Together with the vacancy in “strategic guidelines,” the 21<sup>st</sup> Maritime Silk Road became a self-fulfilling prophecy. It is the natural trend of the market-oriented principles, which would be a positive thing in most cases as if the BRI was not a higher-form project.

### **iii. The Special Position of SOEs.**

The third reason has been mentioned previously in brief, that is, the SOEs are not just an economic entity, on the contrary, they carry special political significance in the Chinese system, which has given them multiple advantages. In fact, this paper believes the S+I model was almost destined to happen in this context because given that the infrastructure is the prerequisite for further economic integration, Beijing did not really have an alternative in the early stage of the BRI. The private economies were either too weak or irrelevant.

To put it in more detail, the SOEs are the critical branch of the socialist political system, since they stand as symbols of the state’s ownership and the state’s control over the economy. In other words, they are not subordinate to the government, they are part of the government and an extension of the Chinese socialist system, which is the core interest of the CCP and China currently. From 1949 to 1978, public ownership was a shining billboard for China, as in all other socialist states, and the SOEs are its material presence. In this context, the decision to “Open-up and Reform” actually tried to introduce a new mechanism in resource distribution: the market. This is significant not only because it will tear apart the old system, which means there would be a redistribution of economic interests, but also because that it could lead to the ultimate question: Is China still a socialist country after bringing back the market economy? The answer from Deng Xiaoping, which was quite ingenious, was that a socialist country could also have a market economy: “a socialist market economy with Chinese

characteristics.”<sup>144</sup> The political dispute was generally eased by Deng’s argument, which basically was a paper over cracks for now.<sup>145</sup>

However, to persuade the SOEs to give up their benefits was far harder. The SOEs are deeply connected to almost every level of Chinese society. Taking them out by force is highly likely to cause unpredictable results.<sup>146</sup> After bargaining and trade-offs, the SOEs could keep their dominant position in industries like banks, energy, telecommunications, infrastructures, and other heavy industries; in return, some market space in other areas was released for the market economies. This strategy was obviously successful, given the rapid development of China following the decision of reform. The CCP finds a new source of its legitimacy: as long as it can keep providing for its people, socialism or not does not really matter. However, for the SOEs, because their privilege was institutionalized, they lost their chance to become modernized and diversified. On the one hand, they became really good at what they were doing; On the other hand, they became nearly impuissant in everything else.

In light of this, the private economies of China must settle three questions before they can compete with the SOEs along the BRI. Initially, they are nearly incomparable in size. First of all, many private companies have governmental shares. Despite this fact, there are 129 Chinese corporations in the 2019 Fortune 500 list, and the SOEs are obviously taking the major share.<sup>147</sup> Among the Chinese private economies, Alibaba is the highest-ranking regarding the market share, which is about 500 billion dollars;<sup>148</sup>

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<sup>144</sup> Deng Xiaoping, “No Paradox between Socialism and Market Economy (社会主义和市场经济不存在根本矛盾 (一九八五年十月二十三日)”, Oct.23, 1985. Accessed on Dec.30, 2019.

[https://agzy.youth.cn/mzh/jng/dxp/zzxz/201004/t20100414\\_1202493.html](https://agzy.youth.cn/mzh/jng/dxp/zzxz/201004/t20100414_1202493.html)

<sup>145</sup> Deng’s argument was brilliant not only because of this excellent political instinct that going too far on this subject could tear China apart, but also for that he understands the market economy was indispensable for Chinese development, which has been proved more than accurate by the history.

<sup>146</sup> In this regard, what happened in Russia in early 90s is a great example.

<sup>147</sup> Fortune Global 500 (2019). Accessed on Oct.13, 2019.

<https://fortune.com/global500/2019/search/?hqcountry=China>

<sup>148</sup> *Yahoo Finance*, “Alibaba Group Holding Limited (BABA)”. Accessed on Dec.5, 2019.

<https://finance.yahoo.com/quote/BABA/>

The second one is Tencent, which is about 400 billion dollars;<sup>149</sup> Nevertheless, a significant gap exists between the second and the third one, Baidu.Inc, which is only about 40 billion.<sup>150</sup> After calculating the marginal decrease, a positive estimate of the size of the Chinese private economies is about 1.2 trillion dollars.<sup>151</sup> On the other side, based on information from the SASAC, only in the BRI perimeters, the central-administrated SOEs have assets of over 1.13 trillion dollars.<sup>152</sup> This only includes the overseas capitals, and the central-administrated SOEs are only parts of the SOE fleet. Based on data in 2017, the SOEs control over 26 trillion assets in total, where the central-administrated SOEs took about 40%.<sup>153</sup> Given all these numbers, no one can disagree that the SOEs are far bigger in size comparing to their private peers.<sup>154</sup>

Second, private entities must face an undeniable barrier in certain industries. This is due to the significant gap in its size, but also the fact that the SOEs are more connected with the project-approving agencies. The fundamental fact of the BRI is that most money is coming from the Chinese government, and it is reasonable for people in charge of the project review to choose the SOEs because, in doing so, they have smaller risks. In short, SOEs and infrastructure programs are naturally connected.

Finally, the SOEs do have more experiences in terms of international economic projects, at least in the early stage of the BRI. In fact, from 2013 to 2016, some private companies got their chance to go abroad. The problem is that most Chinese private entities did not thrive from institutional competitions because there were no clear

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<sup>149</sup> *Yahoo Finance*, “Tencent Holdings Limited (TCEHY)”. Accessed on Dec.5, 2019.

<https://finance.yahoo.com/quote/TCEHY?p=TCEHY>

<sup>150</sup> *Yahoo Finance*, “Baidu.Inc.(BIDU)”. Accessed on Dec.5, 2019. <https://finance.yahoo.com/quote/BIDU/>

<sup>151</sup> This is only a rough and very optimistic estimate for the sake of the argument.

<sup>152</sup> “SASAC: Help the SOEs to Go Abroad from Three Perspectives (国资委：三方面发力推动国企更好“走出去”)”, *People.cn*, Dec.4, 2019. Accessed on Dec.5, 2019. <http://industry.people.com.cn/n1/2019/1204/c413883-31488414.html>

<sup>153</sup> State Council of the PRC, “Comprehensive report on state-owned assets management in 2017 (2017 年度国有资产管理情况的综合报告)”, Oct.27, 2018. Accessed on Dec.5, 2019.

<http://www.sasac.gov.cn/n2588025/n2588164/n4437287/c9748923/content.html>

<sup>154</sup> Again, this is an argument focusing on the general situation, which does not indicate that SOEs are more capable of conducting BRI projects at all. In fact, for most cases, the private corporations are better in this regard because they are more efficient. Only problem is they are not big enough to reach the threshold.

institutions in the early stage of the “Open-up and Reform” process yet. Everything was and should be, evolving during that period, which left windows for corruption and other problems. Making no mistakes, the author is not criticizing this. Such a problem was quite reasonable if we see it from a higher level and assume it could be fixed gradually. However, the fact was that private companies did not change their mindset when they went out of China, which caused many corruption problems and ultimately became an international dispute. Beijing then decided to close the door a little bit for the private ones and turned its eyes to the SOEs.

As a summary, SOEs are almost the only choice in the early stage of the BRI for Beijing. And to be honest, their work is not all pointless as long as the Digression can be fixed.

#### **iv. Chinese Mindset in External Activities**

Unlike the U.S. which had to embed ideological interests in its external behaviors, the Chinese were much more practical, flexible, and potentially more unsystematic in their foreign policies after 1978. As Mearsheimer noted in his *Great Delusion*, Washington has tried to rebuild the world by its liberal principles after the Cold War.<sup>155</sup> For example, a country receiving U.S. aid cannot have serious human rights violations. On the other side of the Pacific Ocean, after the fanatical ideology diplomacy period of the Cultural Revolution, Beijing gradually abandoned such behaviors. “Business is business” became the very principle of Chinese diplomacy after 1978.

This practical principle has its advantages and, for quite a long time, suited the “Tao Guang Yang Hui (stay low profile and bid time)” strategy well. However, the problem is that the “Tao Guang Yang Hui” itself, to a certain extent, is becoming outdated. As Chinese power grows, it must participate in international affairs more actively. Regarding the BRI, the previous principle that mainly focused on the economic benefits is incoherent with the strategic vision because the BRI must be comprehensive to be

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<sup>155</sup> John. Mearsheimer, *GREAT DELUSION: Liberal Dreams and International Realities*. Yale University PRESS, 2019.

successful. Even Beijing is willing to put aside ideological matters aside in its interaction with other states. The receiving countries have relevant desires, especially given that they have been exposed to the U.S. system for decades. In short, cutting the subject of the value out of the BRI is unrealistic.

To be fair, Beijing has noticed this problem gradually: The outside world needs to understand what kind of world Beijing wants to build in the future. Regarding this subject, concepts like “the New Type Major Power Relations (NTMPR)” and “the Community of Common Destiny” already depicted a general picture, that is, Beijing does not wish to copy its system globally, and the future global order should be built based on common understanding and integration.<sup>156</sup> Nevertheless, as mentioned previously, there is a delay in terms of Chinese policy adjustments. Currently, performers of the BRI either failed to understand this subject or were not capable of conducting such missions. The case of democracy-building in Iraq may help viewers understand this point better.

Since President Bush declared war on Iraq in 2003, the actual combat mission ended fairly soon. However, Washington failed in rebuilding the state by democratic principles until today. One of the biggest reasons for this failure is that regime building is a complicated grand project that involved so many subjects, and the U.S. Armed Forces are not trained for such missions.<sup>157</sup> They did their job well, neutralizing the

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<sup>156</sup> The New Type Major Power Relations (NTMPR) refers to a new model of great power relationship, which is defined by three key elements: No conflict or confrontation, mutual respect, and win-win cooperation. See more details at Wang Yi, “Wang Yi: Toward a New Model of Major-Country Relations Between China and the United States”, Brookings, Sep.30, 2013. Accessed on Aug. 2, 2018. <https://www.brookings.edu/on-the-record/wang-yi-toward-a-new-model-of-major-country-relations-between-china-and-the-united-states/>; The “Community of Common Destiny” can be seen as an upgraded version of the NTMPR after applying it beyond the great power relations. See details at “What is the Community of Common Destiny? (什么是人类命运共同体?)”, Website of Central Commission for Discipline. Jan. 17, 2018. Accessed on Oct.16, 2019. [http://www.ccdi.gov.cn/special/zmsjd/zm19da\\_zm19da/201801/t20180116\\_161970.html](http://www.ccdi.gov.cn/special/zmsjd/zm19da_zm19da/201801/t20180116_161970.html)

<sup>157</sup> See relative research at Harvey M. Sapolsky, Eugene Gholz, and Caitlin Talmadge, *U.S. Defense Politics: the Origins of Security Policy* (3rd Ed). (Routledge, 2017): 13-30 (chapter 2); Larry Diamond, “Building Democracy After Conflict: Lessons from Iraq,” *Journal of Democracy* 16:1 (January 2005), 9-23; Ned Parker, “The Iraq We Left Behind: Welcome to the World’s Next Failed State,” *Foreign Affairs* 91:2 (March/April 2012), 94-110; John. Mearsheimer, *GREAT DELUSION: Liberal Dreams and International Realities*. Yale University PRESS, 2019.

threats on the battlefields, whereas they never were a constructive force in the first place. More importantly, Washington did not even see this coming before they decided to launch a war.<sup>158</sup> Consequentially, the troops must fill in, which ultimately leads to long-time chaos in Iraq and the Middle East in general.

This case is highly familiar to the BRI. Beijing wants to build a common market or a “community” along the BRI, and they did not really have an alternative besides the SOEs. However, this was never the job of the SOEs. They are more familiar with “project diplomacy.”<sup>159</sup> Given they had very little guidance from the top (because of the reasons mentioned above), it was natural for them to try to copy their domestic successes outside China, which then caused the problem of the Digression.

### 3) The Interaction between Nations along the BRI

Besides the internal factors, as a grand international project, the BRI is destined to be affected by the interaction between states, especially among those inside the perimeter of the BRI. Because of the inconsistency mentioned in the previous sections, the project design of the BRI, in reality, failed to consider the geopolitical purpose in many cases or focused too much on this aspect. As a result, some of them became economically unviable. The Russian factor is quite typical in this regard.

Although Sino-Russian relations continue to improve in recent years, Moscow was quite practical toward this bilateral relationship, which, somehow, brought some resistance toward the BRI. On the one hand, Russia hopes to use the BRI as a leverage

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<sup>158</sup> James T. Quinlivan, “Burden of Victory: The Painful Arithmetic of Stability Operations”, *Rand Review* (2003, Summer). Accessed on Oct.16, 2019.

<https://www.rand.org/content/dam/rand/www/external/publications/randreview/issues/summer2003/rr.summer2003.pdf>

<sup>159</sup> Project Diplomacy” refers to the behavior that see certain project as a “diplomatic victory”. This is clearly not coherent with the common understanding that diplomacy is a stretch of the strategy. In fact, we can observe many Chinese diplomats acting in a way that is, in theory, not coherent with the Chinese strategy. For example, China, theoretically, should maintain a good relationship with South Korea as this bilateral relationship could help China to counter a containment strategy from the U.S. However, during the THAAD dispute in 2017, Chinese diplomats seems had no interests in managing the conflict, rather they took a very hawkish rhetoric. Authors believes such an attitude was not from the central leadership. It was more of a department stance.

to boost its developments, especially in its Asian territory. On the other hand, Moscow has its own concerns over this proposal as well.<sup>160</sup> Some sources have informed the author that, in the early contacts between the two states regarding the BRI, Russia did not show much welcome and even tried to use the BRI as leverage to mitigate the pressure from the West. Even though Beijing and Moscow reached an agreement in the end based on the attitude of “each takes what it needs,” Russia’s attitude toward the BRI did not change fundamentally.

Taking the China-EU Express as an example again, many routes across the Russian territory was not generated by the market demands. Instead, they were based on Chinese respect toward Russian interests.<sup>161</sup> Furthermore, Russia published a rule forbidding the EU’s agriculture products in its territory in 2014, which caused a significant problem for the China – EU Express as the agricultural products are one of the few types of merchandise that fit into the railway transportation.<sup>162</sup> Given that most of the railway must go through the Russian territory, an apparent conflict between the geopolitical interests and the economic interest can be observed in the China -EU Express project. Currently, Beijing clearly deems the Sino-Russian relation more important, which is probably accurate. Nevertheless, such a paradox indeed poses a problem toward the New Silk Road Economic Belt, impeding it from the “facilities connectivity” to “unimpeded trade.” On a more general level, without a strategic consensus about the future power structure in Central Asia with Russia, it is also

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<sup>160</sup> See relative research in, for example, Wade Shepard, “Russia Is In A Unique Position To Either Make Or Break The New Silk Road”, *Forbes*, Mar. 3, 2017. Accessed on Oct. 16, 2019.

<https://www.forbes.com/sites/wadeshepard/2017/03/13/russia-the-lynchpin-or-bottleneck-of-the-new-silk-road/>; Bobo Lo, “Great Eurasia – The emperor’s New Clothes or an Idea whose Time Has Come?”, *Ifri-Russia/NIS Center*. July 2019. Accessed on Oct. 16, 2019.

[https://www.ifri.org/sites/default/files/atoms/files/bobo\\_lo\\_greater\\_eurasia\\_2019.pdf](https://www.ifri.org/sites/default/files/atoms/files/bobo_lo_greater_eurasia_2019.pdf)

<sup>161</sup> Bobo Lo, “Great Eurasia – The emperor’s New Clothes or an Idea whose Time Has Come?”, *Ifri-Russia/NIS Center*. July 2019. Accessed on Oct. 16, 2019.

[https://www.ifri.org/sites/default/files/atoms/files/bobo\\_lo\\_greater\\_eurasia\\_2019.pdf](https://www.ifri.org/sites/default/files/atoms/files/bobo_lo_greater_eurasia_2019.pdf)

<sup>162</sup> This ban will remain effective until December 31, 2019. See more details at “Russia Import Ban”, *European Commission*. Accessed on Oct. 16, 2019. [https://ec.europa.eu/agriculture/russian-import-ban\\_en](https://ec.europa.eu/agriculture/russian-import-ban_en)

impossible for Beijing to really build a “community” hereon, which was the very goal of the BRI in the first place.

### III、 Conclusion

This paper evaluated the development of the BRI since 2013 as well as specifically analyzed the digression of the BRI and the reasons behind it.

In general, we believe that the BRI was clearly a project with geopolitical concerns, that is, to solve the domestic economic problems and to mitigate the international pressure from the U.S. by building a “community” in underdeveloped Central Asia, which was coherent with the U.S. policy advocates around 2013. However, because of the inconsistency between the One Process and the Three Tracks, the BRI became increasingly stress-responsive and digressed from its original purposes.

In detail, the digression of the BRI manifested in two aspects: First, the SOEs and the infrastructure building programs were taking too much share in the BRI, which gradually evolved into the S+I model. Second, there was a noticeable imbalance regarding the resource distribution between the Belt and the Road, and the Maritime Silk Road took too much attention.

The Digression caused many problems:

- First, the digression caused tremendous international blowbacks from other countries, hindering the BRI from achieving its geopolitical purpose and leaving China an increasingly intensified international environment.
- Second, because of the imbalance between the Road and the Belt, the BRI failed to boost the development of the underdeveloped provinces in Western China.
- Third, the SOEs plus infrastructure (S+I) model has made the entire project less favorable economically.
- Fourth, rather than helping Beijing solve its domestic economic problems, the S+I model made issues like overcapacity even worse.

We also argue that the direct reason for the BRI’s digression is the inconsistency between the One Process and Three Tracks. However, there is more behind this. This paper further develops this idea into three aspects:

- The nature of the BRI;
- The structural problems inside the Chinese government;
- The interaction between nations along the BRI.

Making no mistakes, we are not trying to tear the BRI apart. On the contrary, the author actually believes that it was incredible for Beijing to finish the institutional building work and to achieve so much in terms of infrastructure in just six years. However, it is also apparent that Beijing must realize the digression and figure out a way to overcome it before they could achieve their original target in the BRI.

Since President Trump moved to the White House in 2016, the structural conflict between China and the U.S. has become increasingly apparent. As clearly articulated in multiple national strategic documents, Washington is shifting its policy focus back to great power competition. This structural change means that the digression of the BRI, especially the China's rapidly growing maritime capabilities, may be unreasonably amplified by the outside observers. Although neither Beijing nor Washington could fundamentally rebuild the current international system yet, for quite a long time, the great power competition will become Beijing's biggest challenge.

Furthermore, the recent development in technology also showed that the world is becoming increasingly connected, and such connection has gone beyond the material level. Information, institution, and other cultural factors have literally become a global public good, and no state can isolate itself from this trend (North Korea may be an exceptional case). In light of this, any subtle mistakes of the BRI could be very likely to have unexpected consequences and ruined the entire project.

Despite the international factors, the structural problem existing in the Chinese economy is also becoming more impactful. The problem that generated the BRI is still there. Given the slowdown of the Chinese economy, it is a question whether Beijing could keep investing in the BRI recklessly. As we mentioned in the first section, the launch of the BRI, somehow, indicated that Beijing was transforming its view between itself and the world, which was clearly a positive sign. However, as the problems began to emerge in the BRI, Beijing may return to its previous, domestic-oriented model. Actually, we can already see some tracks of the shifting focus on the domestic use of

the Chinese model. This is clearly a big problem because it will generate a self-fulfilling degressive process, further impeding the real beneficial structural reforms.

Thus, the fundamental question for Beijing is clear: how to continue and fulfill its structural reform (domestic and international) under the growing pressure? Regarding the BRI, despite the Digression we discussed in the report, we do not believe it is incurable, which means that it is high time for Beijing to re-evaluate the development of the BRI and act accordingly. In this regard, the first and foremost question is that Beijing must understand it cannot be the judge and the player at the same time. The government should pivot its focus on institutional buildings of the regional cooperation.

Here, we provide some tentative direction for future approaches:

- The SOEs can still be part of the BRI if the central government could provide certain guidelines and regulations;
- As noted, the structural reason inside the Chinese government is the most critical reason for the Digression, and theoretically, there are two ways of solving this problem: Pursuing political reforms or setting up a new coordinate agency. Considering the uncertainties of the first approach, the latter is clearly more practical for Beijing;
- Another job of the Chinese government is that Beijing must begin to build a comprehensive training system for relative personals. And such a system needs to be public-available. In other words, the government must trust, at least to a certain extent, the external bodies.

The Belt and Road Initiative, without questions, will continue to be the most significant grand program of China for the foreseeable future. However, via this report, we hope viewers could understand that it is not a black box without cracks. Beijing is learning even though the speed is not very satisfactory, which makes us believe we will increasingly see the adjustments toward the BRI.

## Appendix

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