

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on: “China’s Belt and Road Initiative: Five Years Later”

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The Belt and Road Initiative (BRI) is generally understood as China’s plan to finance and build infrastructure projects across Eurasia. Infrastructure development is in fact only one of BRI’s five components which include strengthened regional political cooperation, unimpeded trade, financial integration and people-to-people exchanges. Taken together, BRI’s different components serve Beijing’s vision for regional integration under its helm. It is a top-level design for which the central government has mobilized the country’s political, diplomatic, intellectual, economic and financial resources. It is mainly conceived as a response to the most pressing internal and external economic *and* strategic challenges faced by China, and as an instrument at the service of the PRC’s vision for itself as the uncontested leading power in the region in the coming decades. As such, it is a grand strategy¹.

1. Belt and Road: What is It?

The Belt and Road Initiative was not announced as such five years ago, but in two separate speeches given by Xi Jinping: the first in Astana in September 2013, announcing China’s willingness to create a Silk Road Economic Belt stretching across land from China to Europe; the second in Jakarta in October 2013, mentioning China’s desire to launch its equivalent at sea, the 21st Century Maritime Silk Road. Both proposals rapidly got combined under the abbreviation “One Belt, One Road,” an English translation officially replaced in 2015 by “Belt and Road Initiative” (BRI), supposedly to counter the impression that China owned the concept and to reflect its willingness to welcome others’ participation. The basic idea is that infrastructure building (roads, railways, port facilities, pipelines, fiber optic and IT networks) across Eurasia will bring economic development to a large region spanning East to West from China’s eastern shores to Europe via Russia, Central Asia, South Asia and the Middle-East, and from China’s southern shores to Southeast Asia, the Indian ocean rim, the Persian Gulf and the Mediterranean. This is a vast region mainly composed of emerging markets and rising middle classes and which, taken together, accounts for two thirds of the world population and over half of the global GDP.

Since 2014, BRI has rapidly materialized through:

- promises of Chinese investments with amounts oscillating between \$1 and 1.3 trillion dollars, backed, among others, by the creation of new financial mechanisms such as the Asian Infrastructure Investment Bank (proposed in October 2013, officially opened in January 2016) and the Silk Road Fund (created in 2014);
- an intense high-level round of Chinese diplomatic engagement, supported by a forceful propaganda campaign relayed by Chinese scholars and media around the globe, and crowned by the Belt and Road International Forum held in Beijing in May 2017;

¹ This testimony draws on the conclusions and research findings of my book, *China’s Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, NBR, 2017.

- the successful initiation of an impressive array of projects extending across the continental and maritime domain.

Sparing no modesty for a plan he personally designed with a handful of close advisors, Xi Jinping hailed BRI as the “project of the Century.” If successful, BRI certainly has the potential to fundamentally change the economic and strategic geography of the region.

2. What Purpose Does It Serve?

Even though BRI is officially portrayed and projected outside China as an economic endeavor that is meant for the benefit of the entire region, the internal discussions related to the project reveal it is mostly intended to serve China’s interests and objectives, both in the economic and strategic domains.

- *On the economic side,*

BRI should be understood, at least partly, as a new stimulus package for the Chinese economy whose last double-digit growth was recorded in 2010. Right after the 2008 global financial crisis, the Chinese government quickly launched a \$586 billion stimulus package, heavily investing in domestic infrastructure projects in order to help sustain growth. This measure only had a short-lived positive effect. The government needed to find another solution to be able to hit its self-imposed target of doubling GDP and per capita income between 2010 and 2020. From the regime perspective though, a thorough transformation of the country’s economic development model towards domestic consumption and private initiative would have come at unacceptable political cost. Instead of veering towards such a transformation, the government decided to rely once again on its preferred model, stimulating growth through investment, exports and subsidies to state-owned enterprises (SOEs), operating outside of China on a regional scale, via BRI.

Building infrastructure across Eurasia would also have the double advantage of helping to get rid of some of China’s excess industrial capacity that had been created by the 2008 stimulus package, while further supporting the state conglomerates’ “going global” strategy. Funded by Chinese policy banks (Eximbank, China Development Bank) and staffed by Chinese workers, regional infrastructure projects would predominantly become the preserve of China’s SOEs (China State Construction Engineering, China Railway Construction, State Grid, China Merchants, etc.), opening new markets for them and helping them build and scale a truly global footprint. Finally, it was hoped that BRI would help increase regional e-commerce and cross-border transactions conducted in renminbi, thus accelerating the Chinese currency’s internationalization.

- *Beyond the supposed multiple economic gains BRI would bring to China, its architects also believe it will help reap substantial political and geostrategic benefits for their country.*

First among these, and consistent with what the Chinese Communist Party (CCP) has tried to do for almost two decades albeit with uneven results, the hope is that more investment in regional infrastructure will help reduce the development gap between China’s coastal and inner provinces. Sandwiched between its own eastern urbanized dynamic coastal poles, and emerging economies with increasing potential outside of its western and southern borders, China’s landlocked provinces lag behind in term of economic development. Development and enhanced

living standards are seen by Beijing as key factors to reduce the risk of social unrest and political instability. They are also seen as the best ways to discourage religious radicalization, fundamentalism, and terrorist recruitment - both within China's borders and beyond.

Second, the acceleration of investments in infrastructure induced by BRI would enable Beijing to tackle another of its recurrent anxieties, this time related to its energy security. For years, Beijing has been uneasy at the thought that its energy imports transit through sea lanes of communication that are under the protection and surveillance of the U.S. Navy including in the South China Sea. Beijing has been looking for alternative routes to circumvent the so-called "Malacca Strait dilemma" and diversify its supplies through land routes. The projected and current BRI projects illustrate an attempt to redraw the map of China's energy supply routes from Iran, the Gulf countries and eastern Africa, while increasing its imports from Russia and Central Asia. Traveling by sea/land pipelines through Pakistan and Myanmar, or directly by land across Eurasia, some of China's energy imports would thus bypass the South China Sea, reducing the risk of being cut by a potential American naval blockade in case of a military conflict.

Lastly, China's financial, political and diplomatic investment in BRI does not come out of a heartfelt Chinese commitment to serve the common good. In return for its largess, China expects to get some concrete geopolitical benefits for itself. BRI's architects are blurring the lines between economy and strategy, and intend to use economic power as an instrument for strategic purposes.² Instead of gunboat diplomacy and coercive military power, the PRC intends to use BRI to access new markets, get a hold on to critical infrastructure assets, and influence regional countries' strategic decisions. Economic leverage will be used both as an incentive to garner support for its interests and reduce potential resistance, and as a means to punish recalcitrant countries.

Beijing expects that its plan will help "expand its circle of friends" - in other words, strengthen its influence in a vast area where democratic practice is weak, authoritarian regimes mostly prevail, and where the US influence is rather limited. In this region, as in countries facing increasing waves of discontent against globalization, there is a real prospect that following the "China model" could become increasingly appealing. Liberal democratic ideals and standards that the U.S., together with its European and Asian allies, have been trying to promote over the region as part of their shared post-Cold War vision of an "open and free" Eurasian continent,³ will likely come under increasing threat as BRI's standards (or lack thereof) spread across this vast region.

Under Xi Jinping, China has been increasingly vocal about its dissatisfaction with the current world order. During his 19th Party Congress speech last October, Xi presented China's path as "a new option for other countries and nations who want to speed up their development while preserving their independence."⁴ Starting with the countries included along the Belt and Road that Xi purports to include in a "community of common destiny," the PRC now offers a recipe

² Professor Shi Yinhong calls this "strategic economy." See his paper, "China's Complicated Foreign Policy," ECFR Commentary, March 31, 2015, http://www.ecfr.eu/article/commentary_chinas_complicated_foreign_policy311562.

³ After the end of the Cold War, several Western countries tried to promote infrastructure interconnectivity and economic development in the hope that prosperity would transform post-Communist Eurasia into a democratized and peaceful region.

⁴ "Full Text of Xi Jinping's Report at the 19th CPC National Congress," *Xinhua*, November 4, 2017, http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content_34115212.htm

for stability and prosperity, just like the one it has used for itself, and it is trying to convince the rest of the world that the Chinese way is the way of the future.

3. Internal Mobilization

BRI is meant to improve both China's economic situation and its security environment in order to realize Xi Jinping's "China dream of the great rejuvenation of the nation." It is the organizing concept of Xi's vision for China as a rising global power with unique national characteristics. It sets the general long-term direction for China and seeks to mobilize and coordinate the use of all available national resources (political, economic, diplomatic, military and ideological) to pursue internal (economic development, social stability) and external (foreign policy, national security) objectives in an integrated way. As such, it is a grand strategy that is meant to serve China's unimpeded rise to great power status.

Because there exists no official map, no detailed publicly available list of projects, priorities, plans or even targeted countries, no Belt and Road "national task force," no Belt and Road "special representative" or general secretary, some observers have dismissed BRI as empty talk. But a closer look at the inner workings of the Chinese system reveals a high degree of vertical coordination for the initiative domestically. Such a mobilization effort reflects the priority attached to it by the central government. The top-level plan trickles down to all bureaucratic levels:

- The idea was conceived by Xi Jinping and his closest advisors, including Wang Huning, before he came to power in November 2012.
- On March 28, 2015, the National Development and Reform Commission (NDRC), jointly with the Ministry of Foreign Affairs and the Ministry of Commerce issued a document entitled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." The document reads more like a general roadmap than a concrete and detailed proposal, but is the first attempt to give the outside world some sense about the government's vision.
- Also in March 2015, a central leading small group on "advancing the development of the belt and road" was set up, staffed by five Politburo members, indicating the central leadership's determination to coordinate all aspects of the initiative and oversee its implementation at the highest level. The day-to-day management and coordination work with relevant ministries and entities has been assigned to the NDRC, which is hosting an "Office of the leading group" for BRI.
- BRI seminars, workshops and study sessions are regularly being held at intermediary levels of the bureaucracy so that the information gets circulated to all relevant entities.⁵ Through its in-house think-tank (the China Center for Contemporary World Studies, CCCWS), the CCP's International Liaison Department acts as the national secretariat for research activities related to BRI, both inside China and with foreign think-tanks along the Belt and Road. Scholarly exchanges, seminars and conferences organized

⁵ See for example, "Maritime Silk Road "Belt and Road" Seminar Held in Hainan Marine Police Training Base, WeChat, January 8, 2018, accessed at https://mp.weixin.qq.com/s/-QnrH9P5bFAf_Zl1EnY6lQ, "Ou Xiaoli: China Does Not Impose any Political Standard on 'Belt and Road' Cooperation," *Caijing*, November 30, 2017, accessed at <http://finance.sina.com.cn/meeting/2017-11-30/doc-ifypeiq8353251.shtml>, and "Zhang Gaoli: Advancing the Construction of Belt and Road by Persevering in Joint Discussions, Joint Building and Joint Development ; Creating a New Pattern of Linkages between Land-Sea and East-West," *Xinhua*, January 15, 2016, accessed at <http://www.chinatax.gov.cn/n810219/n810744/n1671176/n1671181/c2003599/content.html>

domestically and around the world, are supposed to “provide sustained intellectual support” and “promote better understanding” of BRI in wider audiences.⁶

- Five additional documents, including some specifically dedicated to the maritime, energy, agriculture, and green cooperation along Belt and Road countries, have been published in 2017.⁷
- During the October 2017 19th CCP Congress, BRI was incorporated into the Party charter. This latest addition shows the overall direction given to the Party in its efforts to make progress on the BRI front for the upcoming five years.

In addition, BRI has been integrated into the 13th Five-Year plan (2016-2020) and dovetails the “Made in China 2025” plan and China’s “Internet Plus” strategy:

- The 13th Five Year plan devotes a chapter to BRI and gives “high priority to implementing the strategy for the large-scale development” of China’s inland provinces.⁸ Xinjiang is named in the document as the core area of the Silk Road Economic Belt, and Fujian as the core of the 21st-Century Maritime Silk Road, but the overall objective is to make sure all of China’s most backward provinces benefit from greater economic opportunities offered by enhanced cross-border trade.
- Meanwhile, the “Made in China 2025” plan released in May 2015 aims, among other objectives, at upgrading the PRC’s 10 key high-tech industries, five of which are directly related to BRI’s development: aviation and aerospace, electrical power, next generation information technologies, rail transportation and marine technologies.
- Finally, China’s “Internet Plus” strategy, announced in March 2015 with the intent of fostering a strong domestic high-tech digital sector (mobile Internet, cloud computing, big data and Internet of Things) also overlaps with BRI’s pledge to support “e-commerce, digital economy, smart cities and science and technology parks” in Belt and Road countries⁹ as part of the Chinese government’s vision of a “Silk Road in cyberspace” that will materialize through the building of IT networks (subterranean and subsea fiber-optic cables, Beidou satellite coverage), increased regional e-commerce and even “exchanges in cyber culture.” A document issued in March 2017 on China’s “International Strategy of Cooperation in Cyberspace” officially calls domestic Internet companies to “take the lead in going global,” and specifically mentions BRI when it encourages them to “explore international market and build cross-border industrial

⁶ He Na, “Think Tank to Support Belt and Road Initiative,” *China Daily*, February 24, 2016, accessed at http://usa.chinadaily.com.cn/china/2016-02/24/content_23617083.htm

⁷ “Building the Belt and Road: Concept, Practice and China’s Contribution,” Office of the Leading Group for the Belt and Road Initiative, May 2017, accessed at

<https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf>; “Vision for Maritime Cooperation under the Belt and Road Initiative,” June 20, 2017, accessed at http://english.gov.cn/archive/publications/2017/06/20/content_281475691873460.htm; “Vision and Action on Jointly Promoting Agricultural Cooperation on the Belt and Road,” May 2017, accessed at

http://english.agri.gov.cn/news/dqnf/201705/t20170512_247847.htm; “Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,” accessed at

<https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705161049036.pdf>; “Guidance on Promoting Green Belt and Road,” May 2017, accessed at <https://eng.yidaiyilu.gov.cn/zchj/qwfb/12479.htm>.

⁸ “The 13th Five Year Plan for Economic and Social Development of the People’s Republic of China (2016-2020),” accessed at <http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>

⁹ “Joint Communiqué of Leaders Roundtable of Belt and Road Forum,” *Xinhua*, May 15, 2017, accessed at http://news.xinhuanet.com/english/2017-05/15/c_136286378.htm

chain, (...) actively engage in capacity building of other countries and help developing countries” with several e-sectors in order “to contribute to their social development.”¹⁰

4. Five Years Later: Is It Real?

Even more difficult to find than a detailed BRI plan laid out by Beijing, is a list of projects that have actually come to life since 2013. During the May 2017 Belt and Road Forum, the Chinese government published a “list of deliverables” purporting to show that over 270 “concrete results” had been achieved in each of the five BRI areas, but mostly listing MoUs and cooperation documents signed with the UN, national governments, and relevant agencies within Belt and Road countries.¹¹ Some Chinese governmental sources have pointed out that about 50 SOEs “have invested or participated in nearly 1,700 projects in countries along the new Silk Road routes over the past three years.”¹² It is nevertheless a challenge to pin them down, partly because some of these projects were discussed, decided upon and/or were underway before 2013 (for example, Gwadar started in 2002, Hambantota in 2008), others have been announced with MoUs signed and promises of investment made, but have not yet sprung from the ground. Sometimes, the amounts of investment promised do not add up or China seems to have been promising the same amount several times over the years. Some projects have been started by other countries but funded either partially or totally by China, or have been announced by China but funded partially by non-Chinese financial institutions (such as ERDB, ADB and the World Bank). Should these also be counted as Belt and Road projects?

BRI is a work in progress, still in its early phase, with a completion date set by Beijing for the mid-21st Century. Cross-border infrastructure projects are some of the most difficult to implement as they require complex and often protracted negotiations over proposed routes, development rights, financing and investment returns. After all, it took the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) almost 15 years between the launching of its Asian Land Transportation Infrastructure Program in 1992 and the signing of intergovernmental agreements on the Asian Highway Network (2003) and Trans-Asian Railway Network (2006). In contrast, it took China less than five years to launch and operate a multilateral financial institution (AIIB), and to create global momentum around Eurasian infrastructure building. No head of State or government across the large geographic area included in BRI has not heard about the Chinese initiative, included BRI in their diplomatic agendas for dialogues with Chinese counterparts, paid careful attention Beijing’s promises of capital and of a new type of “mutually beneficial cooperation,” and started to think about how their country could benefit from it, one way or another. What country, other than China, shows as much consistency and apparent dedication in its political, diplomatic and financial commitment to such a complex, diverse, unstable, and conflicted region, one that has been struggling for years to achieve economic development?

Yes, difficulties have emerged. Pakistan and Nepal, for example, have recently announced that they are reconsidering some BRI projects, because of unacceptable financing conditions in the

¹⁰ “International Strategy of Cooperation on Cyberspace,” Ministry of Foreign Affairs and Cyberspace Administration of China, March 02, 2017, accessed at http://usa.chinadaily.com.cn/epaper/2017-03/02/content_28410278.htm

¹¹ “List of Deliverables of Belt and Road Forum,” *Xinhua*, May 15, 2017, accessed at http://news.xinhuanet.com/english/2017-05/15/c_136286376.htm

¹² Wu Gang, “SOEs Lead Infrastructure Push in 1,700 ‘Belt and Road’ Projects,” *Caixin*, May 9, 2017, accessed at <https://www.caixinglobal.com/2017-05-10/101088332.html>

first instance and irregularities in the bidding process in the second.¹³ BRI will probably encounter more setbacks in the future, including local resistance to Beijing's financial conditions, an influx of Chinese manpower, or potentially harmful environmental impacts. But the Chinese government is well aware of the potential obstacles that lie ahead, and is working hard to anticipate and overcome them.

And yes, there's a certain degree of improvisation and flexibility in the way BRI is unfolding; but that doesn't mean it is not real. These characteristics are just a reflection of a system that works differently than ours. Assessments of success based on calculations of economic returns, quantifiable results and objective performance criteria, are not the most important and may not even be relevant in cases where projects have clearly been chosen, not for their economic profitability, but rather out of geopolitical motives.

The intangible manifestations of BRI are as important, if not more, than its actual concrete physical progress. With BRI, Beijing is not only strengthening its image as a truly global power, it is also developing a multi-layered web of political, economic, educational, industrial, and security ties with two-thirds of the world's population, sowing seeds that will shape tomorrow's Eurasian economic and geopolitical landscape. After all, BRI's success is not going to be counted in miles of railways laid on the ground, nor in pounds of steel exported to emerging markets, but in increased Chinese influence and possible domination over a key region of the world. This is what is at stake. This is what the Chinese regime is so determined to achieve. This is why we need to take BRI seriously.

5. Recommendations

- Recognize that BRI is about more than just infrastructure building, and that even its infrastructure component is problematic in terms of good governance standards.
- Be realistic about how engaging or cooperating with China on BRI will be able to “shape” and persuade the Chinese elites to change the course they have set for their country.
- Call out more systematically what is wrong with BRI and be more vocal about China's attempts to deprive concepts such as openness and globalization of their original substance and meaning.
- Formulate alternatives, and coordinate with other liberal democracies to achieve them.

¹³ The first project is Pakistan's \$14 bn Diamer-Basha dam on the Indus River, and the second, Nepal's \$2.5 bn Gandaki hydropower plant. See Ilaria Maria Sala, “More Neighbors Are Saying ‘No Thanks’ To Chinese Money – For Now,” *Quartz*, December 4, 2017, accessed at <https://qz.com/1136000/more-neighbors-are-saying-no-thanks-to-chinese-money/>