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CHINA ANALYSIS

"ONE BELT, ONE ROAD": CHINA'S GREAT LEAP OUTWARD

ABOUT

The Chinese have long been obsessed with strategic culture, power balances and geopolitical shifts. Academic institutions, think tanks, journals and web-based debates are growing in number and quality and give China's foreign policy breadth and depth.

China Analysis, which is published in both French and English, introduces European audiences to these debates inside China's expert and think-tank world and helps the European policy community understand how China's leadership thinks about domestic and foreign policy issues. While freedom of expression and information remain restricted in China's media, these published sources and debates provide an important way of understanding emerging trends within China.

Each issue of *China Analysis* focuses on a specific theme and draws mainly on Chinese mainland sources. However, it also monitors content in Chinese-language publications from Hong Kong and Taiwan, which occasionally include news and analysis that is not published in the mainland and reflects the diversity of Chinese thinking.

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Introduction
by François Godement

China has created an action plan for its Silk Road concept in the form of the "One Belt, One Road" (OBOR) initiative. It is grandiose, potentially involving an area that covers 55 percent of world GNP, 70 percent of global population, and 75 percent of known energy reserves. China's financial commitments to the project seem huge: some multilateral and bilateral pledges may overlap, but it is still likely we are looking at up to $300 billion in infrastructure financing from China in the coming years[1] – not counting the leveraging effect on private investors and lenders, and the impact of peer competition. Japan, for example, has just announced a $110 billion infrastructure fund for Asia, and the Asian Development Bank is hurriedly revising its disbursement rules to increase its lending capacity. This does not even include the grand bargain being discussed with Russia on overland transport, energy, and cyber-connectivity.

However, concrete details are scarce, especially at the bilateral level, where potential partners seem to supply more information than can be found in published Chinese sources. Implementation may span a very long time period – as much as 35 years, according to some of our sources, reaching

1 Note that this figure does not include the $890 billion of public investment recently announced by China Development Bank, one of China's policy banks. See: He Yini, " China to invest $900b in Belt and Road Initiative", *China Daily*, 28 May 2015. Available at: http://usa.chinadaily.com.cn/business/2015-05/28/content_20845687.htm.

completion in time for the 100th anniversary of the People's Republic of China in 2049.

This is also a geopolitical and diplomatic offensive; Xi Jinping talked first of a "community of destiny" among Asians, and our sources offer reassurance that China is seeking to "supplement" the existing international order rather than to revise it. But money also talks, and a strategy largely based on loans and aid is building China's financial power, in addition to the trade power it already possesses.

The world's great expectations further increase the audience for what the Chinese sometimes describe as the country's "second opening", after the 1979 model which led to China's rapid growth over three decades. For example, there is much discussion of the success beyond all expectations of the China-founded Asian Infrastructure Investment Bank (AIIB). Intense debate is being carried out about the Silk Roads in countries that have reason to worry about some of their implications.

China also risks overreaching itself, and there is much uncertainty about the process. Our Chinese sources keep returning to some caveats: this is a concept based on giving, in terms of finances and in terms of leadership. China faces the possibility of losing money or stirring up opposition. The competition among potential Chinese actors – now including everybody up to China's maritime coast – could provoke a "blind development" (*mengmu fazhan*) very much along the lines of events in China's past. It could also happen that the aggregated projects shift some of China's main trends of recent decades. Emphasising the westward continental overture represents a return to the late 1950s, when Mao rebalanced growth away from the coast with massive investments inland. The project also extends abroad the western development policy of the past decade. Is this a viable strategy, considering the obvious integration of coastal China in the global economy? Can geopolitical action trump economic interdependence, or will it drag down China's overall competitiveness?

Much of China's logic on the project is based on geopolitics and on the export of its huge infrastructure-building capacities. But even within China, these sectors are leading loss-makers. Geographical and geopolitical conditions differ widely outside China, especially along the continental routes. There is a debate about whether it is wise to pour such huge amounts into low-return projects and high-risk countries. Will this turn out to be a repeat of old mistakes, with overreliance on public financing and state-owned enterprises? Can China leverage private firms and investment in its grandiose plans? The answers are as yet unclear.

For the time being, however, no partner can ignore China's throwweight and its track record in building massive infrastructure. Europe itself is also setting up a €315 billion infrastructure investment plan that is contingent on market financing. How it will manage to leverage China's capital export drive for European growth is another interesting question – and perhaps a more important issue than that of a European minority stake in the AIIB.

1. China's "second opening": Grand ambitions but a long road ahead

David Cohen

Sources:

Chu Yin, "Realisation of 'One Belt, One Road' Strategy Requires More Careful Consideration", *Aisixiang*, 1 January 2015.[2]

Huang Yiping, "Don't Let 'One Belt, One Road' Fall into the Trap of Japan's Overseas Investments", *Zhongguo Gaige Wang*, 10 February 2015.[3]

Jia Qingguo, "One Belt, One Road: Urgent Clarifications and Discussions of a Few Major Questions", *Renmin Luntan*, 19 March 2015.[4]

Wang Yanchun, "Silk Road Innovation", *Caijing*, 23 March 2014.[5]

Zheng Xie, "'One Belt, One Road' is not 'China's Marshall Plan'", *Huanqiu Wang*, 17 November 2014.[6]

Chinese President Xi Jinping's recent tour of Kazakhstan, Russia, and Belarus gave him an opportunity to talk up his "Silk Road Economic Belt" (SREB) initiative. Xi signed trade deals in Almaty, Moscow, and Minsk, including an agreement to coordinate the SREB initiative with Russia's Eurasian Union project.

The SREB is aimed at facilitating land-based trade across the Eurasian landmass, and the concept has dominated China's relations with Central Asia ever since Xi proposed it in September 2013. Its sister project, the "21st Century Maritime Silk Road", is oriented towards the Association of Southeast Asian Nations (ASEAN). Together, these two projects are now usually talked about as part of China's global economic strategy known as the "One Belt, One Road" initiative (一带一路, *yidai yilu*, hereafter OBOR). The initiatives are elements of a regional economic strategy that also includes the planned China-Pakistan and Bangladesh-China-India-Myanmar Economic Corridors.

On 28 March, an "action plan" was jointly released by three agencies: the Ministry of Foreign Affairs, the National Development and Reform Commission, and the Ministry of Commerce. This plan sets out a vision in which Chinese-led infrastructure construction, reduced tariffs, and simplified customs administration would allow trade to flow seamlessly between China and Europe by both rail and cargo ship.[7] The action plan takes in every conceivable goal, from improving distributed supply chains to developing trade in services to increasing food security for the countries that participate in the project. In short, it is a statement of ambitions, which likely encompasses the priorities and pet projects of many dozens of bureaucratic actors. And Beijing has put its money where its mouth is. It has committed a total of about $100 billion to a trio of new infrastructure funds: $40 billion to the Central Asia-focused Silk Road Fund, $50 billion to a new Asian Infrastructure Investment Bank (AIIB), and $10 billion to the BRICS-led New Development Bank.[8]

The authors selected here describe the OBOR as a key element of a "new round of opening to the world" (新一轮对外开放, *xin yi lun duiwai kaifang*), a phrase used by Xi Jinping to describe his economic strategy.[9] Its goal, Jia Qingguo writes, should be to promote China's economic upgrading and rebalancing through such opening. However, the idea is still at the planning stage. It will take years to come to fruition and will face many serious challenges along the way. At this stage, even major elements of the plan appear to be up for debate, and the authors covered here appear to have taken advantage of this situation to push their own policy priorities under the banner of a new strategic slogan.

The authors agree that China should not expect to replace the established international trading system. A *Global Times* editorial published under the pseudonym of Zheng Xie focuses on rebutting the claims of Western outlets, which have described the programme as "China's Marshall Plan". Huang Yiping and Chu Yin discuss the limits of China's capabilities, warning that the project could be derailed by ham-fisted great power diplomacy, inattention to political risk, or excessive central planning. Despite the considerable economic upside for all participants, Huang writes, "One Belt, One Road is a good international economic strategy, but for now it is certainly not an easy one." ("一带一路"是一个好的国际经济策略，但是在目前的情况下要想取得成功却不容易, *"yidaiyilu" shi yige haode guoji jingji celüe, danshi zai muqian de qingkuang xia yao xiang qude chenggong quebu rongyi*).

2 Chu Yin is an associate professor of international relations at Tsinghua University, Beijing.

3 Huang Yiping is a professor of economics at Peking University's National School of Development and at Australia National University's Crawford School of Economics and Government. He was Chief Asia Economist at Citigroup from 2000 to 2009, and held a similar position at Barclay's.

4 Jia Qingguo is a member of the Standing Committee of the CPPCC and dean of the University of international relations at Beijing University.

5 Wang Yanchun is a journalist for *Caijing*.

6 This article is attributed to "Zheng Xie, an observer of international affairs". Zheng Xie (郑协), the name of a Song dynasty poet, appears to be a pseudonym.

7 For the English version of the Action plan, see: "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road", National Development and Reform Commission, 28 March 2015, available at: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

8 For more information on the AIIB, see Agatha Kratz's article in this issue.

9 Xi Jinping notably used the phrase during a Politburo study session. See: Xi Jinping, "Accelerating the implementation of a free-trade zone strategy, accelerating the construction of a new economic model based on openness", *Xinhua*, 6 Decembre 2014. Available at: http://news.xinhuanet.com/politics/2014-12/06/c_1113546075.htm.

Better planning needed

A recent report from Renmin University, described by the Xinhua News Agency as the first think tank report on the projects, confirms both the scale of the project's ambition and the limits of current planning.[10] The report says that the Silk Road projects will connect countries that represent 55 percent of world GNP, 70 percent of global population, and 75 percent of known energy reserves. China is to launch five years of strategic planning next year, with implementation expected to begin in 2021. The report estimates that the Silk Road projects will be fully realised in about 35 years, in 2049, the 100th anniversary of the foundation of the People's Republic of China. Likewise, a Ministry of Commerce official interviewed by Caijing talks in terms of the "new 30 years" (新30年, *xin 30 nian*), a reference that puts today's China on the threshold of a third era comparable to those begun by Mao Zedong and Deng Xiaoping.

Huang writes: "One Belt, One Road is a good international economic strategy, but for now it is certainly not an easy one".

Jia Qingguo writes that, great as the project's potential may be, China should not succumb to "wishful thinking" (一厢情愿, *yixiangqingyuan*). The OBOR is a strategic vision, but if it is to succeed, it will need a clear plan. Solutions will have to be found to the problems of harsh terrain, political instability, and geopolitical threats. Planners should also come to an agreement about the goals of the strategy: for now, he says, there are many different understandings of the strategy not only among academics, but also within government.

Huang Yiping says the OBOR represents a sea change in China's international profile. China's rise has put an end to the period of low-profile diplomacy that corresponded to Deng Xiaoping's advice to "hide your capabilities and bide your time" (韬光养晦, *taoguangyanghui*). With the OBOR, China as "a new great power is trying to supplement the international economic order"(中国作为一个新兴大国试图对国际经济秩序做出补充, *Zhongguo zuo wei yige xinxing daguo shitu dui guoji jingji zhixu zuochu buchong*). Huang says that China is playing a more active role, in line with United States President Barack Obama's demand that China take on more responsibility for providing international public goods. Another reason is to redress the limited role given to developing countries in international institutions.

Supplement, not challenge

The Renmin University report cautions that because of "'zero-sum thinking" ("零和博弈"式的解读, *"lingheboyi" shi de jiedu*), the Silk Road projects have been met with scepticism within China's immediate neighbourhood as well as resistance from outside powers. However, it notes that the main regional powers recognise the benefits of China's plan.

The *Global Times*, characteristically, rejects any suggestion of competition as slander, intimating that the rumours originate with US, which wants to discredit China. In contrast to the Marshall Plan, which aimed to control Western European nations and to contain the Soviet Union, China's OBOR is not an alliance and comes with no political strings attached.

However, Huang warns that some Chinese scholars want to pursue a strategic confrontation with the US, which, in his opinion, would be foolhardy. He says that some scholars of international relations believe the Asia-Pacific region is already divided between a China-Russia axis and a US-Japan axis. They view both the OBOR and the US's Trans-Pacific Partnership as moves in a zero-sum game. But Huang points out that China is still a middle-income country and has no guarantee that rapid growth will continue. The fate of the Soviet Union demonstrates what can happen to countries that throw their weight around without a firm economic base, while Japan's current economic situation shows that export-fuelled wealth does not last forever. To avoid ending up in either situation, the Chinese government should stick to the goal of a "peaceful rise" (和平崛起, *heping jueqi*). It should treat other Asian countries as equals and should even welcome US and Japanese participation in China's new institutions.

Jia says that regional powers, too, are wary of China's rise. China must avoid the perception that it is challenging Russia's position in Central Asia, while many of the target countries for the Maritime Silk Road project are currently involved in territorial disputes with China, which may make them reluctant to cooperate. In order to overcome this scepticism, China should use its growing strength to persuade its neighbours to "shelve disputes and pursue joint development" (搁置争议，共同开发, *gezhi zhengyi, gongtong kaifa*).

Chu focuses on political risk, cautioning China not to take smaller countries for granted. The Sinocentric world of the Tang Dynasty is fondly remembered in China, but other countries may not find the message of the Silk Road appealing. Chu says: "Although we are a righteous country, free of Western imperialism, colonialism, and racism, we and the OBOR countries are absolutely not equals" （尽管我们是仁义之邦，在处理国际关系上迥然不同于西方霸权表现出来的殖民主义与种族主义，但中国与一带一路上的国家并不是平等的, *jinguan women shi renyi zhi bang, zai chuli guoji guanxi shang jiongranbutong yu xifang baquan biaoxian chulai de zhiminzhuyi yu zhongminzhuyi, dan Zhongguo yu yidaiyilu shang de guojia bingbu shi pingdeng de*). Chinese planners have frequently failed to consider local and regional politics, which has exposed projects to political risk both from local opposition parties and from competing regional

10 Li Jinlei, "Report: Silk Road Economic Belt May Be Divided Into Three Phases; Initial Completion Predicted in 2049", *Zhongguo Xinwen Wang*, 28 June 2014.

powers. Chu says recent events in Thailand and Myanmar show that political instability is a major risk. The electoral defeat of a Beijing-friendly government in Sri Lanka could also disrupt the construction of a key port there – since, in contrast to the US during the Marshall Plan, China does not have the luxury of militarily occupying the countries in which it invests. On a regional level, India, the US, Russia, and Japan are all important players in OBOR countries and could use their power to block China's plans.

Rebalancing at home

The OBOR is an international strategy, but its success, Jia writes, will be measured by its effects on China's domestic economic rebalancing. China will send out its own capital, technology, and management experience, and will promote the development and prosperity of neighbouring countries. In so doing, the country will encourage its own economic transformation and make itself the centre of the regional economy. So as to ensure that investment is allocated efficiently and state assets are protected, private capital should take the lead in this strategy.

Huang stresses the danger of over-emphasising state planning and infrastructure construction, as do the experts interviewed by Wang Yanchun in *Caijing*. Huang writes that, should the Chinese government take on too much of the project, it would be at risk of repeating on an international scale the errors made in the development of China's west. Despite massive infrastructure investment in the western regions of the country over the past 20 years, they have made little progress aside from the development driven by natural resource extraction. Huang says: "When the central government offers a free lunch to localities, they stop worrying about economic returns" (中央政府投资，对地方来说相当于免费午餐，无论是投资决策还是项目实施，经济回报都不是重点考虑的因素, *zhongyang zhengfu touzi, dui difang laishuo xiangdang yu mianfei wucan, wulun shi touzi juece haishi xiangmu shishi, jingji huibao dou bushi zhongdian kaolu de yinsu*). Huang says that the government should take a limited role in developing the OBOR infrastructure projects and should delegate most investment decisions to host countries and to the market.

An Jianglin, an expert from the Gansu Academic of Social Sciences interviewed by Wang Yanchun in *Caijing*, raises the issue of "blind investment" (盲目投资, *mangmu touzi*). An warns that many areas have roads, for example, but there are no cars on them. The government's role is to coordinate policies, rules, and regulations to facilitate trade, not to prescribe the development of particular industries and regions. Unlike Deng's era of reform and opening, this one will depend on local innovation, not on investments flowing from planning authorities in Beijing.

In the same article, He Zhengrong, director of the Ningxia Department of Commerce, describes the Silk Road as a geographic reversal of the era of Reform and Opening, when the west was a hinterland to the developing and relatively open east. Now, He says, the most promising opportunities are in the Arab countries, Central Asia, and Russia. For the next 30 years, China's development story will be focused on the west.

2. Rebalancing China's geopolitics

Antoine Bondaz

Sources:

"Foreign Minister Wang Yi answers journalists' question on China's diplomacy, foreign policy and foreign relations", Ministry of Foreign Affairs, 8 March 2015.[11]

Editorial, "The 'One Belt, One Road' initiative is different from the Marshall Plan", *Huanqiu Shibao*, 3 March 2015.

Zhang Yesui, "The 'One Belt, One Road' initiative is not a geopolitical tool", Speech at China Development Forum, *Xinhua*, 21 March 2015.[12]

Wang Jisi, "'Marching towards the West', China's geopolitical strategy of rebalancing", *Huanqiu Shibao*, 17 October 2012.[13]

Li Mingjie "How to play the 'One Belt, One Road' symphony well", *Liaowang – Outlook*, 24 March 2015.[14]

Wang Yiwei, "How to deal with geopolitical risks during the implementation of the One Belt One Road", *Gongshi Wang*, 29 April 2015.[15]

Zheng Yongnian, "The 'One Belt, One Road' strategy helps the world economy rebalance", *Lianhe Zaobao – Oriental Morning Post*, 8 January 2015.[16]

Su Hao, "One Belt, One Road – Global foundation of the concept of a new type of great powers", *Shenzhen Shangbao – Shenzhen Economic Daily*, 15 April 2015.[17]

Power transition theory and the "Thucydides trap" say that rising powers, like China, elicit opposition from their neighbours and from dominant powers, like the United States, causing tensions to grow and increasing the likelihood of war.[18] China is well aware of this trap. Its official stance is to reassure its neighbours and to try to present China as a "new type of rising power" (新型大国, *xinxing daguo*). So, discussions about the "One Belt, One Road" initiative (一带一路, *yidai yilu*, hereafter OBOR) aim to present China as a non-threatening and non-revisionist rising power, dissimilar to others in the past. The authors here never present OBOR as a response to the US rebalancing strategy in the Asia-Pacific region; instead, they speak of it as a tool in China's strategy of non-confrontation and reassurance. The OBOR, as presented in Chinese media, seems like a concrete implementation of the concept of the "peaceful rise" (和平崛起, *heping jueqi*), an idea coined more than ten years ago by Zheng Bijian.

China is a "new type of rising power"

In his annual address to the press in March, China's Foreign Minister Wang Yi said that the OBOR was not a "tool of geopolitics" (地缘政治的工具, *diyuanzhengzhi de gongju*). In a nod to Western critics' fears about China's real intentions, he said the project should not be viewed through an "out-dated Cold War mentality". China's vice foreign minister, Zhang Yesui, echoed this message of reassurance at the China Development Forum later in March. He presented China as a satisfied power, fully integrated into the international system. Zhang said that China's OBOR is "not directed against any specific country or organisation" (不针对任何国家或特定的组织, *bu zhendui renhe guojia huo teding zuzhi*) but is a "useful complement" (有益补充, *youyi buchong*) to existing international and regional institutions.

This official position has since been repeated in the Chinese press. In an editorial published in *Huanqiu Shibao*, China is presented as a country that has learnt from history and intends to break the pattern of the rise of great powers, creating a new precedent of peaceful rise. China refuses "traditional geopolitical confrontation" (传统地缘政治对抗, *chuantong diyuanzhengzhi duikang*), does not "strive for hegemony" (争霸, *zhengba*), and "does not cheat and does not threaten" (不欺诈, 不威胁, *bu qizha, bu weixie*) its neighbours. Instead, China is committed to peace, and the implementation of the OBOR is the evidence of this commitment.

Su Hao has a similar analysis. Su says that regional powers are concerned about China's rise because, historically, a country that grows more powerful tends to "bully" (欺负, *qifu*) others. However, the world has entered a new period: China today is "a giver, not a taker" (不是索取，而是给予, *bu shi suoqu, er shi jiyu*), and it aims to help poorer countries in its neighbourhood to develop.

11 Full text available at: http://www.fmprc.gov.cn/mfa_chn/wjb_602314/wjbz_602318/zyjhs/t1243647.shtml.

12 Zhang Yesui is China's executive vice-minister of foreign affairs. He is a former ambassador to the United Nations (2008-2009) and to the United States (2009-2012).

13 Wang Jisi is professor and dean of the School of International Studies at Peking University. His article, published in 2012, was the first to advocate the implementation of the Silk Roads – it was published about a year before the official presentation of the Silk Road projects.

14 Li Mingjie is a journalist at the state-run magazine *Liaowang*. The term "symphony" (交响乐, *jiaoxiangyue*) directly refers to the musical metaphor used by Wang Yi during his press conference on 8 March, when he stated that the OBOR was "not China's solo, but a symphony performed by all relevant countries" (不是中方一家的"独奏曲"，而是各国共同参与的"交响乐", *bu shi zhongfang yijia de "duzouqu", er shi geguo gongtong canyu de "jiaoxiangyue"*).

15 Wang Yiwei is professor of international relations at Renmin University, director of the Institute of International Affairs and of the Research Center on the European Union.

16 Zheng Yongnian is head of the East Asia Research Institute of the National University of Singapore and a lifelong professor at the University of Nottingham.

17 Su Hao is professor at the Department of Diplomacy of China Foreign Affairs University.

18 Graham Allison, "Thucydides's trap has been sprung in the Pacific", *Financial Times*, 21 August 2012, available at: http://www.ft.com/intl/cms/s/0/5d695b5a-ead3-11e1-984b-00144feab49a.html#axzz3cZGPCmig.

The US and OBOR

Indirectly criticising the US as a traditional power, Chinese officials and academics repeatedly stress than the OBOR is not like the Marshall Plan. Wang Yi states that comparing the OBOR to the Marshall Plan is like comparing "apples and oranges". The OBOR is based on "open cooperation" (开放合作, *kaifang hezuo*) – which implicitly means that the Marshall Plan was not. The Huanqiu Shibao editorial agrees. The Marshall Plan placed harsh political conditions on the countries it covered and excluded pro-Soviet European countries, which led to the division of Europe. The OBOR initiative, on the other hand, is presented as an unconditional plan to assist in the development of China's neighbours, regardless of their current relationship with China. The editorial says that no country is being "forced" (被迫, *beipo*) to join China's initiative, even though China's neighbours will most probably join because of the attractiveness of the initiative. As the engine of global development, China is aiming to share the benefits of its economic growth.

In general, Chinese scholars seem very careful not to directly criticise the US in discussing the OBOR.

Academics such as Wang Yiwei criticise the US's regional "strategic encirclement" (战略围堵, *zhanlüe weidu*) of China, but all the writers insist that the OBOR initiative does not target the US, nor should it be seen as a response to the US rebalancing strategy in the Asia-Pacific. As early as October 2012, Beijing University professor Wang Jisi was the first Chinese scholar to speak of the need for China to revitalise three Silk Roads, to Southeast Asia, to South Asia, and to Central Asia. He argued that even though the US was "pivoting to the East" (东移, *Dongyi*), and Russia, India, and the European Union were "hoping for the East" (东望, *Dongwang*), China should not limit its strategic vision to the Asia-Pacific and should instead "march towards the West" (西进, *Xijin*). At the time, he made two points. First, there is almost no risk of US-China military competition in the west, because the two countries have a common interest in stability in the region, including in Afghanistan and Pakistan, and because there is huge potential for bilateral cooperation. Secondly, he refused to consider his concept as a response to the US rebalancing strategy, but rather saw it as a way to "geopolitically 'rebalance' [China's] thinking" (地缘战略"再平衡"思考, *diyuan zhanlüe "zai pingheng" sikao*).

In a roundtable organised by *Liaowang*, Li Ziguo, deputy director of the "One Belt, One Road" research centre, also says that the OBOR is not a response to America's rebalancing in Asia-Pacific or to Russia's Eurasian Union (EEU), but simply a new model of economic cooperation.[19] Wang Yiwei is very critical of the US for trying to prevent China from implementing the OBOR. He also strongly criticises Japan for standing at the vanguard (排头兵, *paitoubing*) of US strategy. However, he stresses that China's initiative is an inclusive model of cooperation that is open to all – it is aimed at building a "community of interests and security" (利益+安全共同体, *liyi+anquan gongtongti*) between China and its neighbours, including both the US and Japan.

"Rebalancing" the world economy

During his luncheon address at the China Development Forum, Foreign Minister Wang Yi said that "economic imbalances" (发展不平衡, *fazhan bupingheng*) are the root causes of conflict and that China should provide more "public goods" (公共产品, *gonggong chanpin*) to mitigate them. This argument, playing on the terms "imbalances" and "rebalancing", could be interpreted as an indirect criticism of the US.

In general, Chinese scholars seem very careful not to directly criticise the US in discussing the OBOR. Zheng Yongnian, based in Singapore, is one of the more outspoken commentators. He says that Western economies, and mainly the US, were responsible for the global economic and political imbalances that led to the global financial crisis. China should work to "rebalance" (再平衡, *zai pingheng*) these imbalances through the OBOR. He argues that the Western model of neoliberalism is in crisis and that Western countries want China to rescue them. However, saving the West would be China's "biggest strategic mistake" (最大的战略失误, *zuida de zhanlüe shiwu*), as would be focusing only on Western economies in its international strategy. China's priority should be to cooperate with developing countries. Zheng says that China should use this "rare historical opportunity" (千载难逢的历史机遇, *qianzainanfeng de lishi jiyu*) and take on its responsibilities as the largest developing country so as to push for a partial reform of global governance and international cooperation. This reform would not be aimed at weakening the US, but simply at empowering developing countries.

Su Hao also argues that the OBOR is not a response to US pressure, but unlike Zheng, he thinks the project should be used as a tool in the rapprochement between Asian and European economies. The OBOR could serve as a strategic bridge between two complementary economies, which should not have to rely on the US for their economic growth. Europe, he says, has taken the first step by "turning East" (欧洲转身向东, *Ouzhou zhuanshen xiangdong*), focusing more and more on Asia for economic reasons, and "disengaging" (抽离, *chouli*) from the US-Europe alliance. Even the United Kingdom, the US's closest ally, has joined the Asian Infrastructure Investment Bank (AIIB) and is starting to distance itself from Washington. In response, China is promoting the OBOR to overcome the obstacle of distance and to connect Europe and Asia.

19 The "One Belt, One Road" research centre is affiliated to the Ministry of Foreign Affairs' China Institute of International Studies (CIIS).

Reading the Chinese press would have us think that the OBOR, one of President Xi Jinping's key initiatives, is aimed only at economic rebalancing and at building friendly relationships with China's neighbourhood, with no grander geopolitical objective. This low-key tone is rare, and echoes an article on the AIIB by Wang Jun, in which he advises China to use the utmost carefulness in communicating about the AIIB and the Silk Road projects, to avoid both Chinese "populism" (民粹主义, *mincuizhuyi*) at home and misunderstanding and opposition from potential partner countries abroad.[20] It seems that Chinese commentators have taken the hint – Wang's suggested careful and measured messaging seems to be at work in the articles surveyed here.

20 Wang Jun, "How can the AIIB succeed?", *Caixin Zhoukan - Caixin Weekly*, 6 April 2015, available at: http://weekly.caixin.com/2015-04-03/100797344.html.

3. One Belt, One Road: What's in it for China's economic players?

Agatha Kratz

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Wang Yanchun, "Reconstructing China's trade", *Caijing*, 2 February 2015.[21]

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Jia Qingguo, "A number of issues that the OBOR urgently needs to clarify and prove", *Aisixiang*, 24 March 2015.[23]

Anbound, "'One Belt, One Road' is facing increasing challenges", *Caijing Wang (Opinion)*, 24 March 2015.[24]

Xu Gao, "Looking at the 'One Belt, One Road' strategy from a return on investment point of view", *Financial Times (Chinese version)*, 20 November 2014.[25]

China's Silk Road projects are often talked about in terms of their geopolitical meaning.[26] But the projects were originally conceived of as an economic grand strategy, designed to meet several growth-enhancing, trade facilitation, and rebalancing objectives.[27] The authors selected here

21 Wang Yanchun is a journalist for *Caijing*.

22 Zheng Yongnian is head of the East Asia Research Institute of the National University of Singapore and a lifelong professor at the University of Nottingham.

23 Jia Qingguo is a member of the Standing Committee of the CPPCC and dean of the University of international relations at Beijing University.

24 Founded in 1993, Anbound is a Chinese consulting firm and think-tank with links to the State Council (www.anbound.com).

25 Xu Gao is chief economist at Guangda Securities and has also served as an economist for the IMF and the World Bank.

26 In this article, the term "Silk Road projects" comprises all Chinese projects and initiatives launched or anticipated under the "Silk Road" umbrella. Within the Silk Road Projects, the *Yidai Yilu* (一带, 一路) initiative, also referred to as "One Belt, One Road", seems to be the most important and best publicised one – it is at the core of the official Action plan released on 28 March. However, other projects have also been envisioned or discussed under the wider Silk Road theme. This extensive nature of the Silk Road concept is illustrated by the fact that, while Anbound's Chen Gong focuses his analysis on the *Yidai Yilu* initiative, Jia Qingguo states that there are three roads in the making: one going east, one going west, one going south. Other articles and discussions over recent months have alluded to more projects, including for example an Arctic Silk Road and a Korean Silk Road.

27 In the Action plan for the One Belt, One Road, the financial crisis and slow economic recovery are cited as the main background determinants for the project. Besides, the project is mainly described as an economic route and network for economic development and prosperity. For the Action plan text in Chinese, see: "Vision and actions on jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road", issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorisation, 28 March 2015, available at: http://news.xinhuanet.com/world/2015-03/28/c_1114793986.htm.

recognise that the Silk Road plans could benefit China's economy. However, they believe that the project comes with financial risks, and they fear that old mistakes might be reproduced in its implementation, with undifferentiated strategies being applied to very different regions and situations in China's periphery.

China needs to restructure its trade

Caijing's reporter, Wang Yanchun, uses recent trade figures to explain the pressing need for China to "reconstruct its trade" (重构中国贸易, c*honggou Zhongguo maoyi*). He says that all the economies in Asia have entered a new development stage. The reorganisation of Asia's trade, due to new trade agreements among other factors, is transforming value and trade chains. This has led to a rapid reorganisation of economic structures and flows across Asia, which means that China must alter its traditional trade patterns.

To be sure, China's trade is still growing, but growth must be viewed in the context of the "new normal" (新常态, *xin changtai*). Growth in overall trade reached 3.4 percent in 2014, with exports growing by a mere 6.1 percent. Wang says that, for the third year in a row, China's trade objectives were not achieved in 2014. This weak performance was due to a number of reasons, including the fact that international demand is still depressed after the 2008 crisis, but a more important reason is the increased (labour-based) competitiveness of China's South and Southeast Asian neighbours. This has meant that investment in China's manufacturing sector has dropped and its share of the world's low-quality manufacturing production has fallen.[28] One seemingly positive consequence is that China's non-processing trade is now higher than its processing trade, which demonstrates China's evolution towards a domestic-driven, higher-quality-focused economic model.[29] However, as Ministry of Commerce spokesman Sun Jiwen puts it: "The 30-year era of continuous high growth in trade is gone forever" (外贸持续30多年的高速增长时代一去不复返了, *waimao chixu 30 duo nian de gaosu zengzhang shidai yiqubufufan le*).

Because of these changes, China needs to cultivate opportunities outside its borders. As an example, Wang cites the Ruyi Group (Shandong), which has established weaving and spinning plants in Pakistan to benefit from low labour costs, but has also acquired stakes in Australian and Japan textile manufacturers with the aim of setting up a truly international value and marketing chain. Today, the group is involved in Japan, Australia, New Zealand, India, and even the United Kingdom, Germany, and Italy. Wang says that the Ruyi Group's story illustrates the challenges facing China, and the need to go abroad in order to offset the country's fast-fading trade competitiveness in the context of highly internationally fragmented value chains.

The Silk Road project and China's "new opening"

Zheng Yongnian also says that China's era of high growth is gone. However, the Silk Road projects could provide China with a new opportunity for development. Zheng goes through the usual discussion of mutually beneficial cooperation with neighbouring countries and of sharing China's reform and opening experience to help partner countries promote economic development and address economic challenges. But beyond all that, Zheng sees the projects as a way to leverage China's advantages in finance, markets, technology, and production capacity in less developed markets. The Silk Road plans, he says, could help Chinese companies improve their "capacity for transnational operations" (跨国营运能力, *kuaguo yingyun nengli*), as well as to establish "foreign trade strongholds" (海外经贸据点, *haiwai jingmao judian*) and "production bases" (生产基地, *shengchan jidi*). The plans could also help China to deal with its severe problem of surplus production capacity, and could revive industries that are less efficient in the domestic market. Finally, the plans should promote an orderly "going out" for Chinese firms, which Zheng calls a "pivot abroad" (对外移转, *duiwai yizhuan*).

Jia Qingguo says the objective of the Silk Road projects should be China's economic upgrading, rebalancing and further opening.

Jia Qingguo says the objective of the Silk Road projects should be China's economic upgrading, rebalancing, and further opening. Jia calls it a "new wave of opening" (新一轮对外开放, *xinyilun duiwai kaifang*) – unlike in the past, when China opened itself up to participation from outside, attracting foreign investments, technologies, and management skills, China should now reverse its role by itself opening outwards.

The need for differentiation

Jia recognises the economic rationale for the Silk Road, but he is critical of the plan's formulation. He says the routes' three directions (east, west, and south) should be much more clearly differentiated. China's opening to the east should be based on promoting economic upgrading by taking advantage of East Asia's advanced science and technology economy. To the west and south, China's main objective should be to promote an economic boom in neighbouring countries, which would in turn further China's own economic transformation and growth as well as benefit Chinese companies and goods.

28 In 2014, FDI to China declined by 40 percent from the US, 22 percent from Japan, 10 percent from the European Union, and 24 percent from ASEAN, compared to 2013. And while in 2000, 40 percent of Nike's shoes were made in China, and 13 percent in Vietnam, in 2013, only 30 percent were made in China, compared to 42 percent in Vietnam.

29 Non-processing trade represented 54 percent of China's total trade in 2014, compared to 43 percent in 2005.

Anbound's commentary also calls for differentiation. It explains that "One Belt, One Road" was extended from the original "New Silk Road" project (新丝绸之路, *xin Sichouzhi Lu*), which only concentrated on the western route. This expansion is a mistake, according to Chen Gong, Anbound's chief researcher. Chen says that this diversification will cause China's (limited) resources to be wastefully dispersed over too large a field.[30] A better way would have been to concentrate resources on one area – Western China and Central Asia – to stabilise Xinjiang and promote the development of China's less developed western neighbours. However, China's south-eastern coastal provinces actively lobbied to be part of the initiative, leading to the drafting of a second route, which is to be launched concomitantly.

China's competitive advantage along the Maritime Silk Road is much weaker, but China has decided to engage significant resources there. Chen Gong says: "What China produces, ASEAN countries also produce, and what China thinks about developing, ASEAN also wants to develop" (中国生产的东西，东盟也生产；中国想发展的东西，东盟也要发展, *Zhongguo shengchan de dongxi, Dongmeng ye shengchan; Zhongguo xiang fazhan de dongxi, Dongmeng ye yao fazhan*). Therefore, the two regions are bound to compete more intensively, and China will face much greater difficulties along the Maritime Silk Road than it would have if it had focused only on the western route.

Demanding returns

Xu Gao shares Anbound's concerns that China is misallocating its limited resources. Xu looks at the Silk Road projects from the perspective of return on investment (ROI). He explains that the projects aim to build infrastructure and technology in developing countries. But a central question is whether the projects can bring China sufficient return on investment, especially since the political and economic environment in the countries involved is uncertain at best. Investing in these countries might risk increasing China's debt burden for the sake of limited returns. The author regrets that this consideration is very rarely taken into account in discussions on the project.

He undertakes a three-pronged analysis of the project to determine its potential ROI. From a micro perspective, the projects seem a bad idea. Infrastructure investment already represents a quarter of China's total investment, and returns on infrastructure investments are currently very low in China, often not even covering financial outlay. This has created the potential for a debt crisis in the country. Even so, in the Silk Road projects, China plans to continue investing in infrastructure, both in China and in countries where returns are even less stable and certain.[31] Therefore, developing the Silk Roads carries significant micro-hazard for China.

From a macro perspective, infrastructure projects could have an indirect benefit for China. Only part of the investment would go into China itself, but the infrastructure built would help link China to its neighbouring countries, thus easing the pressure on natural and energy resources and goods transport.

Finally, because the main actors in the projects are Chinese state-owned enterprises (SOEs), Xu says that the opportunity cost should actually be negative for China. Without the investments being made in the projects, the SOEs would in fact not make use of the excess funds available to them.

Therefore, the overall ROI of the project is not prohibitively low. Because of China's economic structure (dominated as it is by SOEs), further investment should actually reduce waste in the public sector and help to stabilise employment as well as the economy. And it offers a new investment opportunity for China's huge foreign exchange reserves, which have so far been heavily invested in low return US bonds.

This centrality of SOEs, however, runs counter to Jian Qingguo's recommendation to make private enterprises the backbone of the project – to leverage their energy, flexibility, and sensitivity to investment efficiency, and to avoid the "drainage" (流失, *liushi*) effect of SOEs.

Overall, the economic relevance of the Silk Road is commonly accepted, but its economic efficiency is open to discussion and debate. One final comment made by Chen Gong is that, in the end, the Silk Road projects are a large-scale reproduction of China's unbalanced model of development over the last ten years: based on public actors and infrastructure spending, and excessively supply-based. This goes against the government's desire to put these stimulus-based growth levers aside – but perhaps using them outside of China is more acceptable and less contentious.

30 According to Chen, "all of the items [of One Belt, One Road] are basically about spending money" (基本上都是花钱的项目, *jiben shang dou shi huajian de xiangmu*).

31 Note here that, while the Silk Road projects are outward-looking projects with a large part of their investment done abroad, they do include the upgrading of communication and economic infrastructures within China.

4. The geopolitical roadblocks

Raffaello Pantucci and Qingzhen Chen

Sources:

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Tang Yiru, "Where does the money come from for the One Belt One Road? Geopolitical risks cannot be ignored," *Guoji Jinrong Bao*, 9 February 2015.[33]

Hu Zhiyong, "How to understand the political risks of 'One Belt One Road'", *Aisixiang*, 2 March 2015.[34]

Jia Qingguo, "A number of issues that the OBOR urgently needs to clarify and prove," *Aisixiang*, 24 March 2015.[35]

Ge Jianxiong, "The History of One Belt One Road is misunderstood," *Financial Times (Chinese version)*, 10 March 2015.[36]

Pang Zhongying, "One of the resistances to the One Belt One Road is from India," *Aisixiang*, 4 March 2015.[37]

Chinese authorities – and authors selected here – describe China's "One Belt, One Road" (一带一路, *yidai yilu*, hereafter OBOR) strategy as one of the most important foreign policy initiatives in the twenty-first century, and Chinese authors agree. Across the country (and, increasingly, across the world), Chinese universities and research institutions are conducting projects to explore how the vision might be implemented. Meanwhile, China's leadership is offering economic incentives to help make the vision a reality, either through bilateral connections or through the new constellation of multilateral international financial institutions that China is developing.[38] However, Chinese comments also reflect that the strategy will have to overcome many challenges. Is Chinese business ready to go global? Are the countries along the routes ready to embrace the initiative? How much does China know about the countries involved and about how they will be changed by Chinese investment? And is China properly prepared to implement this strategy?

Internal challenges

Zhang Yunling outlines several internal and external constraints to the OBOR project. One problem is that results are expected quickly; President Xi Jinping has said that he wants to see the strategy having an impact this year. However, the foundation of the OBOR project is large-scale infrastructure investment, which cannot yield quick and visible returns. Zhang suggests that expectations should be lowered and that the plans should be given a ten-year timeframe for success. China also needs to be open about how the strategy is being developed and about who can be involved. Although the OBOR is a Chinese initiative, China must make sure it remains open to everyone along the routes, including to existing international institutions.

According to *Guoji Jinrong Bao*, Chinese authorities have tried to stress the openness of the OBOR strategy, particularly to private capital. Private funding has already started to materialise: for example, the "Maritime Silk Road Investment Fund Management Centre", a private capital company, is planning to set up a "Maritime Silk Road Bank" with $100 billion in assets to invest in projects in countries, regions, and cities along the routes. Chinese authorities are pleased about the development, although it must be admitted that there is a degree of risk attached to this new bank. Because of its size, the new institution could require public support if it should find itself in financial distress.

The OBOR has also attracted great interest within China from local and provincial governments. More than 22 provinces in China have said in their government working reports that they want to take part in the initiative. However, *Guoji Jinrong Bao* points out that the rush to implement the OBOR could lead to duplication and wastage. For example, many international railway projects have sprung up to go along with the initiative. But these routes tend to be expensive and are often underused. In the rush to support the OBOR, a number of provinces have poured subsidies into projects that are not necessarily economically viable. And many local officials have developed plans for cooperation with Central Asian countries that are focused on their own narrow regional interests rather than on achieving the larger national strategy. It seems that China's provinces and regions are getting caught up in the excitement around the OBOR, and the rush to join in could have damaging repercussions.

32 Zhang Yunling is professor of International Economics at the Institute for Asia Pacific Studies at CASS and a CPPCC member.

33 Tang Yiru is a journalist at *Guoji Jinrong Bao*.

34 Hu Zhiyong is a research fellow at the Institute for International Relations at the Shanghai Academy of Social Sciences.

35 Jia Qingguo is a member of the Standing Committee of the CPPCC and dean of the University of international relations at Beijing University.

36 Ge Jianxiong is professor of History and Historical Geography at Fudan University and a CPPCC member.

37 Pang Zhongying is professor of International Relations at the School of International Studies, Renmin University of China in Beijing.

38 The most publicised recent bilateral commitment was the $46 billion of investments pledged by Xi Jinping's during his two-day visit to Pakistan in April, which was followed soon after in early May by a visit to Kazakhstan, Russia, and Belarus in which a further $15.7 billion in deals were signed in Belarus alone. New international financial institutions include the Asian Infrastructure Investment Bank (AIIB), the BRICS' New Development Bank, the Silk Road Fund, a CIC-backed fund (announced recently, during Li Keqiang's visit to Brazil), and even, possibly, a SCO Development Bank.

External challenges

Zhang also describes three external challenges. The most serious one is the suspicion with which other countries view China's aims and strategic purposes. Many fear that the OBOR is a veiled attempt by China to dominate its neighbouring regions. These doubts mean that many countries are reluctant to cooperate in the initiative. Among potential partner countries, members of the Association of Southeast Asian Nations (ASEAN) are probably the most concerned.

Another challenge, Zhang says, is China's existing disputes with its neighbours. If the Maritime Silk Road is to become a reality, the first stop will be the South China Sea, an area that is the site of many territorial issues. Zhang is not convinced that China and its neighbours in the region can control the situation, avoid escalation, and create a new regional trading order.

> The most serious challenge for China is the suspicion with which other countries view China's aims and strategic purposes.

Many Chinese commentators are also concerned about political risk. Zhang points out that most of the countries involved in the OBOR are still in transition. China's economic growth, together with the impact that this growth has on its neighbours, will necessarily influence the internal political dynamics of these countries. Opposition parties will use China in their efforts to make statements against current authorities. Zhang says that China needs to do more research into its neighbours' domestic political situations. By doing so, it could help the large Chinese companies investing on the ground in these countries, which do not necessarily understand the political nuances of the environments in which they are operating. In this way, China could avoid dangerous unintended consequences.

Jia Qingguo says that along the routes to China's west, whether via Central Asia and Russia to Europe or via Pakistan to the Middle East, distances to market are long and geographical terrain is poor, with many areas only sparsely populated. Even in countries with sizeable populations, low economic development and limited market size constrain opportunities for profit. Many of the countries along the route have underdeveloped market economies that are beset by problems of corruption and of low administrative efficiency. Operating costs are often high and customs clearance is slow. The immaturity of these markets is likely to have a negative impact on the Chinese firms trying to implement the OBOR through these territories.

Hu Zhiyong says that the threat of terrorism represents another political risk along the OBOR route. As the United States and NATO withdraw from Afghanistan, it is becoming increasingly possible that the current government will collapse and the Taliban will return. If this happens, it will have a knock-on effect in South and Central Asia, increasing instability along the Silk Road routes into the region. The "three evil forces" (三股势力, *sangu shili*) could be the most destabilising force for the initiative – but the countries along the routes are not making a coherent effort to address these problems.[39]

Unsurprisingly, as in most discussions on Chinese foreign policy, the authors bring up the non-interference policy. Ge Jianxiong says that China rightly does not want to interfere with other countries' domestic issues, but that the reality is that others are interfering with Chinese business abroad. For example, China's water pipe construction project was burnt down in Libya in 2003, and in 2014, over 200 container trucks had to be abandoned on the roads in Kyrgyzstan because of disturbances by angry locals. What can or should China do when countries become politically unstable or break contracts, causing China to lose materiel, people, or money? Ge asks how China can expect to protect the achievements of the OBOR, given that it passes through such unstable countries, and at the same time protect Chinese companies and their interests, while not interfering in other countries' domestic politics. Chinese foreign policy needs to find a way to address this complicated dilemma.

Big countries: the US, Russia, and India

Another challenge for China and for the initiative is the potential for conflicts or geopolitical tensions to emerge with other powers. Hu Zhiyong believes that the US will have an impact on the OBOR. As China advances the project, the US will be forced to increase the attention it pays to Central Asia and to China's influence in the region. This will have consequences for the smooth implementation of the strategy.

Chinese commentators also expect resistance from Russia. Quoted in *Guoji Jinrong Bao*, Wang Yiwei expects that the Russian-led Eurasian Union (EEU) will divide the relevant countries along the route, leaving them torn between choosing to pursue stronger ties with Russia or with China.[40] Further, the EEU might not be willing or even able to cooperate with the OBOR. He says that the two initiatives are very different: one is a trade and economic corridor initiated by Beijing, while the other is a new economic zone controlled by Moscow.

39 The "three evil forces" are a Chinese analytical conception most frequently cited within the context of the Shanghai Cooperation Organization (SCO). They are "terrorism, separatism, and religious extremism" and are taken to mean the drivers of the terrorist groups that most concern Chinese policymakers.

40 Wang Yiwei is professor of international relations at Renmin University, director of the Institute of International Affairs and of the Research Center on the European Union. He has published extensively on the OBOR project. The EEU was formally launched in January 2015.

Hu Zhiyong agrees: the unbalanced trade relations between China and Russia, he thinks, will engender resentment between the two powers, as well as in the regional countries stuck between the two. Russia will be concerned about the fact that the OBOR initiative covers areas within Russia's traditional sphere of interest. He adds that Russia has an ambiguous attitude to China's territorial disputes with other countries. Moreover, its own historical, territorial, military, and ideological disputes with China will create barriers to the OBOR.

India may also challenge China's OBOR. The article in *Guoji Jinrong Bao* says that India remains cautious on the project and still has not expressed its full support. Pang Zhongying contends that India will be a challenge to China's OBOR. India sees the initiative not as an opportunity, but as a threat or a form of competition. Modi's administration has even come up with a counter proposal to the Maritime Silk Road: the so-called Project Mausam.[41] India's position at the moment is to indulge China's OBOR – in other words, to let it proceed while trying to gain a better understanding of it. But China has undertaken little research into the Mausam initiative, and right now seems reluctant to engage with it at all.

Conceptualisation and insufficient research

Jia Qingguo says China urgently needs to come to an understanding of the true meaning of the OBOR. There are many different interpretations of the project. Some see it as an opening up through China's western or southern regions. Others see it as an attempt to reach out to developing countries. And some see the project not so much as a new mechanism, but as a new strategic ideological concept and initiative aimed at launching a new development era. Commentators and stakeholders also disagree on what the OBOR should try to achieve. Some say it is mainly a form of economic cooperation, while others think it should go beyond that and aim to increase cultural exchange. Jia argues that this lack of understanding is a real problem for the development of the initiative. He calls for further research to ensure that the OBOR will generate tangible benefits for China and its partner countries along the routes.

Ge Jianxiong says that most people do not know the proper history of the Silk Road, and moreover, just because the Silk Road worked in the past, that does not mean that it would necessarily work today. He thinks that there is a misconception that China built the Silk Road. But in fact, the Silk Road developed organically to meet foreign demand for Chinese silk. Now, the situation is different. This time, the motivation for building the OBOR comes from China itself – it has neither the cooperation of nor the demand from other countries. Ge thinks it is impossible – or at least dangerous – to build such a huge project with a supply-based approach, or without a clearer sense of demand from partner countries. More research needs to be done on the needs of partner countries.

China's academic community believes that the OBOR faces numerous challenges. Internally, there is too great a focus on quick results, which could lead to wastage. Externally, the OBOR faces political risks, the "three evil forces", and challenges from big states which are either concerned about the project or have interests that conflict with it. Smaller powers are equally concerned, although they express this disquiet differently. Chinese scholars clearly reflect the Chinese authorities' view that the OBOR is a highly significant foreign policy idea that has moved beyond rhetoric. However, they find that its articulation is still unclear and that in its current conception, it faces numerous problems. Developing greater clarity will clearly be a driver of academic thinking for the near-term future.

41 "Project Mausam" is an initiative announced by Indian President Modi to increase India's links with countries impacted by the Maritime Silk Road. Characterised in the Indian press as a "transnational initiative meant to revive [India's] ancient maritime routes and cultural linkages with countries in the region", the project is seen as a direct response to China's OBOR. See Sachin Parashar, "Narendra Modi's 'Mausam' manoeuvre to check China's maritime might", *The Times of India*, 16 September 2014, available at: http://timesofindia.indiatimes.com/india/Narendra-Modis-Mausam-manoeuvre-to-check-Chinas-maritime-might/articleshow/42562085.cms.

5. China's AIIB: A triumph in public diplomacy

Agatha Kratz

Sources:

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She Jianguang, "Trying out a new international financing paradigm", *Caijing*, 7 April 2015.[43]

Shui Shangnan, "If the AIIB only focuses on mutual benefit, it won't succeed", *Gongshi Wang*, 13 April 2015.[44]

Meng Xiaoke, "Why have European powers embraced the AIIB one after another?", *Zhongguo Qingnian Bao – China Youth Daily*, 25 March 2015.[45]

Wang Jun, "How can the AIIB still succeed?", *Caixin Zhoukan – Caixin Weekly*, 6 April 2015.[46]

In October 2013, during Xi Jinping and Li Keqiang's tour of South East Asia, the idea of an Asian Infrastructure Investment Bank (AIIB) was first raised. Eighteen months later, 57 countries have expressed interest in joining the bank.[47] She Jianguang says there is "extraordinary excitement" (热闹非凡, *renao feifan*) around the project, and the legal capital objective of $100 billion might well be reached much more quickly than expected. The main aim of the bank is to promote the construction of infrastructure in Asia and to provide financial support to China's Silk Road projects. But the interest shown by countries from outside Asia – which even China did not expect – has made it a truly international project. Many even see it as a clear "first diplomatic victory" (外交初捷, *waijiao chu jie*) for China, as Cai Tingyi, Wang Yanchun, and Jin Yan say. How did the project gather such support? How much of a victory does it represent for China? And what challenges lie ahead?

The reasons for China's success

Caijing's journalists, Cai Tingyi, Wang Yanchun, and Jin Yan, say that the early success of the project was helped by the professionalism, openness, and high standards deployed in the initiative's preparatory phases. The process was transparent and several high-level consultations took place involving existing development banks and multilateral organisation experts.

More importantly, they say, the AIIB was created to fill a real need in terms of infrastructure financing. They cite an Asian Development Bank (ADB) report saying that Asia needs $8.2 trillion in infrastructure financing from 2010 to 2020. The World Bank (WB) and the ADB cannot supply this much, so the AIIB represents a useful platform to help fill the gap. This makes it only natural that many countries would want to contribute. Led by China, the project will aim to achieve what Asian countries have so far been unable to do: to channel Asia's impressive savings and foreign exchange reserves into long-term strategic pan-Asian investments.

She Jianguang and Shui Shangnan say that the bank's success was also a product of the very nature of the institution: "a multilateral development bank for a new age" (新时代多边开发银行, *xin shidai duobian kaifa yinhang*).[48] Meng Xiaoke says that existing development institutions are obsolete. The Bretton Woods institutions, for example, were set up 70 years ago, when the United States produced almost 50 percent of global GDP and held 70 percent of the world's gold reserves.[49] So, of course these institutions reflected US dominance. However, the global balance has been dramatically altered by the rise of emerging markets and the relative weakening of the developed countries since the 2008 crisis. Traditional institutions are now outdated and unsuited to the current global situation. The emerging countries – first among them China – have "speaking rights" (话语权, *huayuquan*) in these institutions that do not reflect their economic weight, and the US still possesses veto power, even though it represents "only" 17 percent participation in the International Monetary Fund and 16 percent of world GDP.[50]

To remedy this distortion, the reform of IMF voting rights was launched in 2010, but the process remains extremely slow, mainly due to US reluctance to carry through reform.[51] The *Caijing* journalists say that the US's attitude is "careless" (漫不经心, *manbujingxin*) and "arrogant" (傲慢, *aoman*), and that the US is dismissive of the need to restructure the current international financial order. Thus, by creating the AIIB, China is putting pressure on the West

42 Cai Tingyi, Wang Yanchun, and Jin Yan are all journalists for *Caijing*.

43 She Jianguang is CEO and chief economist at Mizuho Securities Asia.

44 Shui Shangnan is a guest professor at Southern China Agricultural University. He has been doing research on trade, development, and market policies for UNDP and has participated or been responsible for many United Nations economic development projects in Africa, Asia, Latin America, and China.

45 Meng Xiaoke is a journalist for *China Youth Daily*, based in Paris.

46 Wang Jun is lead financial sector specialist, East Asia and Pacific Region, at the World Bank.

47 Including 37 countries from Asia, 20 from outside of Asia, and four of the G7 countries. For a list of "prospective founding members", see the AIIB website's "Members" section, available at: http://aiibank.org/members.html.

48 This expression is actually from Cai Tingyi, Wang Yanchun, and Jin Yan's article, but sums up quite clearly She Jianguang and Shui Shangnan's views on the issue.

49 Numbers presented by Zhu Min in: Yang Lan interviews Lin Yifu and Zhu Min, "The AIIB's many victories", *Yang Lan Fangtan Lu – Yang Lan's interview records*, transcribed in *Caijing*, 7 April 2015.

50 IMF figure for 2015, based on US gross domestic product based on purchasing-power-parity (PPP), IMF WEO Database April 2015.

51 She Jianguang explains that the Republican-led US Congress, opposed to reform, has been delaying the process.

to further the reform of the existing institutions as well as offering developing countries an alternative: a multilateral cooperative banking organisation led by emerging powers. This is one of the main reasons that international public opinion was strongly in favour of China's initiative. Besides, the journalists add, the AIIB's success even among US allies shows the growing "antipathy" (反感, *fangan*) towards US hegemony, along with the "enthusiastic expectations" (热烈期待, *relie qidai*) for the internationalisation of the renminbi.[52] She Jianguang notes that, in the past, most calls for renminbi internationalisation came from inside China. But now, international support for internationalisation is growing, as more and more countries become tired of the "dollar predicament" (美元的困境, *meiyuan de kunjing*).

Shui Shangnan says that the AIIB is the subject of global interest because it represents a new type of institution whose objective is not, unlike that of the WB, to promote liberal Western values.[53] As an institution led by emerging countries, the AIIB aims to respond directly to their needs – which means, among other things, lower or looser conditions for financial support.

The EU "turncoats"

The reasons of Asian and emerging countries for joining the AIIB are quite straightforward. However, Meng tries to understand why European powers have embraced the AIIB – the countries that She Jianguang refers to as "turncoats" (倒戈, *daoge*). The AIIB project had only gathered 21 countries (including China) by the time the first "memorandum" was signed on 24 October 2014.[54] But the "unexpected" (出人意料, *churenyiliao*) declaration by Britain's Chancellor George Osborne on 12 March 2015 that the United Kingdom wished to join the bank as a founding member provoked an "avalanche-like wave of additions" (雪崩式的加入潮, *xuebeng shi de jiaru chao*), including Germany, France, Italy, and later on, Luxembourg, Denmark, and Switzerland.[55] "In one night" (一夜之间, *yiyezhijian*), the *Caijing* journalists say, the AIIB project evolved from a mostly Asian initiative to a full-on global, multilateral institution.

The *Caijing* journalists say that this "European diplomatic turnaround" (欧洲外交逆转, *Ouzhou waijiao nizhuan*) represents an "undeniable and severe defeat" (不能不算是严重挫败, *bunengbu xuanshi yanzhong cuobai*) for the US, which had put pressure on its allies not to join the bank. However, although the UK's move surprised some, it came as no surprise to China. Indeed, the journalists say, the UK and China had been in touch regarding the bank since the summer of 2014, following discussions with Li Keqiang during his visit to the UK in June. So, China had in fact always been optimistic that the UK would join. Germany had also pushed for a common understanding on the AIIB during G7 meetings, but the US and Japan had rejected its calls. Therefore, Germany, France, and Italy decided to join on their own. According to *Caijing*, in this instance as in that of off-shore renminbi agreements, European countries "fought to be the first and feared to be the last" (争先恐后, *zhengxiankonghou*).

The bank's success was also a product of the very nature of the institution: "a multilateral development bank for a new age".

Meng says that the European countries' decision to join the bank is not irrational. Europe has experienced economic difficulties over the past few years, and it is looking to benefit from Asia's impressive growth. Besides, in spite of its own depressed economic environment, European Union member states have plenty of funds available for investment, and they are looking for more profitable opportunities than those available in Europe. Finally, She Jianguang explains, France and Germany especially could easily lever their companies' significant experience, impressive technologies, and operational knowledge in the context of infrastructure building in Asia, and thus reap the benefits of the planned infrastructure projects. Therefore, She writes that investing in the AIIB is "profitable" (有利可图, *youliketu*) and "in line with the countries' national interests" (符合其国家利益, *fuhe qi guojia liyi*). Meng also points out that, since China's influence in the world is growing fast, EU countries see the AIIB as an opportunity to deepen their relations with China.

Meng goes further, stating almost wishfully that EU countries are also beginning to realise that a US-led international order might no longer be in their favour. He says that the EU started to lose confidence in the US during the 2008 crisis, when the US showed only limited support for the EU – it did not buy EU bonds, it downgraded EU countries (via US rating agencies), and later on it made intensive use of quantitative easing despite the fact that it hurt EU interests. Therefore, just like emerging countries, the EU might be growing more interested in building a space for itself outside US influence, and in looking to increase its "speaking rights" in the international order.

52 *Caijing*'s journalists cite EU countries' "fight" (争夺, *zhengduo*) over offshore renminbi agreements as a proof of this trend.

53 Shui Shangnan mentions the example of structural adjustment programmes, which were a condition imposed by the WB and IMF for financial support to economically distressed developing countries. He also notes the example of Burma, which has only been able to benefit from IMF and WB support since its democratic transition. According to the author, this shows that the IMF and WB are mostly looking to impose their liberal Western values, rather than to support development and prosperity.

54 "Memorandum on setting up the AIIB", 筹建亚投行的倡议, *choujian yatouhang de changyi*.

55 An expression used in Wang Ling, Zhang Yuzhe, Wang Liwei, Li Qing, Chen Lixiong (in Singapore), Zhang Yuanan (Washington), "How can the AIIB succeed?", *Caixin Zhoukan – Caixin Weekly*, 24 April 2015.

Challenges ahead for the AIIB

Many consider the AIIB's first steps to have been a victory, but Wang Jun thinks that to declare victory now would be "way too optimistic" (未免过于乐观, *weimian guoyu leguan*). The AIIB has a long road ahead, and China, as the leading country in the project, will face the greatest challenges.

Wang says that the first difficulty will come from the fact that the AIIB's founding members are very different from each other, in terms of development, values, faiths, and overall expectations. Therefore, China will have to "find common ground despite differences" (求同存异, *qiutongcunyi*).

Its ability to do so will prove extremely useful now that the real negotiation phase has officially started. Wang says that the governance structure of the AIIB is still unclear, and decisions will have to be reached on a number of issues, such as participation shares, voting rights, investment and loan procedures, and so on.

One of the most contentious issues will be veto power. The *Caijing* journalists note that participation in the bank will most probably depend on economic weight, along a regional split.[56] The journalists say that veto rights should be proportional to participation in the bank. And as more and more countries join the bank, China's share of participation will decline. However, because the US and Japan are not participating, China might retain de facto veto power.[57]

Du Dawei, a former representative of China at the WB, explains that if China should have veto power, participants might fear that China will use the bank for its own interests. The Caijing journalists say that China's response to this frequent objection is that the bank will aim to use consensus whenever possible, especially for strategic decisions. When voting is necessary for important decisions, a qualified majority might be required. And if a vote should be required, countries with the same interests could team up to gain the power of veto together.

Du notes that "still having a veto power mechanism in a multilateral organisation is quite backwards" (在当今的（多边机构中）仍有否决权，是落后的, ***zai dangjin de (duobian jigou zhong) rengyou foujuequan, shi luohou de***), especially since China is trying to break free from traditional institutions. Wang Jun agrees. He says that China has benefited from the growing "disappointment" (失望, *shiwang*) with the WB, and so it should avoid repeating the same mistakes.

Wang Jun sees one final obstacle: "talent" (人才, *rencai*). He says that the success of the WB comes from its governance, values, knowledge, experience, and expertise; it has built its influence on these attributes. Its influence relies not just on "the size of the money bag" (並非錢袋子的大小, *bingfei qiandaizi de daxiao*), but on its people. In terms of talent, the WB is an institution with concentrated know-how and capabilities. Similarly, China must concentrate skills within the AIIB. China will need to gather a pool of managers who can speak fluent English and understand international regulations, with a sound training in economics, high moral standing, leadership skills, and a global vision. This might be quite a challenge.

Wang concludes that these difficulties are much greater than Chinese had originally anticipated. Even if many see the recent wave of participants as a first victory, China has a long way to go to prove that it can successfully lead a multilateral financing institution.

56 In a public address on 25 March, Vice-Minister of Finance Shi Yaobin said that AIIB members would be divided between "inner" (域内, *yunei*, i.e. Asian) and "outer" (域外, *yuwai*, i.e. from outside of Asia) countries. At a recent meeting between founding members in Singapore, it was announced that Asian countries would most probably own between 72 to 75 percent of the bank. As such, the AIIB voting right structure would be quite similar to that of the ADB, where Asian countries hold 60 percent of voting rights and non-Asian countries 40 percent. For more information, see: "China to take 'up to 30 per cent stake' in AIIB development bank", *South China Morning Post*, 22 May 2015, available at: http://www.scmp.com/news/china/policies-politics/article/1806870/china-take-30-cent-stake-aiib.

57 Here again, founding members meeting in Singapore have announced that China would probably take a 25-30 percent stake in the Bank, with India likely being the second-largest shareholder (between 10 and 15 percent). For more information, see "China to take 'up to 30 percent stake' in AIIB development bank", *South China Morning Post*, 22 May 2015, available at: http://www.scmp.com/news/china/policies-politics/article/1806870/china-take-30-cent-stake-aiib.

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