

# Locating the Belt and Road in China's Broader Policy Shifts

ZORAWAR DAULET SINGH

The Belt and Road initiative is part of a broader Chinese policy reorientation where its leaders are responding to the challenges and opportunities of a fraying United States–led international order. The B&R was envisaged to gain strategic depth in the inner Asian hinterland to counteract geostrategic pressure from the US–Japan alliance as well as to buy time to reform a highly imbalanced domestic political economy.

The disintegration of the ancient Silk Route across Eurasia 600 years ago was a transformational event. Providing maritime powers with the upper hand, the collapse of the continental webs of communications altered the evolution of subsequent events in world history. Asia's later eclipse is often traced to the stasis of the Indian and Chinese empires leaving them in an unequal contest against a dynamic West. The 21st century has turned the tables dramatically as Asian resurgence appears poised to restore these states to their historical positions as leading economic centres. Leading from the front is China, which has positioned itself to resume its role as the engine for Asia. Evoking admiration and fear in equal measure, the Chinese through their Belt and Road (B&R) idea are claiming to remake Eurasia's geo-economic landscape.

A question being posed in every foreign office and corporate head office is: what are Chinese motivations in this initiative? Some can be discerned overtly, while other drivers are less obvious. The B&R is a manifestation of a broader policy shift in China, where its leaders are responding to the challenges and opportunities of a fraying and unsustainable United States (US)–led international order. The context and timing of the idea's origins suggests that it was intended to gain strategic depth in hinterland and inner Asia, to counteract geostrategic pressure from the US–Japan alliance as well as to buy time to reform a highly imbalanced domestic political economy. The B&R should be understood as part of the 2013–14 foreign policy shifts that provided concurrent stress on development, security and regional order-building.

## Geopolitical Depth

Most commentaries on the B&R have not provided the geopolitical contextual or

structural setting that led to Chinese leaders choosing a Eurasian-centred geostrategy.<sup>1</sup> This is ironic because for most of the past decade it was the maritime realm that was expected to witness the thrust of China's strategic expansion. The B&R appears to be a culmination of internal Chinese debates on the type of geostrategy to counteract the US's geopolitical position around China's maritime periphery. It has led to a continental-centred order-building strategy with Eurasia emerging as the preferred arena to implement and test Chinese ideas.

The Barack Obama administration's ambitious 2011 "Pacific pivot" had aimed to restore and expand US influence around China's eastern and south-eastern periphery, both by strengthening traditional alliances in East Asia as well as by building new maritime partnerships (Campbell 2011; Clinton 2011; Donilon 2011). By June 2012, the military dimensions of this "rebalancing" to Asia was also enunciated by US policymakers who declared an intention to devote substantial naval power to the Western Pacific (Panetta 2012). These moves had heightened Chinese threat perceptions with several analysts viewing the pivot as an attempt to divide Asia and build a regional coalition against China (Swaine 2012). Interestingly, initial Chinese responses to the US pivot were "cautious" with a "wait-and-see" posture. Michael Swaine suggests that the impending 2012 leadership transition, unwillingness to heighten regional tensions, which would play into the hands of the US, and general uncertainty regarding the staying power of the US's Pacific ambitions, all combined to stay Beijing's hand (Swaine 2012: 14–15). Even China's diplomatic and military assertiveness on its maritime periphery was restrained by an overarching posture of "avoiding conflict" with the US and its frontline allies (Swaine and Fravel 2011: 15).

By 2012, the idea that a Pacific expansion was a natural path for China's geopolitical rise was being questioned by influential scholars such as Wang Jisi (2012), who urged it to "look beyond the traditional problems of the coastal

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territory.” Wang argued that a geostrategy based on maritime assertiveness would fuel security dilemmas and risk a headlong collision with the us in a theatre where China held a weaker hand. Instead, a March West strategy would enable China to shape an area that was not defined by “a us-dominated regional order or a pre-existing economic integration mechanism.” Wang described his geostrategy as “rebalancing” rather than abandoning East Asia, and with “a parallel pursuit of both sea power and land power” (Yun 2013). To be sure, the Grand Western Development strategy in 2000 had also aimed at developing China’s western provinces to correct the internal imbalances vis-à-vis the richer coastal provinces. But, the altered international context of 2012 and growing Sino-us friction in East Asia ensured that renewed arguments for China to shift its gaze towards its inner Asian frontiers and beyond found traction in Beijing. Wang argued that it would also help “balance the Sino-American relations” as there is “immense space for both sides to cooperate on subjects like investments, energies, anti-terrorism, maintain stability and peace ... And there are no risks of military confrontation between China and America in this area. Instead, the us needs China’s help” (Wang 2012).

The course correction or adaptation came in October 2013 after intense debates about the wider direction for Chinese foreign policy. In a major forum on foreign policy, the entire Chinese leadership deliberated to establish the “strategic objectives” and “basic principles” on China’s approach towards its periphery for the following decade (Swaine 2014). Essentially, the new leadership decided to decrease their emphasis on the Dengist approach. This approach had eschewed leadership as part of a low profile, in favour of a proactive approach to shape the external environment, with the periphery deemed to constitute the core zone of attention. One facet of this new posture has been to demonstrate more resolve towards issues of sovereignty and territorial disputes. Another facet “is the emphasis on using China’s growing economic clout to develop an enduring, integrated set of relationships with periphery

states that will eventually alter their incentive structure in ways that benefit China and themselves” (Swaine 2014: 25).

This is where the B&R initiative fits in: as a means to secure and socialise the periphery and advance the possibility of a regional order that connects different subregions of Asia. During the 2013 Work Conference on peripheral diplomacy, Xi Jinping had remarked,

Maintaining stability in China’s neighbourhood is the key objective of peripheral diplomacy. We must encourage and participate in the process of regional economic integration, speed up the process of building up infrastructure and connectivity. We must build the Silk Road Economic Belt and the 21st Century Maritime Silk Road, creating a new regional economic order. (Cai 2017: 3)

By 2014, the Xi Jinping regime had further outlined its foreign policy agenda and expressed views on the changing international environment. In a Foreign Affairs Work Conference in November 2014, Beijing gave further expression to the October 2013 forum on periphery diplomacy. A central theme in Xi’s speech was the emphasis on China’s deep linkages with the international system:

China’s relations with the rest of the world are going through profound changes; its interactions with the international community have become closer than ever before. China’s dependence on the world and its involvement in international affairs are deepening, so are the world’s dependence on China and its impact on China. (Swaine 2015: 4)

Although espousing interdependence has been a feature of Chinese official rhetoric in the past, this assessment underscored that the nature of interdependence was becoming more symmetrical,

providing new opportunities. Marking a clear shift from Hu Jintao’s “cautious and conservative” 2006 line, the 2014 line was that “China’s growing strength and influence in an increasingly interdependent relationship with the world is a major feature that must be incorporated into Beijing’s diplomacy going forward” (Swaine 2015: 4–5).

In his speech, Xi called for China to “develop a distinctive diplomatic approach befitting its role of a major country” (Swaine 2015: 5). Swaine’s interpretation of this post-Dengist strategic thinking is useful. In an international system with “dispersed pattern of global economic power combined with the deepening involvement of a stronger and more influential—yet increasingly dependent—China apparently means for Xi that Chinese foreign policy must become more sophisticated, strategic, and dynamic in order to advance Chinese interests.” Foreign policy, thus, has acquired a function beyond an instrument for economic development to also “minimise the threats and maximise the benefits presented by a more complex and challenging environment” (Swaine 2015: 5).

Some Chinese analysts have been quite categorical in locating the B&R as one of the means of counteracting pressure from the us. According to this view, it is “not merely a series of engineering projects, but a strategic concept meant to break through us attempts to ‘strangle China.’” By choosing to direct Chinese geoeconomic power towards Eurasia, the B&R avoids a direct and costly “collision course with the us” and gains

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The reach of social policy in India has expanded significantly in recent years. Reaching larger numbers of people than before, some benefits now take the form of enforceable legal entitlements.

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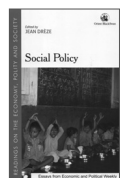
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strategic depth for China's continued development and security (Roland 2017: 118–19; Denisov 2015).

### Political Economy

The problem of under-absorption, that is, China's inability to fully absorb its supply-side production capacity, has been an inherent feature of China's economic story. Since the 2008 global economic crisis, China's investment-intensive export-oriented model, relying on massive reciprocal import demand in the high-income economies to absorb Chinese production, has widely been acknowledged as unsustainable. The steel sector has become symbolic of this overcapacity. Today, China can produce 1.2 billion metric tons of steel, 50% more than what is required for domestic and export markets (Naughton 2016: 2). The accumulation of imbalances and excess capacity over the previous period has a part to play in China's B&R strategy. Yet, as a former senior Chinese banking official<sup>2</sup> recently remarked, the B&R is not a solution for China's excess capacity problem. Given that China already runs a \$600 billion per year trade surplus with the rest of the world, it is unlikely that net exports can grow at a sufficient rate to absorb domestic overcapacity (Djankov and Miller 2016). This issue can only be addressed by painful supply-side reforms, which have been announced recently by Xi Jinping.

To understand the deeper drivers for the B&R, one needs to look beyond the overcapacity question and focus on the political economy dynamic inside China. The changes in China's mixed economy over the past two decades, the dramatic growth of private Chinese capital that occurred during this period, and the contradictions that it has produced within China's political system is arguably an important driver in the very choice and design of the "going out" strategy. It is generally recognised that the Chinese Communist Party (CCP) now represents mixed economy interests that emerged during the privatisation and opening of sectors to the non-state economic actors in the reform era. To be sure, Xi Jinping's "unwavering commitment to the dominant position of public

ownership suggests that there will not be large-scale Reagan- or Thatcher-style privatisation in China" (Borokh and Lomanov 2016).<sup>3</sup> But, the reality of a mixed economy cannot now be reversed. Privately owned businesses now account for 60% of China's gross domestic product (GDP) and for 88% of all manufacturing investment. State-owned enterprises, in contrast, account for about 20% of GDP and 35% fixed-asset investment.<sup>4</sup>

During the pre-crisis period, the pre-2008 high growth phase, China could handle these contradictions because everyone was making money.<sup>5</sup> Further, the massive stimulus via the state sector in the post-2008 period to compensate for the contraction in net exports and domestic demand diminished the relative position of private capital inside China.<sup>6</sup> Xi's centralisation of power and party-strengthening strategies must also confront the reality of non-state economic interests that have accumulated inside China. Could the conception of the B&R be linked with the aim of externalising the accumulation of private and state capital, and safeguarding the basic domestic structure?

The "going out" strategy could be aimed at accommodating (neo-liberal) reformist factions by offering private Chinese capital a credible alternative to expand abroad. By facilitating external options for private capital, domestic factional contestations may have been contained enabling a more durable intra-party consensus on the next phase of China's domestic governance. Some Chinese scholars have called the B&R "an upgraded version of the reform and opening up, an upgraded version of China's international trade, and an ungraded version of China's 'going out'" (Roland 2017: 109). Wang Yiwei (2016: 80), in particular, makes an interesting observation when he notes that the B&R "is not an extension of China's efforts to deepen reform, it is needed to support further reform. In China, there are still many forces attempting to undermine the construction of the Belt and Road."

Although the domestic realm cannot be fundamentally disturbed, the global offers a vast space for externalising China's domestic contradictions. The Chinese have stressed that, in addition to state capital, they are "looking to stimulate

Chinese and non-Chinese private capital" through the B&R (Ghiassy and Zhou 2017: 3). For example, some of the recent big investment projects in South East Asia (steel sector in Thailand, hydropower in Indonesia) are by private Chinese actors. In 2015, private Chinese companies pushed \$51 billion in outbound investment compared to the state sector's \$157 billion. In 2016, China's private sector completed about \$60 billion in outbound mergers and acquisitions and other direct investment, such as project finance.<sup>7</sup> The mixed political economy structure appears to have created incentives in the party-state to carve out room for the non-state private sector as a "go out" strategy, including in the B&R initiative (Liubing 2017).

In sum, domestic imbalances and the political economy contradictions vis-à-vis state and private economic actors need an external realm to accommodate and stabilise the diversity and conflicts of interest that have emerged inside China in the reform era. Within the national container, these struggles could become explosive, as we have seen in periodic crises during the evolution of China's opening-up process since the 1980s. Opening the external valve enables the preservation of the one-party system, promotes cooperation between state and private capital, and simultaneously staves off a stasis of the type that ensued after the 14th century when China turned inward.

### Conclusions

The phase of China as a so-called free-rider in a us-led order, content merely with capital accumulation and integration into a pre-existing system, has passed. The B&R is as much a consequence of a global power transition as it is an attempt to shape that transition in ways that can buttress China's regional and international position as well as preserve stability in the domestic realm.

From a geopolitical perspective, a Eurasian-centred geostrategy—which the B&R now embodies—appears as a pragmatic choice to avoid a headlong confrontation with the us in the Western Pacific. An inside-out political economy interpretation, on the other hand, suggests that the CCP is engaging in ambitious order-building at home to

accommodate, and perhaps even transcend, the contradictions that have emerged during the first reform era. The external realm with which China has become interdependent is seen as vital to regulate internal contradictions and stave off an existential crisis in the governance system. An outward-bound posture is now the key to preserving the fundamental characteristics in the domestic realm. Since the Chinese define order and security holistically, the pursuit of multiple goals through the B&R may not be seen as a contradiction. The dual aspect of the B&R, as an internal and external stabilising strategy, suggests that this is the clearest sequel to Deng Xiaoping's template for managing China's domestic and foreign policy.

## NOTES

- Recent exceptions include Roland (2017), Cai (2017), and Ghiasy and Zhou (2017).
- Liu Mingkang, former Chairman of China Banking Regulatory.
- At a politburo meeting on 23 November 2015, party leaders decided that the focus of the reform effort should be to "strengthen, optimise, and enlarge" state firms, while rejecting "privatisation," according to a detailed account of the meeting circulated on social media (Wildau 2016).
- To be sure, state-owned enterprises (SOEs) dominate infrastructure sectors; 72% of infrastructure investment comes from SOEs.

- Although domestic Chinese contestations have been a constant feature of the reform and opening-up era, the period leading up to Xi Jinping's ascent to leadership in 2012 witnessed intense power struggles, reflecting the gradual diffusion of state power and authority in the last two decades.
- SOEs have an advantage over access to the banking system and have received the lion's share of credit expansion in recent years.
- Financial Times*, <https://www.ft.com>.

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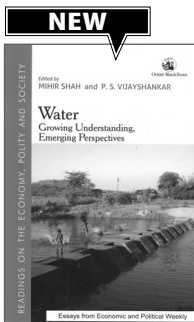
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## Water: Growing Understanding, Emerging Perspectives

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