President Xi Jinping’s “Belt and Road” Initiative

A Practical Assessment of the Chinese Communist Party’s Roadmap for China’s Global Resurgence

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Executive Summary

In the fall of 2013, Chinese President Xi Jinping put forward the strategic framework of building the “Silk Road Economic Belt” and a counterpart “21st Century Maritime Silk Road,” collectively referred to in abbreviated form in Chinese parlance as the “One Belt, One Road” (OBOR) initiative. The OBOR initiative is comprehensive, focused, and personal to President Xi. As with his rapid consolidation of political power, the striking feature of Xi’s efforts in this area is the speed with which he is moving to put his own stamp on China’s foreign affairs.

It would be difficult to understand the leadership’s vision for OBOR in the absence of a thorough review of the Chinese Communist Party’s (CCP) evolving foreign policy canon. In many ways, OBOR is emblematic of the shift in China’s “going out” strategy in keeping with its effort to transform China’s economic development model. OBOR not only represents a reenergized, more focused, and better coordinated push to expand China’s influence overseas, but it is also coupled with a domestic investment drive in which nearly every Chinese province has a stake. There is little doubt that President Xi views OBOR as the signature foreign policy theme of his leadership tenure and the practical embodiment of his “China Dream” for promoting national rejuvenation and cementing the country’s place as a leading world power.

Although there certainly is an underlying geostrategic component to OBOR, this element likely is overstated by foreign observers, and especially those in the United States. Still, diversification of energy supplies and related transportation routes undoubtedly serve as a primary geostrategic component behind OBOR. Nevertheless, OBOR appears far more geared toward advancing key Chinese economic goals than Beijing’s geostrategic ambitions. At its most basic level, OBOR is being trumpeted as the solution to helping overcome China’s struggle with developing its chronically underperforming regions by integrating them into a holistic, externally oriented development program.

Similarly, OBOR offers an opportunity to help absorb China’s massive excess industrial capacity that the increasingly over-leveraged Chinese economy simply can no longer sustain. In that same vein, OBOR-related projects can provide a lifeline to large state firms overburdened with debt by allowing them to gain access to fresh capital from state banks that might otherwise have to deal with a large wave of nonperforming loans that could precipitate a financial crisis. Finally, OBOR can be viewed as providing the leadership with a semi-controlled laboratory to test the ability of the larger industrial state-owned enterprises (SOEs) to meet the leadership’s call for developing themselves into internationally competitive global champions.

Despite the seeming multiplicity of motivations driving China’s OBOR policy, it seems hard to escape its one, very clear overarching goal. With these initiatives, Beijing, and more particularly, the CCP, seeks to reinforce the emerging global narrative that China is moving to the center of global economic activity, strength, and influence. No doubt China’s sustained economic downturn has put a dent in the CCP’s ability to make this
case. Still, the United States and other Western and regional countries should be wary of judging that this means projects like OBOR may be permanently knocked off course.

President Xi already has demonstrated steely determination to persist in the face of substantial headwinds with several programs he deems essential to China's comprehensive security and stability. His personal authority therefore has a lot riding on its success, and it is safe to say that the Politburo assesses that failure to execute on the plan simply is not an option.

Nevertheless, the path to success for OBOR likely remains a bumpy one. Analysts, scholars, and even some Chinese officials have raised concerns that the initiatives may be too hasty, too broad, too ambitious, and without sufficient preparations for unexpected contingencies. At the basic operational level, for example, there is the challenge of trying to coordinate among the plethora of government institutions that will have to be involved, each with divergent interests. Additionally, financial institutions will need to be cognizant of the range of credit risks present in OBOR countries. Additionally, construction firms and other enterprises building their presence in countries along OBOR will need to prepare for potential environmental, political, and security threats to their operations in these new markets.

Failing to assess risks appropriately may mean that the serious domestic preparations the central government has been trying to make for the project risk being wasted. This is especially so given that OBOR is more of a sweeping vision with a multitude of objectives than an operational blueprint. Few sizable infrastructure contracts have been signed so far and bona fide projects remain illusory. Foreign officials also note that, despite the enthusiasm with which Chinese officials have approached them about participating in OBOR, Beijing has been slow to table specific proposals for cooperation and nobody seems in overall control. Another substantial risk for the OBOR enterprise is precisely its association with President Xi's legacy, and therefore its political inviolability. The notion of politicization trumping economic practicality is becoming an all-too-frequent phenomenon in Chinese economic management in the Xi era.

In the near term, the question is whether Xi’s OBOR ambitions could be constrained either by a significant slowdown in Chinese growth, reducing the gravitational pull of China in regional trade and investment, or by an overly assertive foreign policy by Beijing, particularly on territorial issues. Beijing’s efforts at proactive economic diplomacy in Asia have been hampered by the country’s economic strength, by policy actions and statements perceived in the region as self-serving, and by lack of coherence. Even as China’s phenomenal growth has brought increased prosperity to the region, it has also fueled anxieties among China’s neighbors about competition and overdependence.

Despite these many difficulties and possible risks, however, it seems hard to deny that Asia’s insatiable thirst for quality infrastructure makes it likely that OBOR, though certainly running into painful obstacles now and again, will come out the other end with some modicum of success. It seems equally clear that Washington has been slow to recognize the intricate lattice the Silk Road projects are forming in conjunction with initiatives such as the Asian Infrastructure Investment Bank (AIIB) and the BRICS’s
(Brazil, Russia, India, China, South Africa) New Development Bank (NDB) that are shaping the economic landscape in Eurasia with important consequences for global business. As such, the new U.S. administration that takes office in January 2017 would be well served in thinking about new approaches to interact with and manage a process that, if President Xi gets his way, will be a force to be reckoned with for the next decade and beyond.
President Xi Jinping’s “Belt and Road” Initiative

A Practical Assessment of the Chinese Communist Party’s Roadmap for China’s Global Resurgence

Christopher K. Johnson

Introduction

In the fall of 2013, President and Chinese Communist Party (CCP) General Secretary Xi Jinping put forward the strategic framework of building the “Silk Road Economic Belt” and a counterpart “21st Century Maritime Silk Road,” collectively referred to in abbreviated form in Chinese parlance as the “One Belt, One Road” (OBOR) initiatives. In official Chinese statements, OBOR represents a modern reinvention of the ancient Silk Road that emphasizes “mutual trust, equality, inclusiveness and mutual learning, and win-win cooperation,” and that has “far-reaching strategic significance with a global impact.” Chinese official sources also underscore that, if the OBOR vision is realized, it would create a promising economic corridor, directly benefiting a populace of 4.4 billion people or 63 percent of the global population, with a collective annual GDP of US$2.1 trillion that accounts for 29 percent of the world’s wealth. After a lull of roughly a year, Xi announced during the November 2014 Asia-Pacific Economic Cooperation (APEC) meetings in Beijing that China would establish a $40 billion fund to finance the construction of the OBOR, and the Bank of China announced plans to extend credit of no less than $20 billion to OBOR-related projects in 2015 and $100 billion more over the next three years. Shortly after the APEC summit, Xi in a major foreign policy address to the assembled CCP hierarchy at a highly authoritative Foreign Affairs Work Conference stressed that “We should prepare timetables and road maps for the coming years for the OBOR project and will focus on some significant projects and let the construction of the OBOR commence as soon as possible.”

Against this backdrop, China’s approach to international diplomacy is changing. Having long been bound by deceased paramount leader Deng Xiaoping’s injunction to maintain a “low profile” abroad, Beijing has in recent years begun to advocate a greater role for itself in the international order. Chinese companies also are responding to this stimulus by leaving the confines and comforts of their home market and going overseas, seeking to tap fresh markets and acquire new technologies. In fact, in many ways, OBOR is emblematic of the shift in China’s “going out” strategy in keeping with its effort to transform China’s economic development model. While the early years of the “going out”

strategy emphasized the acquisition of the components needed to fuel China’s heavy industry, investment-led, and export-oriented economy, and therefore tended to confine the effort’s target countries to resource-rich countries largely in Africa and Latin America, the revamped going out strategy emphasizes projects that help China’s economy move up the value-added chain in every conceivable economic sector, making the scope and ambition of the effort much wider. As such, OBOR not only represents a reenergized, more focused, and better coordinated push to expand China’s influence overseas, but it is also coupled with a domestic investment drive in which nearly every Chinese province has a stake. Provinces have begun to build, for example, logistics centers and cultural extravaganzas in anticipation of growing trade and interaction with OBOR countries.

This paper argues that the OBOR initiative is comprehensive, focused, and personal to President Xi. It seems equally clear—as evidenced by public feuding during the last year with its European allies over Chinese initiatives linked to OBOR and public U.S. criticism of these same countries’ alleged excessively conciliatory approach to Beijing when it comes to economics and trade issues—that official Washington has been slow to recognize the intricate lattice the Silk Road projects are forming in conjunction with initiatives such as the Asian Infrastructure Investment Bank (AIIB) and the BRICS’s New Development Bank (NDB) that are shaping the economic landscape in Eurasia with important consequences for global business. Moreover, despite the seeming multiplicity of motivations driving China’s OBOR policy, it seems hard to escape its one, very clear overarching goal. With these initiatives, Beijing, and more particularly, the CCP, seeks to reinforce the emerging global narrative that China is moving to the center of global economic activity, strength, and influence. Moreover, the increasingly broad acceptance of this narrative within Chinese officialdom may lead the leadership to miscalculate by assuming they are effectively driving a wedge between governments, companies from different countries, or, in several cases, between companies from the same nation, which in turn could tempt Beijing to overplay its hand.

No doubt China’s sustained economic downturn has put a dent in the CCP’s ability to make this case. Still, the United States and other Western and regional countries should be wary of judging that this means projects like OBOR may be permanently knocked off course. President Xi already has demonstrated steely determination to persist in the face of substantial headwinds with several programs he deems essential to China’s comprehensive security and stability. For example, many analysts have badly misjudged Xi’s commitment to continuing his withering anticorruption drive—despite its questionable side effects—and underestimating the CCP’s determination to realize the OBOR vision would be a similarly fraught policy course. In fact, OBOR is so closely related to the key strategic benchmarks by which the Xi administration has said it should be judged, it is safe to say that the Politburo assesses that failure to execute on the plan simply is not an option.

Influences Shaping the Genesis of OBOR

Unlike Greek mythology’s description of Athena emerging fully formed from Zeus’s head, OBOR should not be viewed as the comprehensive brainchild of President Xi and his
close advisers. Instead, the geostrategic and geoeconomic underpinnings of the concept’s evolution reflect the confluence of several global megatrends and their resultant impact on China. Many of them represent the culmination of—or at least an important inflection point in—debates or processes that have been unfolding within China for much of the last two to three decades. With that in mind, it is difficult to conclude with any certainty where those debates might turn in the future, and what new issues might crop up that would influence the discussion going forward.

Deng’s Call for Restraint Recedes

China’s “assertiveness debate,” or the dispute over how aggressively China should project its resurgent power and influence on the global stage to defend what it refers to as its “core interests,” has raged intermittently—but with consistent vigor—in the aftermath of the global financial crisis, if not well before. The previous leadership under former Chinese President Hu Jintao struggled to stay on top of it, with Hu feeling compelled on numerous occasions to remind the CCP elite that the regime continued to abide by Deng Xiaoping’s “bide and hide” dictum, under which China adopts a low-key foreign policy approach and never takes the lead. After the burst of Chinese assertiveness that ran throughout 2009 and into 2010, most observers assessed the leadership moved decisively to quell the debate with the release of a major speech in December 2010 by then-State Councilor Dai Bingguo titled “Adhere to the Path of Peaceful Development.”2 As if to drive the point home still further, the Hu leadership followed up Dai’s treatise by separately releasing the White Paper on Peaceful Development the following September.3

As it turned out, the leadership was only artificially suppressing the debate as part of its campaign to maintain stability and avoid controversy through the succession period. To focus on just one outcome of that decision, the Politburo largely deferred an authoritative assessment of the implications of the U.S. strategic rebalancing toward Asia for China’s security, allowing suspicions of U.S. intentions to mount. As the departing leader, Hu Jintao was unwilling to take a firm stance that might unduly tie the hands of his successor. Likewise, Xi Jinping, still serving as Hu’s understudy and eager to avoid upsetting his position as heir apparent, was reluctant to offer any differing opinions, to the degree he had them, on how China should respond. One consequence of the ensuing policy drift was the much vaunted deepening of “mutual strategic distrust” under which mounting tensions in the security and military sphere risked getting out from under policy control.4

With the leadership transition now well over, however, the new team is formulating its own foreign policy strategies, as Deng’s injunction to “keep a low profile” internationally looks increasingly anachronistic. Perhaps the most obvious manifestation of the Xi administration’s reboot of the regime’s foreign policy priorities was reflected in the

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comments by Foreign Minister Wang Yi during his inaugural press conference at the annual legislative session in March 2014.\textsuperscript{5} Asked how he would characterize the new leadership’s diplomatic approach during its first year in office, Wang replied, “‘Active’ is the most salient feature of China’s diplomacy in the past year.” Wang praised Xi and his colleagues for pursuing a multidirectional foreign policy that included the tabling of the two outward-facing concepts that combined make up the OBOR initiative, the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road.”\textsuperscript{6}

China’s Checkered Track Record of Strategically Employing Its Economic Leverage

Since Deng launched the reform-and-opening process in the late 1970s, China’s predominant policy priority has been internal development and modernization. Beijing’s external economic policies, including toward its neighbors in East Asia, have primarily been a function of that priority; that is, they have been designed to support internal development either directly, by attracting foreign direct investment, or indirectly, by promoting the stable external environment that Beijing views as necessary for successful internal development. This is consistent with the overall strategy of China’s top leaders, which has centered on pursuing economic growth as a means to both legitimize Party leadership and advance China’s modernization and development.

This generally inwardly focused policy has been punctuated by periods of more proactive economic diplomacy. For example, following the Asian financial crisis in 1997–98, and again after the global financial crisis of 2008–09, Beijing used a combination of policy restraint (notably, avoiding renminbi devaluation), financial support, and appeals to “Asian solidarity” to build goodwill with its neighbors. In addition, while strongly preferring bilateral engagement and avoiding formal commitments that might constrain internal policy options, China has since the 1990s been an active participant in regional economic institution building, particularly in Association of Southeast Asian Nations (ASEAN)-centric organizations.

However, Beijing’s efforts at proactive economic diplomacy in Asia have been hampered by the country’s very economic strength, by policy actions and statements perceived in the region as self-serving, and by lack of coherence. Even as China’s phenomenal growth has brought increased prosperity to the region, it has also fueled anxieties among China’s neighbors about competition and overdependence. What Beijing touts as “win-win” economic cooperation often is seen by other Asian countries as distinctly tilted in China’s favor. Meanwhile, despite their position within the Party-state apparatus, Chinese state-owned enterprises’ (SOEs) and other provincial actors’ forays abroad have frequently taken place without any meaningful coordination with central foreign policymaking institutions, undermining the effectiveness of China’s diplomacy.

The Xi Jinping leadership team made an early and deliberate effort to improve overall coordination and strengthen economic ties with neighboring countries all around its


\textsuperscript{6} Ibid.
periphery. In particular, it has begun heavily investing, both rhetorically and financially, in regional “connectivity,” a key ASEAN priority. At the same time, Beijing’s increased assertiveness in the East and South China Seas has stoked concerns in the region about its intentions and undermined the positive results of its stepped-up economic diplomacy.

It remains to be seen how the Xi administration will address these contradictions in its regional policy going forward. Sino-centric patterns of trade and investment in Asia are likely to expand as China’s economic heft continues to grow. Chinese infrastructure investment is already creating a dense network of highways, railways, power lines, and pipelines that will further strengthen Southeast Asia’s commercial ties to mainland China. But whether Beijing will push further to establish exclusive “Asian only” economic institutions dominated by China, or will instead lend its energy and support to more open and inclusive Asia-Pacific institutional architecture, remains uncertain. The reactions of ASEAN member states thus far suggest that, while they have little choice but to hitch their wagons to China economically, Beijing has a long way to go in establishing trust and positioning itself as a legitimate leader in regional affairs.

Prioritizing Internal Development

China’s intense focus on internal development as the primary goal of the CCP can be traced back to Deng Xiaoping and the body of thought now codified as “Deng Xiaoping Theory.” Beginning in the late 1970s, Deng supported a shift away from the “revolutionary” foreign policy pursued by Mao Zedong, toward economic development through “reform and opening.” His famous 24-character guideline, introduced in the early 1990s, which urged China’s leaders to “observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile, and never claim leadership,” has served as the basis for Chinese economic strategy for the past three decades.

This intense focus on domestic development—and the desire to avoid commitments that might interfere with its pursuit—has since been repeatedly reaffirmed in major speeches by leaders and in Chinese policy documents, including two white papers released by the Ministry of Foreign Affairs in 2005 and 2011 on “China’s Peaceful Development.” Summarizing the position advanced by successive generations of Chinese leaders, they argue that “the central goal of China’s diplomacy is to create a peaceful and stable international environment for its development,” while maintaining that, as the world’s largest developing country, for China “to run itself well is the most important fulfillment of its international responsibility.”

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In fact, the hallmark of China's economic strategy during the Deng era and beyond was its emphasis on using “reform and opening” as an organizing principle for both domestic and international economic policy. Beginning with the Shenzhen Special Economic Zone in 1980, Chinese leaders began to aggressively court foreign direct investment (FDI) from more advanced partners—particularly the United States and Japan—in order to support rapid economic modernization. This was in sharp contrast to the early development strategies of both Japan and Korea, which had largely remained closed to inward FDI; in fact, China has maintained a larger share of FDI as a percentage of GDP than those countries through the present day.10 According to one source, foreign-invested enterprises continue to account for roughly half of China’s total trade.11

Even when elements of China’s economic strategy have appeared more outwardly oriented, the focus has remained almost exclusively on the domestic—sometimes to the detriment of China’s overall foreign relations. For example, the “Going Out” strategy officially endorsed under Jiang Zemin in 2002 encouraged SOEs to invest abroad, primarily in extractive industries, with an eye toward securing the commodity resources needed to fuel China’s growth.12 But the result—far from directly ensuring China’s overall resource security or improving relations with host nations—was that SOEs typically overpaid for the rights to develop resources that they then sold on the open market. The resulting environmental degradation, poor treatment of local populations, and tendency of firms to import Chinese labor helped create a negative image for China abroad.

Despite a growing sophistication and awareness of the need for a more considered and coordinated approach to advancing foreign economic relations, the primacy of internal development is a theme that remains evident in Xi Jinping’s priorities. Xi’s signature vision of the “great rejuvenation of the Chinese nation” references “two centenary goals” as the key benchmarks for the nation: doubling GDP per capita for urban and rural residents by 2020, and turning China into a “socialist modernized country . . . rich, strong, democratic, culturally advanced, and harmonious” by 2050.13 The purpose of foreign relations thus remains first and foremost to secure “good external conditions for China’s reform, development, and stability,” placing development alongside such cherished Chinese foreign policy objectives as securing sovereignty.14

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14 Ibid.
Periodic Success in Economic Diplomacy

Beijing’s focus on internal development has been punctuated over the past two decades by occasional bursts of successful economic diplomacy—though even this has often been reactive rather than driven by a deliberate strategy conceived in Beijing. For much of the late 1980s and early 1990s, as China began to grow rapidly, ASEAN states came to view the country both as a trade competitor and as potentially diverting scarce investment dollars away from Southeast Asia. Chinese leaders attempted to allay these concerns by progressively normalizing relations with their southern neighbors throughout the decade. In 1996, they advanced a “New Security Concept,” first at the Shanghai Cooperation Organization (SCO) and then at the fourth ASEAN Regional Forum (ARF) in 1997, which stressed that “security of sustained development” was China’s primary goal. But despite the normalization of China-ASEAN ties in that same year, Beijing’s growth was still seen as posing a major threat to its neighbors’ development.

This changed with the onset of the Asian financial crisis in 1997. As a wave of defaults and devaluations hit the region, from Thailand and Indonesia to South Korea, Chinese Premier Zhu Rongji made a critical decision not to devalue the renminbi, a move that analysts had predicted would have severe destabilizing effects on the region as whole. China also contributed an estimated $4 billion to its ailing neighbors, both through bilateral channels and through participation in bailout packages put together by the International Monetary Fund (IMF).

While the reasons behind the Chinese decision to abstain from competitive devaluation were many—including a desire to avoid stoking domestic inflation and deepening a contentious bilateral trade deficit with the United States—Beijing’s restraint proved a major success in improving regional relations. Not only did it lend strength to Beijing’s narrative of China as a “stable and responsible economic power,” but apparent American indifference—10 days before the IMF approved a record $57 billion bailout for South Korea, President Clinton had described East Asia as experiencing “a few glitches in the road”—bolstered feelings of Asian solidarity.

Zhu Rongji sought to capitalize on this change of attitudes by strengthening China’s relations with its neighbors. At the Third ASEAN+3 Informal Summit in November 1999, he proclaimed, “China cannot develop without East Asia, neither can East Asia prosper without China. As a member of East Asia, China attaches great importance to increased cooperation with other countries in East Asia.” A year later, China was involved in

launching the Chiang Mai Initiative, which aimed to bolster regional financial stability through the creation of a network of bilateral reserve swap agreements among ASEAN+3 countries.

Zhu also proposed a China-ASEAN Free Trade Area, the initial framework agreement of which was signed in November 2002—the first such agreement concluded by ASEAN with an outside partner. Critical to the success of this effort was an “early harvest,” whereby China agreed to unilaterally reduce tariffs in key areas in 2005, five years before the agreement was to fully take effect for Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, and a decade before Vietnam, Laos, and Cambodia would be required to open their markets to China.

Five years later, with the onset of the global financial crisis of 2008–09, China again played a major role in limiting economic damage to the region. In addition to deploying a massive economic stimulus package that bolstered domestic growth and helped avoid a downturn in regional trade, Premier Wen Jiabao pledged a Southeast Asian regional infrastructure investment fund of $10 billion, along with a $15 billion line of credit for poorer ASEAN states and $39.7 million in “special aid” for Cambodia, Laos, and Myanmar.

Scoring Own Goals

In addition to the economic benefits for China, these efforts at regional economic diplomacy helped win Beijing plaudits and goodwill in the ASEAN region. But what the right hand has given in the form of positive economic diplomacy, the left has increasingly taken away in the years following the financial crisis, as Beijing has pursued other policies that raise suspicion and fear in the region. There are long-standing concerns in ASEAN that what Beijing touts as “mutually beneficial” development will actually have the result of exporting China’s domestic problems, including environmental degradation. Moreover, there is a widespread perception in the region that “mutually beneficial” development projects often benefit China more than the host country: most investment projects involve predominately Chinese workers rather than local labor, and the structure of trade—whereby China primarily imports commodities from less developed nations—has given rise to accusations of neocolonialist behavior.

In addition, when China has used its growing economic sway in an attempt to advance foreign policy goals, these efforts have often backfired. Following a rare visit from

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23 There are also strong concerns that China neglects significant economic and social issues such as rule of law, food and water security, and human rights. Jeffrey Reeves, “China’s Unraveling Engagement Strategy,” Washington Quarterly 36, no. 4 (Fall 2013), http://csis.org/publication/twq-chinas-unraveling-engagement-strategy-winter-2013.
24 Ibid.
President Hu Jintao to Cambodian Prime Minister Hun Sen and new agreements on trade and aid signed between the two nations in 2012. Beijing successfully pressured Cambodia not to release the full communiqué from the 20th ASEAN Summit. Far from achieving its goal of downplaying concerns over the South China Sea and preventing a regional consensus from forming against it, Beijing’s blatant interference merely heightened concerns about Chinese behavior and spurred Indonesian action “to restore unity in ASEAN ranks.” This resulted soon after in the issuing of “ASEAN’s Six-Point Principles on the South China Sea”—exactly the kind of outcome China had hoped to avoid.

More broadly, this has elevated concerns that Beijing’s long-term strategy is to persuade neighboring countries to accommodate Chinese interests through the sheer size of its military and economic heft. This theory puts the increasing asymmetric economic interdependence between China and its neighbors in an unfortunately sinister light, particularly as Beijing has already demonstrated its willingness to wield sticks as well as carrots, as demonstrated by its use of economic coercion against both Japan and the Philippines.

Prospects for a Breakthrough

Xi and his colleagues are now closer than ever to achieving the “great rejuvenation of the Chinese nation” and restoring China’s historical position of economic, political, and cultural centrality in Asia. Today China accounts for roughly half of overall economic activity in East Asia and has become the world’s largest merchandise trader. The country has contributed the single largest share of any country to global and regional growth in recent years, and it is forecast that more than $1 trillion of Chinese FDI will flow abroad by 2020, much of it to China’s periphery.

At the same time, there is a growing risk that China’s current trajectory could produce a destabilizing backlash that undermines China’s own stated interest in maintaining a

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stable periphery.\(^{32}\) This results from the confluence of several factors: China’s growing economic preponderance in East Asia and concerns over the consequences of a Sino-centric regional economic order; Beijing’s more assertive stance in the regional security environment (and increasing willingness to back up its interests through economic coercion)\(^{33}\); and the clear gaps that exist between the self-serving vision of “mutual development” championed by Beijing and the preferences of its neighbors.

There are clear signs that current Chinese leaders are aware of these challenges. Press releases from an October 2013 work conference on peripheral diplomacy emphasized the importance of greater coherence in China’s overall foreign policy toward its periphery, treating regional neighbors “as friends and partners, to make them feel safe and help them develop,” and fostering a sense of “common destiny” between China and its neighbors.\(^{34}\) Xi Jinping has also personally endorsed efforts to promote regional “connectivity,” a key ASEAN priority. Shortly before assuming office in 2012, Xi declared at the China-ASEAN Expo in Nanning, the capital of southern Guangxi province, that regional connectivity is “a measure of strategic importance that will promote intra-regional economic integration and enhance regional competitiveness, thus contributing to a sustained and steady growth of the regional economy.”\(^{35}\)

But it is unclear whether Xi will be able to achieve the goals laid out at the periphery work conference, or even whether he can orchestrate a truly coherent strategy. China’s increasingly rambunctious domestic political environment and the growing array of Chinese actors directly and indirectly involved in foreign economic policy—from SOEs and provincial governments to myriad foreign aid bureaus—will all likely prove complicating factors in implementation. Furthermore, it is unclear whether even intensive and coordinated efforts at economic diplomacy can produce sustainable positive results given China’s continued narrow emphasis on domestic development and unwillingness to shoulder the burden of providing public goods. As discussed above, there is a widespread perception in the region that China’s economic diplomacy is largely self-serving. Moreover, as a prominent analyst has said, “China’s commitment to free trade remains selective and narrow.”\(^{36}\) More broadly, until China rebalances its economy away from the current investment- and export-led model toward consumption-led growth, China’s contribution to regional demand will be below the level required to fulfill its stated commitment to “mutual development” and “win-win cooperation.”

China’s growing economic strength, while something of a mixed blessing in terms of regional perceptions, on balance clearly gives Beijing more policy leverage in Asia. Beijing under Xi Jinping seems more likely to try to use this in the coming years to promote a more Sino-centric regional economic architecture. In the near term, the only question is whether those ambitions could be constrained either by a significant

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\(^{32}\) Ibid.
\(^{33}\) Glaser, “China’s Grand Strategy in Asia.”
slowdown in Chinese growth, reducing the gravitational pull of China in regional trade and investment, or by an overly assertive foreign policy by Beijing, particularly on territorial issues.

**OBOR in the Context of the CCP’s Evolving Foreign Policy Canon**

In many ways, OBOR serves as the embodiment and executive agent of recent changes President Xi has made to the way China envisions itself interacting with the world. In particular, and as is the case in so many other policy areas, Xi’s unique contribution appears to seek absolute alignment between China’s foreign economic diplomacy and the CCP-driven policy framework emerging as a hallmark of his tenure. As such, it will be difficult to understand the leadership’s vision for OBOR in the absence of a thorough review of the Party’s evolving foreign policy canon. One facet on which there is little doubt is that Xi is keen to nest his particular take on China’s foreign policy doctrine in the ideological lexicon of the CCP. This is necessary to build up his broader claim to be the ideological steward of the Party, and it is essential as a strong deterrent against other powerful interests in the system deviating from his foreign policy guidelines. As with his rapid consolidation of political power, the striking feature of Xi’s efforts in this area is the speed with which he is moving to put his own stamp on China’s foreign affairs.

**Theoretical Underpinnings**

To put Xi’s campaign in its proper context, it is important to review the several conceptual building blocks that undergird China’s foreign policy construct. Although such concepts can seem to outside observers to be overly laden with Marxist claptrap, they represent a vital means of terminological cueing within the CCP elite that signals elements of continuity and change in the leadership’s overall policy direction. As former Australian prime minister Kevin Rudd has observed:

> Westerners tend to dismiss such language, describing it as clunky in the extreme and ultimately meaningless. But given China is a rising power, and this is the language they choose to use to communicate with one another, we are required to do better than that and to deconstruct its content.

In fact, this approach may be even more relevant under Xi’s leadership than under that of his predecessors. Although it is admittedly still just a few years into his tenure, Xi stands out thus far for his penchant for articulating his policy prescriptions in theoretical terms. Ideological form and principles are strong motifs running through both his externally and domestically oriented policy speeches, and his key subordinates have

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gotten the message and are following suit. If Xi does indeed view the world around him at least in part through the lens of Marxist concepts such as historical determinism and the correlation of material forces, it may help outside observers to better rationalize some of his seemingly contradictory policy directions.

Take, for example, the conflicting messages coming out of Beijing concerning its relations with its regional neighbors. On the one hand, Xi has called for improving ties with China’s near abroad, such as in his address to the October 2013 conference on peripheral diplomacy mentioned above.40 Xi’s unflinching assertion of China’s sovereignty claims over disputed territories in both the East and South China Seas, however, is generating a pervasive level of insecurity among China’s bordering nations that risks invalidating Beijing’s good neighbor policy mantra. Some analyses—especially those coming from other Northeast Asian countries—assess that these seeming contradictions are the result of behind-the-scenes turf battles between the regime’s powerful constituencies, with the Chinese military often said to be pushing the civilian leadership to toughen its stance on sovereignty.41 This line of thinking certainly represents one means for squaring the inconsistencies in China’s actions, but it ultimately lacks explanatory power, especially in light of Xi’s demonstrable grip on the People’s Liberation Army (PLA) in the wake of the November 2015 announcement of the most sweeping retooling of the PLA’s command structure since its inception in 1927.42 A better means for coming to grips with China’s behavior is to enhance our understanding of the foreign policy tenets and concepts shaping the Xi leadership’s approach.

The first, and arguably the most important, is the so-called “period of strategic opportunity.” This concept encapsulates the CCP’s primary external strategic guideline and reflects the leadership’s judgment that China is enjoying a window extending through 2020 in which a benign external security environment allows it to focus on its internal development. The precept is highly authoritative within the Chinese system, having been validated and revalidated now by three Party congresses (the 16th in 2002, the 17th in 2007, and the 18th in 2012), and it is frequently referenced in official speeches43 and formal documents (such as China’s Defense White Paper).44 With China’s rapid military modernization and sizable year-on-year defense budget increases, it is easy to lose sight of the fact that the period of strategic opportunity acts as an important conceptual brake on a runaway military buildup. Implicit in its characterization of China’s priorities is the notion that economic development—and not the path of arms races and military adventurism followed by the Soviet Union—is paramount in securing the country’s return to global preeminence. As long as the concept remains in force,

there will be hard limits on Beijing’s willingness and ability to set out on a truly revisionist course aimed at fundamentally reshaping the balance of power in East Asia.

The second fundamental touchstone for China’s foreign policy approach is the concept of “peaceful development,” or the idea that Beijing’s neighbors and other major partners may rest easy that China’s rise can only be accomplished by peaceful means, and will only be pursued with an eye toward achieving “win-win” outcomes for all parties involved. But peaceful development is not just about reassuring the international community. It also is designed to advance China’s own strategic imperatives. Despite a brief—and politically contentious—flirtation with the alternative formulation of “peaceful rise” in Hu Jintao’s first term, like the period of strategic opportunity, peaceful development has been a mainstay of China’s diplomatic canon for more than a decade.

A third major underpinning for China’s interpretation of its place in the world is to understand the way in which the CCP conceptualizes two important anniversaries that will take place in the first half of this century—one during Xi Jinping’s final years in office, and another well after he will have departed the scene. The year 2021 will mark the centenary of the founding of the CCP, and the People’s Republic of China (PRC) will celebrate its one-hundredth birthday in 2049. For each of these major milestones, the CCP already has laid out fundamental—if somewhat vague—goals to be accomplished by the time of their passing. For the first centenary celebration, the CCP seeks to have met its fundamental domestic strategic benchmark—its prediction that China will have attained a “moderately well-off society” by 2020. As with the “period of strategic opportunity,” this concept has been validated by several Party congresses. For 2049, the stated goal is to “have built a modern socialist country that is strong, prosperous, democratic, culturally advanced, and harmonious.” Importantly, these more ambitious and comprehensive goals for the second anniversary would seem to speak volumes about the leadership’s assessment of the speed and trajectory of China’s continued rise going forward.

It may appear at first glance that these centenaries and their related targets say more about the CCP’s domestic ambitions and goals than its thinking on foreign policy. True, in their successful implementation, their primary intent is to provide the critical legitimation for sustained CCP rule. But Xi and his foreign policy lieutenants have tied them indisputably to China’s foreign policy orientation under the rubric of the “two centenary goals.” As Xi’s formal top foreign policy adviser, State Councilor Yang Jiechi, wrote in the CCP’s leading theoretical journal in August 2013, promoting healthy and stable relations with the United States, as well as with Beijing’s other major diplomatic

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46 Rudd, “China’s Impact on Regional and Global Order.”
partners, is “the inherent requirement of the ‘two centenary goals’ and the inevitable demand for our overall strategy of peaceful development.”

Of course, the successful attainment of these objectives will have profound international consequences. Although the leadership would never be foolish enough to declare it openly in its formally stated aims, many Chinese elites believe unquestioningly that China by 2021 will in purchasing power parity (PPP) terms have surpassed the United States as the world's largest economy. If it is efficiently channeled, that newfound economic power ultimately can shape strategic power and, therefore, geopolitical power. And while the number of voices is much smaller, and they tend to be clustered among the predictable institutions within the Chinese government, there certainly are some who expect that China in 2049 will even have attained conventional military parity with the United States. As such, their planning now reflects all of the many strategic consequences that would flow from that achievement.

**Xi’s “Chinese Dream”**

So, if all of these concepts have been the longtime touchstones of Chinese foreign policy thinking and theory, then what is new here? The answer is Xi’s “Chinese dream.” Xi’s innovation is his argument that the encapsulation of all of these foundational elements of Chinese statecraft lies in the realization of a Chinese dream that culminates in “the great rejuvenation of the Chinese nation.” In its most basic exposition, that great rejuvenation means that the PRC by 2049 intends to restore itself to a regional position of primacy. The Chinese dream also has a much more attractive ring than the jargon-laced catchphrases (e.g., the Three Represents; the Scientific Concept of Development) of Xi’s predecessors. It also is eminently flexible in its simplicity, allowing it to encompass both domestic and foreign policy considerations.

But, as with promoting the market to a “decisive” role in the economy, Xi’s real accomplishment with the Chinese dream is establishing its ideological foundation so early in his tenure. State Councilor Yang in his article described several attributes of the concept that substantially boost its status. First, he praises Xi for having “carried forward the Party’s fine tradition of linking theory with practice” in designing the concept. He then describes it as “a continuation and development of the important thinking of China’s peaceful development in the new era,” which validates its position in an unbreakable chain of authoritativeness while crediting Xi with advancing the theoretical ball. Indeed, what is most striking is Yang's repeated references to the “important thinking of the Chinese dream,” a description that at least notionally puts it on par with Jiang Zemin’s “important thinking” of the Three Represents, which earned Jiang his place in the Party pantheon as the author of a “guiding ideology” enshrined in the CCP Constitution. In practical terms, this means that, by taking decisive action so early in his first term, Xi bought himself the remaining nine years of his tenure to focus on policy design and implementation.

50 Rudd, “China’s Impact on Regional and Global Order.”
**Xi’s Foreign Affairs Work Conference Speech: Peace through Strength**

In late November 2014 President Xi delivered a keynote address to a Central Foreign Affairs Work Conference (FAWC) of the CCP, the first to be held under his stewardship as China’s top leader. Attending the meeting were all six of Xi’s Politburo Standing Committee (PBSC) colleagues, the rest of the full Politburo, China’s leading foreign policy practitioners, and hundreds of other officials from China’s provincial-level administrations, the military, SOEs, and the state bureaucracy. FAWCs are exceedingly rare, and equally authoritative. As with so many of Xi’s initiatives during his comparatively short time as Party boss, it is noteworthy that he chose to sketch out at least the preliminary outlines of his foreign policy vision after barely two years in office. By contrast, Hu Jintao presided over his first FAWC after nearly double that amount of time, in 2006. In his speech, Xi laid out a sweeping foreign policy platform, suggesting that, despite the many domestic challenges he and his colleagues were facing at home, he was determined to signal that a proactive, balanced, and, where necessary, muscular foreign policy approach is likely to be a hallmark of Xi’s rule.

In the first instance, the significance of Xi’s address lay in his review and endorsement of several of the key foreign policy doctrines mentioned above. China’s regional neighbors—and the United States—should take at least some comfort from Xi’s affirmation of these important concepts. He noted, for example, that China will continue to follow the “path of peaceful development,” and he also reaffirmed China’s judgment concerning the “period of strategic opportunity” (POSO) running through at least 2020, or roughly the period of Xi’s time in office. Xi’s repeated admonitions earlier in his tenure to the Chinese military to develop greater fighting capability to prepare itself to “fight and win wars,” along with more direct comments by senior Chinese officials under his leadership describing the U.S. rebalance as detrimental to China’s security interests, had cast a shadow of doubt on the leadership’s assessment of the POSO and had suggested that perhaps a view was emerging that the likelihood of conflict on China’s periphery was higher than the CCP previously had judged. Xi seemed to reject this notion in his speech, encouraging cadres to “not allow our views to be blocked by intricate developments” in the international system, but instead to remain focused on the POSO.52

Moreover, implicit in Xi’s endorsement of the POSO is a clear signal that China is not overtly seeking to be a disruptive power either regionally or globally. As good dialectical thinkers, CCP leaders have historically been quite reliable in abiding by the parameters they set out for themselves in terms of their theoretical assessments and prognostications. As a very traditional CCP leader, Xi Jinping is no exception. Consequently, authoritatively acknowledging that China’s external security environment will remain largely benign for the foreseeable future makes it far more difficult for the leadership to argue—as have revisionist powers in the past—that they must assert Chinese power more overtly and forcefully because the country’s interests in the region are somehow under threat.

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It would be a serious mistake, however, to suggest that Xi’s speech was nothing more than old wine in new bottles. In fact, as a self-professed acolyte of Deng Xiaoping, it is perhaps somewhat ironic, then, that a major takeaway from his speech was the notion that its content seems to move China more rapidly away from Deng’s longstanding injunction for the country to maintain a low profile internationally. Xi made several comments in the speech that made this quite clear. He argued, for example, that China’s biggest opportunity lay in the determined leveraging and further development of China’s strength and influence internationally. He also said, “China should develop a distinctive diplomatic approach befitting its role [as] a major country.” So, in effect, Xi was telling his audience that China already is a great power, and should start acting like one. This development takes on added significance when looked at in the context of Hu Jintao’s passive response to pressures to abandon Deng’s approach mentioned above.

In fact, Xi’s remarks in this vein also seemed to be subtly altering the definition of the POSO by stressing greater Chinese activism. Whereas the original framework carries the notion of China meekly accepting its advantageous external environment as a gift to be treasured, and, where China can within the constraints of its limited capabilities, to be sustained, Xi’s formulation seemed to suggest a much more forward-leaning approach whereby China seeks to shape the contours of the POSO through its growing power. In his speech, Xi acknowledged the deep interdependence between China’s domestic and foreign policies, but, again, he chose to frame that linkage in a seemingly different way. Instead of being the beneficiary of China’s good fortune on its periphery, Xi appears to view China’s domestic development as an engine for the promotion and expansion of a stable and secure abroad. Implicit in such a description is a sense of immense confidence in the inevitability and sustainability of China’s rise. Such thinking also is highly consistent with the ambitious forecast for China’s place in the world implicit in the “twin centenary goals,” suggesting Xi views his speech as the next logical link in the chain he envisions for building China’s future.

In operational terms, Xi’s FAWC speech highlighted a clear emphasis on more focused, and more adept, regional diplomacy. Xi made repeated references in his comments to the need for Beijing to adopt “win-win” strategies in its approach to its neighbors, and he suggested several new elements to be added to the country’s diplomatic toolkit—such as specific references to systematically developing Chinese soft power—to achieve that aim. Xi’s call for better regional diplomacy was consistent with the themes coming out of the October 2013 work conference he chaired on peripheral diplomacy, but repeating it in the more formal setting of a FAWC boosted the authoritativeness of the message and accordingly the signal of prioritization it sent to the wider Chinese bureaucracy.

As noted above, Xi sees robust economic diplomacy as a key element in his overall diplomatic strategy. His performance in hosting the November 2014 APEC leaders’ meeting and related summitry in the region clearly highlighted this priority. For example, Xi’s touting of the Free Trade Area of the Asia-Pacific (FTAAP), implicitly as an alternative to the U.S.-led Trans-Pacific Partnership (TPP), during the APEC meetings was an indication that China seeks to demonstrate its grasp of the notion that, in Asia, economics is security. It was from that meeting and Xi’s FAWC speech that the OBOR

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53 Ibid.
initiative was born. Signaling China’s neighbors that the economic health of the region is intimately tied to China’s continued growth and prosperity also served to advance Xi’s seeming predilection for a more multidirectional foreign policy approach than that of his predecessors. In fact, the other noticeable feature of Xi’s FAWC remarks was their apparent ambivalence toward relations with the United States, with U.S.-China relations receiving no direct references in the speech.

OBOR Mechanics

Besides its political objectives, OBOR brings a much needed strategic focus and greater policy coordination to the government’s “going out” strategy, which encourages Chinese firms to go abroad in search of new markets or investment opportunities. In fact, this effort to instill greater discipline highlights President Xi’s apparent drive not to repeat the mistakes of his predecessors. For example, former President Jiang Zemin promulgated the “Great Western Development” campaign of the 1990s to lift China’s far western provinces out of abject poverty, but the project failed to deliver results in the absence of steady oversight and demands for compliance from Beijing.54 Likewise, a key theme of Hu Jintao’s 2006 FAWC speech was trying to push the bureaucracy to do a better job of coordinating the foreign economic activities of a diverse set of actors, including provincial governments, national and local SOEs, and even private companies. Hu in his speech criticized these actors for damaging China’s reputation in target countries—especially in Africa—noting that such problems were hobbling China’s efforts to build “soft power” internationally and even provoked charges that China was engaging in mercantilist, neocolonialist behavior, a deep insult to China’s image of itself as a friend to—and protector of—the interests of developing countries.55

OBOR’s initial stated emphasis was on regional connectivity projects. The Silk Road Fund, which became active in February 2015, is backed by the China Investment Corporation (China’s sovereign wealth fund), the China Development Bank, the Export-Import Bank of China, and the State Administration of Foreign Exchange. This fund will be used to improve connectivity along the OBOR route by financing infrastructure, resources, and industrial and financial cooperation projects, with an initial focus on Central and Southeast Asia. Transport infrastructure will be a central focus, with roads, railways, bridges, ports, and airports high on the list. Unlike traditional aid projects, however, OBOR-funded initiatives are meant to generate profits. In fact, senior officials managing the fund have noted that it will conduct its work in keeping with “market-oriented principles” and should generate adequate returns for its shareholders.56

The AIIB, which is being spearheaded by China and was officially established in October 2014, is meant to help to finance construction along OBOR as well. The bank’s stated goals are to synergize substantial financial resources with China’s expertise in building

infrastructure to help development in other parts of Asia.\textsuperscript{57} According to official Chinese media, China will provide much of the $100 billion in proposed initial capital. At its announcement, it sought participation by other Asian governments and signed a memorandum of understanding (MoU) with 21 of them, with assurances that it would cooperate with other funding sources such as the Asian Development Bank (of which China is a member). Despite concerns expressed by the U.S. government about the AIIB’s governance structures and lending practices, it has quickly gained momentum. By the spring of 2015, more than 40 governments from five continents had applied to join the institution, including the UK, France, Australia, Brazil, and Russia. Japan may sign up later, although it remains “cautious.”\textsuperscript{58}

According to official media accounts, OBOR will cover nearly two-thirds of the world’s population and one-third of global GDP.\textsuperscript{59} The initiative is a departure from broader trends in Chinese outbound investment, which is increasingly being led by private firms. At least in the initial stages, the state—China’s SOEs and largest financial institutions—will be leading the way. In its discussion of OBOR, the government work reports delivered at both the 2015 and 2016 annual sessions of China’s legislature, the National People’s Congress (NPC), emphasized active involvement in overseas infrastructure investment and construction, such as through the export of equipment and machinery. The March 2016 NPC session ratified the draft of the 13th Five-Year Plan (FYP), which explicitly codified OBOR’s standing as one of several major pillars undergirding China’s economic development approach in the coming five years (others being the “Made in China 2025” initiative and the “Internet Plus Action Plan”).

Another element of OBOR is its integration into provincial government objectives. All of China’s provinces have indicated that they will actively participate in the implementation of the OBOR strategy. Two-thirds of these provinces have included it as a development priority and have featured it in their annual work plans for both 2015 and 2016. Preparations within China are being ramped up rapidly. National and provincial-level planners see the development of OBOR as a partial means for dealing with the country’s massive overcapacity in steel, cement, and construction materials. Much of the financing will come from Chinese institutions, and encouraging the broader use of the renminbi through contracted projects, currency exchange, and trade will be part of the push.

Marshaling the Full Resources of the Chinese State

In the wake of President Xi’s comments to the FAWC, the entire CCP and state machinery was mobilized to craft implementation plans for OBOR. The OBOR push is being led from the highest levels of the government, and involvement will run across several ministries. The government in early February 2015 held a two-day work conference to discuss the

rollout of these initiatives. The conference was chaired by CCP PBSC member and Executive Vice Premier Zhang Gaoli. Other senior CCP and State Council figures present included Politburo member and Vice Premier Wang Yang; Politburo member Wang Huning; State Council Secretary General and Politburo Secretariat member Yang Jing; and State Councilor Yang Jiechi.

Of note, as the core team charged with directing the OBOR effort, each of these leaders appears responsible for managing discreet aspects of the plan. As the sole PBSC member at the work conference, Zhang Gaoli is the team leader and is responsible for managing day-to-day PBSC supervision of the effort. In addition, his oversight of the industrial and financial sector portfolios on the State Council highlight the critical role that state firms in the banking, transportation, construction, and infrastructure sectors will be playing in the process. As the vice premier overseeing foreign trade, Wang Yang is tasked with managing the commercial engagement with foreign governments and companies likely to benefit from OBOR. Wang Huning, serving in his usual role as leadership spin doctor, presumably is in charge of crafting the overall messaging for OBOR and for integrating it into Xi’s overall vision of the “China Dream.” Yang Jing would be tasked with shepherding coordination of these initiatives between the Party and state organs; and Yang Jiechi is in charge of managing foreign suspicions and any diplomatic tensions that may arise in the course of implementing the OBOR initiatives.

In addition to these overarching responsibilities, the team’s other portfolios suggest that they also are tasked with ensuring smooth integration between OBOR and the new CCP organs Xi has created during his tenure. Zhang Gaoli is a deputy head of the Leading Group on Comprehensively Deepening Reform (LGCDR) established in conjunction with the 2013 Third Plenum, for example, and Wang Huning serves as its chief of staff. OBOR likely is serving as a test bed for many of the reforms, especially with state firms, which the LGCDR is supposed to be developing. Similarly, the staff of Xi’s new National Security Commission is playing a substantial role in managing the geostrategic elements of OBOR. Two of its four principal departments—those managing strategy development and high-level policy intelligence and analytics—are tasked with ensuring that OBOR is advancing Chinese soft power while also protecting Chinese security and commercial interests.

Some Geostrategic Underpinnings . . .

Although there certainly is an underlying geostrategic component to OBOR, this element likely is overstated by foreign observers, and especially those in the United States. Still, diversification of energy supplies and related transportation routes undoubtedly serves as a primary geostrategic component behind OBOR. OBOR and related efforts such as AIIB and NDB also appear designed, at least in part, to compete with the TPP and the Transatlantic Trade and Investment Partnership (TTIP), and to lay the groundwork for advancing alternative rules and regimes for the future. Moreover, China in recent years has proliferated an alphabet soup of alternative, primarily regional organizations, such as the SCO and the BRICS, few of which seem to have any real effectiveness. Given its sweeping scope, OBOR can be used to create linkages between these other organizations, and China hopes to make headway on this front via linking OBOR to the ASEAN Ten+1 arrangement, the SCO, BRICS, and the strengthening of bilateral cooperation with Russia
and countries in Central Europe, Central Asia, the Middle East, and South Asia. Such plans, if realized, would mark the culmination of another sea change in China’s foreign security and economic policy under Xi—China’s seemingly increasing confidence in using multilateral approaches to advance its own national interests.

. . . but Economics as the Central Focus

Nevertheless, OBOR appears far more geared toward advancing key Chinese economic goals than Beijing’s geostrategic ambitions. At its most basic level, OBOR is being trumpeted as the solution to helping overcome China’s struggle with developing its chronically underperforming regions—such Xinjiang, Ningxia, Qinghai, and Yunnan provinces in the west and the three rust-belt provinces in the northeast—by integrating them into a holistic, externally oriented development program. In fact, OBOR in some ways is best understood as a response to frequent complaints about the failures of past administrations—former President Jiang Zemin and Premier Zhu Rongji with the Great Western Development Campaign in the 1990s and their respective successors, Hu Jintao and Wen Jiabao, with their efforts to turn around the northeast in the 2000s—to successfully develop these areas. The failure of these previous efforts lay primarily in that the initiatives were isolated to the struggling regions themselves—largely with heavily state-driven investment projects—rather than seeking to tap in to the broader Asian region’s economic dynamism to propel these areas out of their malaise.

Similarly, OBOR offers an opportunity to help absorb China’s massive excess industrial capacity in steel, cement, and other industrial inputs that the increasingly over-leveraged Chinese economy simply can no longer sustain. In that same vein, OBOR-related projects can provide a lifeline to large state firms overburdened with debt by allowing them to gain access to fresh capital from state banks that might otherwise have to deal with a large wave of nonperforming loans that could precipitate a financial crisis. Cash-strapped localities—especially in China’s border provinces—also are seeing these projects as a way to drive growth and to prop up local state firms that do not have the same resources as the larger central SOEs. Finally, OBOR can be viewed as providing the leadership with a semi-controlled laboratory—through abundant financing and markets where competition is not particularly fierce—to test the ability of the larger industrial SOEs to meet the leadership’s call for developing themselves into internationally competitive global champions.

Potential Pitfalls

Despite these several advantages, the path to success for OBOR likely remains a bumpy one. Analysts, scholars, and even some Chinese officials have raised concerns that the initiatives may be too hasty, too broad, too ambitious, and without sufficient preparations for unexpected contingencies. At the basic operational level, for example, there is the challenge of trying to coordinate among the plethora of government institutions that will have to be involved, each with divergent interests, including the National Development Reform Commission, the Commerce Ministry, the Finance Ministry, several major state banks, the Foreign Ministry, and local governments. Such
observers acknowledge the possible coordinating function of the LGCDR but suggest that it is still developing clear lines of authority and that it remains largely untested.

Many analysts also underscore China’s lack of experience, human capital, technological knowhow, and expertise to manage the process, noting that OBOR, if implemented in detail as broadly envisioned by the leadership, would be historically unprecedented, dwarfing the post–World War II Marshall Plan in Europe. Financial institutions will need to be cognizant of the range of credit risks present in OBOR countries. Construction firms and other enterprises building their presence in countries along OBOR will need to prepare for potential threats to their operations in these new markets.

Beyond these internal difficulties, China faces several challenges in implementing OBOR that it is unlikely to be able to anticipate or control. These include environmental concerns, both domestically and abroad, as well as substantial uncertainties in the target countries and regions, such as political instability, economic difficulties, ethnic and religious complexities, and poor infrastructure. Moreover, Russia already is highly ambivalent about OBOR, and could see it as a threat to its traditional sphere of influence in Central Asia and as a rival to its fledgling Eurasian Economic Union. This in turn risks undermining the unspoken agreement between Russian President Putin and Xi Jinping to simply not talk about the great game between Russia and China in Central Asia. Political risks also may weigh more heavily on OBOR efforts than overseas direct investment (ODI) activities led by private firms. Many OBOR projects are slated to be high-profile construction projects, which means that the deals will be made with the heavy involvement of the destination country’s government. Against that backdrop, political changes need to be anticipated, as they can change the outcome of a deal.

Overconfidence a Greater Risk than Insecurity

There is little doubt that President Xi views OBOR as the signature foreign policy theme of his leadership tenure and the practical embodiment of his “China Dream” for promoting national rejuvenation and cementing the country’s place as a leading world power. His personal authority therefore has a lot riding on its success, and the Chinese bureaucracy knows it. In fact, with such strong policy support behind OBOR, it may prove a serious problem if Chinese interest groups, be they government planners, SOEs, or private companies, fall into a false sense of security that government support will guarantee their success.

Available information on provincial government plans for OBOR indicates that a strong investment push already is under way to support the initiative through building up domestic infrastructure. The business strategies of many of these provinces’ leading state firms are incorporating OBOR into their plans to absorb output that will not be used domestically. Local state banks and provincial governments—already burdened by burgeoning nonperforming loans and debt, respectively—are promising financial backing in the hopes of central government support, but the project may face significant financial headwinds. Capital has been fleeing China in large volumes for the last several months, while keeping the country’s growth machine whirring and dealing with debt
seem set to consume more and more fiscal resources. As a result, some experts believe the sums earmarked for OBOR may be at risk.

The hunt for OBOR-themed projects may also produce unwarranted adventurism by Chinese companies looking to expand overseas. If companies stumble in the markets where they have rushed in, there will be ramifications for both them and the financial institutions that have underwritten their misadventures. Failing to assess risks appropriately may mean that the serious domestic preparations the central government has been trying to make for the project risk being wasted. This is especially so given that OBOR is more of a sweeping vision than an operational blueprint. Few sizable infrastructure contracts have been signed so far and bona fide projects remain illusory. Foreign officials also note that, despite the enthusiasm with which Chinese officials have approached them about participating in OBOR, Beijing has been slow to table specific proposals for cooperation and nobody seems to be in overall control even though the National Development and Reform Commission—the spawn of China’s old state planning bureaucracy—is supposed to be in charge.

Too Many Eggs in One Basket

Another likely problem appears that too many objectives have been set for OBOR. Economically, it is supposed to lift backward Chinese provinces and other countries out of poverty while soaking up some of China’s excess industrial capacity and providing more dependable routes for transporting energy and resources supplies. Financially, it offers a way to diversify part of China’s foreign exchange reserves into more productive assets, and politically, it promises to bind Asian countries into mutually dependent economic networks with China at their center.

OBOR also is being looked to as a means to mitigate the many seemingly intractable security challenges on China’s periphery. The Politburo is acutely aware that U.S. military withdrawal from Afghanistan may leave a power vacuum on the borders of the Chinese province of Xinjiang, with its large and restive Muslim population, just at the time threats from the Islamic State also are rising. The hope is that stimulating economic activity along those border regions will help stabilize the area and combat Islamic terrorism; however, Beijing’s hopes to use OBOR to steady countries such as Afghanistan could backfire if, instead, it becomes sucked into complex regional entanglements and conflicts that it is poorly equipped to handle.

The temptation of government subsidies means that even more objectives are likely to be layered on, as local authorities seek to redesignate longstanding underfunded or moribund projects as OBOR-related. In fact, doubts already are being raised about the economic viability of some projects. Experts say, for example, that too few people live in several of the areas where OBOR is due to pass through, raising the risk that several sections of the proposed pathway may never be financially viable. Moreover, China’s expectations that its companies will get the lion’s share of projects that it helps finance have not been well-received by several recipient governments, raising the specter that

Beijing may repeat the reputational problems it has suffered with similar projects in Africa.

**Political Imperatives Outweigh Economic Pragmatism**

Another substantial risk for the OBOR enterprise is precisely the fact of its association with President Xi’s legacy, and therefore its political inviolability. The notion of politicization trumping economic practicality is becoming an all-too-frequent phenomenon in Chinese economic management in the Xi era. One need only look to the March 2016 NPC session to see the most obvious recent example, in the form of the setting of a 6.5 percent GDP growth target for the 13th FYP. Despite a general consensus that it will be a Herculean (and perhaps even impossible) task for the government to maintain such high growth figures while simultaneously pursuing the challenging task or transforming and rebalancing the economic system, the NPC appeared to approve the FYP draft without even batting an eyelash. Why would the leadership do something so seemingly contradictory in terms of setting its policy course? Because the CCP at the Fifth Plenum of the 18th Central Committee in October 2015 set itself the task of doubling by 2020 the 2010 GDP and per capita income for both rural and urban residents. Consequently, it is the Party’s political necessity for its own legitimacy to hit that target that drives the economic decision taken. With OBOR’s undeniable political significance, then, it can hardly be imagined that the leadership will not stay the course even in the face of clear limits on the economic viability of some elements of the plan.

**In the Final Analysis, Pushing on an Open Door?**

Despite these many difficulties and possible risks, however, it seems hard to deny that Asia’s insatiable thirst for quality infrastructure makes it likely that OBOR, though certainly running into painful obstacles now and again, will come out the other end with some modicum of success. Asia’s growth and need for modern roads, railways, ports, electricity, telecommunications, and other kinds of basic infrastructure are set to create sustained long-term demand for substantial investment. How much OBOR will contribute to meeting that demand, of course, remains an unknown.

That said, at least thus far, it is surprising how little pushback there seems to have been from likely recipient countries, or even those who may not be the beneficiaries of Chinese largesse but maintain a national interest in what happens in the vast geographic scope of OBOR. In the case of the former nations, even countries that know they sit at critical nodes on the OBOR map, and thus could claim to have tremendous leverage with China when it comes to doling out projects, appear content instead to simply be counted

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among those who will receive Chinese generosity. Although it is still early days, Turkey and Indonesia seem to serve as examples of such responses.

As to the nonrecipient but highly interested parties, Russia certainly stands out as a case in point. Moscow clearly had concerns about OBOR’s penetration into its traditional sphere of influence in Central Asia, and its implications for its own such program, the fledgling Eurasian Union. When such worries were amplified in the spring of 2015 as President Xi prepared to formally rollout his OBOR vision at the Boao Forum in late March, Xi responded by sending an emissary to meet directly with President Putin and address Russian concerns.65 The fact that this individual was Li Zhanshu—a member of the CCP Politburo and Xi Jinping's de facto chief of staff—instead of a senior diplomat spoke volumes about Xi's party-centric approach to OBOR and the nature of Sino-Russian relations. Moreover, even European observers have made statements suggesting they see the Eurasian landmass as their strategic backyard in a globalized world and, in the absence of substantial movement on TTIP in the near future, Europe's focus would inevitably be drawn to China’s OBOR initiatives because the Chinese are eager to invest there as the ultimate endpoint of both the land and sea silk roads.

Against this backdrop, Washington seems to have been slow to react to the enormity of the OBOR enterprise, perhaps comforting itself with the idea that the Chinese are bound to run into significant problems and take reputational damage as they have on a much smaller scale with projects in Africa. The geographical setups of U.S. policy desks in the Departments of State and Defense, as well as at the White House, also are not well-suited to track OBOR developments efficiently. Some efforts have been made to get around these obstacles, but more work clearly needs to be done, as the policy inertia consequences of these tactical bureaucratic peculiarities and seeming strategic lethargy are leading to missed opportunities and growing strategic miscommunication with several key U.S. allies. U.S. companies also potentially lose out in the process as European and other foreign banks, engineering, construction, and logistical firms make the case for inclusion in OBOR projects, often with the encouragement and support of their home governments. As such, the new U.S. administration that takes office in January 2017 would be well served in thinking about new approaches to interact with and manage a process that, if President Xi gets his way, will be a force to be reckoned with for the next decade and beyond.

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About the Author

Christopher K. Johnson is a senior adviser and holds the Freeman Chair in China Studies at CSIS. An accomplished Asian affairs specialist, Mr. Johnson spent nearly two decades serving in the U.S. government’s intelligence and foreign affairs communities and has extensive experience analyzing and working in Asia on a diverse set of country-specific and transnational issues. Throughout his career, he has chronicled China’s dynamic political and economic transformation, the development of its robust military modernization program, and its resurgence as a regional and global power. He has frequently advised senior White House, cabinet, congressional, military, and foreign officials on the Chinese leadership and on Beijing’s foreign and security policies.

Mr. Johnson worked as a senior China analyst at the Central Intelligence Agency, where he played a key role in the analytic support to policymakers during the 1996 Taiwan Strait missile crisis, the 1999 accidental bombing of the Chinese embassy in Belgrade, the downing of a U.S. reconnaissance aircraft on Hainan Island in 2001, and the SARS epidemic in 2003. He also helped shape senior officials’ understanding of the politics of the Jiang Zemin era, the successful leadership transition to Hu Jintao in 2002, and the preparations for the fall 2012 leadership succession. Mr. Johnson served as an intelligence liaison to two secretaries of state and their deputies on worldwide security issues and in 2011 was awarded the U.S. Department of State’s Superior Honor Award for outstanding support to the secretary and her senior staff. He also served abroad in a field site in Southeast Asia. Mr. Johnson graduated summa cum laude with bachelor’s degrees in history and political science from the University of California at San Diego (1994) and received his M.A. in security policy studies from the George Washington University (1996). He is a member of Phi Beta Kappa.
President Xi Jinping’s “Belt and Road” Initiative

A Practical Assessment of the Chinese Communist Party’s Roadmap for China’s Global Resurgence

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