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The Belt and Road Initiative (BRI) in the context of China’s opening-up policy

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ABSTRACT
[Background]: China’s economy currently shifts its development pattern from investment/export-led to consumption/domestic demand-led growth. In a new stage of domestic-oriented development, what role is expected of China’s opening-up policy? It is no longer just a means to obtain foreign currency and technology but for China as an economic superpower to enhance its role in global governance. The Belt and Road Initiative (BRI) proposed by General Secretary Xi Jinping in 2013 is regarded as a new grand strategy in a new stage of China’s opening-up policy. [Purpose]: This article attempts to position the BRI in China’s opening-up policy focusing on its growing role in global governance of major international economic regimes. [Main Argument]: This article consists of three parts. The first part deals with China’s responses to major international economic regimes. The second part considers the purpose and development of the BRI from a viewpoint of China’s opening-up policy. The third part investigates into China’s development aid/finance in the BRI as a case study of its attitude toward an international regime of this kind. [Conclusions]: As far as the development aid/finance in the BRI is concerned, China’s behavior to form an economic area led by it is a new challenge to existing international economic regimes. As the largest beneficiary of free trade system, however, China does not seek for fundamental restructuring of current international economic regimes. It must be the most favorable scenario for China to taste the fruits of free trade system and to form its dominant economic area in the backyard.

KEYWORDS
Belt and Road Initiative (BRI); opening-up policy; free trade; development aid; development finance

1. Introduction

After opening to the outside world at the end of the 1970s, China realized an economic miracle by expanding exports enormously and absorbing foreign direct investment (FDI) massively. Throughout the period, the foreign-invested enterprises (FIEs) have made great contributions to the Chinese economy. According to an economic impact analysis by Enright, combined with their local suppliers and consumer spending by their local employees, the FIEs accounted for 33% of GDP and 27% of employment on 2009–13 five-year average.1

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1 Enright, Developing China, 40–51.
Three decades later, however, China was faced with growing “twin surpluses” in current and capital accounts. Their negative impact has been gradually apparent due to excessive liquidity, over-investment/production, soaring asset prices (wages, land prices, resource prices, and exchange rates), and external trade friction. As a result, China has been trying to shift its development model from investment/export-led to consumption/domestic demand-led growth.

While following the outward-oriented development model, China endeavored to acquire foreign currency and technology on a bilateral basis. Along with the change in the development model, China’s opening-up policy enters a new stage, and currently strives to adjust its economic structure and existing industries by transferring production factors not only to domestic interior provinces but also abroad. In this context, China is increasingly deepening its commitment to the global governance of various multilateral regimes.

At this critical point, General Secretary Xi Jinping’s leadership was established in changing economic environments called the “new normal” aiming for stability without pursuing just high growth. Proposing the “China Dream of Grand Rejuvenation,” Xi Jinping launched the Belt and Road Initiative (BRI) in 2013, which is currently regarded as a grand strategy of China’s opening-up policy, because it was incorporated into the 13th Five-Year Plan (2016–20) and inserted into the Party Constitution at the 19th Party Congress in 2017.

What role is expected of the BRI in China’s opening-up policy? What is the impact of the BRI on the international economic regimes as well as the world economy? What relationship is there between the BRI and the global governance?

The present article is organized as follows. In Section 2, I examine China’s responses to major international economic regimes. Section 3 offers an in-depth analysis of relationship between China and the BRI countries. In Section 4, I turn to China’s development aid/finance in the BRI as a case study of its attitude toward an international economic regime. The purpose of the Conclusion is to describe China’s dual face as a beneficiary of as well as a challenger to current international economic regime.

2. Increasing China’s commitment to global governance

2.1. China and international economic order

China’s opening-up policy is fundamentally influenced by its overall foreign policy. China’s diplomacy has been traditionally based on bilateral relations between sovereign states. Following the progress of liberalization and facilitation of trade and investment in the Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO) membership negotiations, and the Asian currency crisis in the 1990s, however, China’s diplomacy entered a new field of economic diplomacy.3 Since economic

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2Regarding the scope of the BRI-related countries, the Chinese government departments and academia have not reached a clear consensus. It implies China does not clearly define specific countries, thus giving the BRI the openness and flexibility. The Chinese academic community holds the dominant position that the BRI involves 65 countries and regions. The statistics released by the Shangwubu (the Ministry of Commerce) also covers these 65 countries and areas (Wang and Li, “Zhongguo dui Yidaiyilu Yanxian Guojia Touzi de Tezheng yu Fengxian”).
3See, Qinghua Daxue Guojiwenti Yanjiusuo Jingji Waijiao Yanjiu Zhongxin, Zhongguo Jingji Waijiao Niandu Baogao.
diplomacy in general does not fit the bilateral relations, China has had little choice but to turn to multilateral international relations.

After the accession to the WTO, China has accelerated its opening up to the outside world and expressed its own view on the existing international economic order. Today, however, China is not aiming for a new international economic order as Maoist proposed in the 1970s. In addition to the fact that the People’s Republic of China did not participate in the process of major international organizations and institutions building immediately after the World War II, it also had no choice but to adapt itself to the existing multilateral regimes after opening-up to the outside world. Thus, as China moves along the path of an economic superpower, it has a sense of incongruity with respect to the current multilateral regimes.

2.2. Challenge to international economic order

A change in the posture of China’s opening-up policy is clearly recognized in the “Study on China’s Foreign Trade Development Strategy in the Post-Crisis Period” conducted by the Research Institute under the Ministry of Commerce after the collapse of Lehman Brothers.\(^4\) In this study, in addition to the transition from expanding quantity of trade to quality improvement, and the promotion of multilateral regional economic cooperation, it was proposed that China’s external economic policy after the Lehman shock should be shifted from a passive entity in international division of labor to an active player in formulation of international economic order. The study advocated taking an initiative in formulating international trade rules, assuming a leadership in globalization and regional integration, and increasing an influence on price formation process of important commodities.

The reason why China formed such a view on foreign economic and trade policy was because it could not bring about any major change in current multilateral regimes despite its tremendous contribution to the world economy after the Lehman shock. China has been unable to raise its international status and has been frustrated by the fact it could hardly be involved in resources price determination while it had a huge demand for them.

In China’s diplomacy, its paramount leader Deng Xiaoping’s instruction of *taoguang yanghui* (“hiding ability and waiting for the time”) began to be revised. At the 11th Conference of Chinese Diplomatic Envoys Stationed Abroad in July 2009, President Hu Jintao regarded a change in the world after the global financial crisis as a diplomatic opportunity and called for diplomacy to act positively while firmly adhering to the principle.\(^5\) With the revision of foreign policy principle, China gradually strengthened its commitment to global governance of international economy. From seeking a favorable international environment for an economic superpower and improving its international status to realizing the “China Dream of Grand Rejuvenation,” China has taken steps to challenge the existing international economic order.

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\(^4\)Shangbao, “Houweiji Shidai Zhongguo Waimao Fazhan Zhanlue Yanjiu.” See also, *Guoji Maoyi (International Trade)*, no.1, 2010.

\(^5\)Renminwang, “Dishiyici Zhuwai Shijie Huiyi Huiyi Zhaokai.”
2.3. *Commitment to multilateral international regimes*

China has taken different responses of “exit, voice, loyalty” to current major multilateral regimes, according to the “hardness” and adjustment cost of each regime. As for relatively hard multilateral regimes such as trade and currency, considering the tremendous costs of order reconstruction, it is practically impossible for China to construct a new multilateral regime and restructure the existing regime by itself. So, China currently seems to seek to reduce the obligations expected under new rules, while trying to preserve and expand influence in the formation process of new international norms and rules.

2.3.1. *International trade regime: the G7 within the WTO*

China applied for the General Agreement on Tariffs and Trade (GATT) in 1986 and realized its accession to the WTO at the end of 2001. For China, the WTO was the last non-accessible major international organization. The accession to the WTO meant that China was widely accepted by the international community, which was of great significance from the viewpoint of international politics and diplomacy.⁶

But the economic significance of China’s WTO accession is much larger. China’s foreign trade expanded at an annual growth rate of 20–30% after the WTO accession. Since 2009, China has become the world’s largest exporter and the second largest importer. At the end of the 1990s, the FDI in China, which had been expected to join the WTO, also increased sharply, reaching $50 billion level in 2002 and $100 billion level in 2010, and is currently the second largest FDI recipient in the world.

After its accession to the WTO, China did not seek to change the existing international trade regime, but sought to improve its position within the framework of the WTO. First, China strove to secure its position to exert a strong influence on the WTO decision-making. China gained a wide range of supports mainly in developing countries such as the G77⁷ and the G20 (major developing country group) as one of the major negotiating groups within the WTO.

The decisions in the WTO are made at different levels: (1) official general meeting, (2) informal meeting, (3) green room meeting, and (4) major member meeting. Until the end of the twentieth century, or before the WTO Doha Development Round, the WTO major member meeting was known as the Quad including Canada, European Union (EU), Japan, and the United States. Getting into the twenty-first century, however, the major member meeting is called the G6 comprising Australia, Brazil, EU, India, Japan, and the United States.⁸

At the WTO informal ministerial meeting in July 2008, China as the world’s leading exporter became a member of the major member meeting and constitutes the G7 within the WTO. Since then, China has become actively involved in the formation of international trade regime and rules, support for heavy debt countries, assistance to developing countries, and reform of international organizations. In addition, China has been

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⁶As for the evolving relationship between China and the GATT/WTO, see Ohashi, *Keizai no Kokusaika*, Chap. 7.
⁷The Group of 77 is a coalition of developing nations, designed to promote its members’ collective economic interests and create an enhanced joint negotiating capacity in the United Nations.
⁸The G6 consists of the major negotiating groups in the WTO, representing the United States and the EU as industrial economies, Australia as agricultural exporting economies (Cairns group), Brazil and India as developing economies, and Japan as agricultural importing economies.
the second largest contributor just after the United States to the WTO budget since 2015. China positively commits itself to securing and improving its international status. China thus endeavored to become a member of the major member meeting and prioritized the establishment of its leadership within the WTO regime.

2.3.2. International currency regime: RMB entering a basket of the Special Drawing Rights (SDR)

The United States has frequently pointed out the undervalued renminbi (RMB) as a factor behind China’s trade surplus. In 2005, the Schumer-Graham bill was submitted to the U.S. Congress, proposing that 27.5% tariff should be imposed on imported goods from China unless the RMB rate was revalued. In July 2005, China launched a currency reform to clarify the policy of the revaluation of the RMB. Of course, this decision by the People’s Bank of China did not yield to the pressure of the United States. In the mid-2000s, China was faced with excess liquidity under the current account surplus and the surge in foreign exchange reserves. Adjusting the exchange rate was regarded as an effective policy tool for economic management to suppress inflation. As a result, the RMB appreciated about 50% in the decade of 2005–15. In the annual talks with China in May 2015, the IMF announced that the RMB is no longer undervalued.

In the summer of 2015, however, the world economy suffered a simultaneous downturn in both stock and currency markets. The turmoil in the currency market was attributable to the fact that, lacking dialogue with the market, China unilaterally devalued its currency with the aim of the RMB joining the IMF Special Drawing Rights (SDR) basket (which, at that time, composed of US dollar, the Euro, Japanese Yen, and British Pound). The SDR basket currencies need to clear the two criteria. One is a size of exports over the past five years. The other one is whether it is a freely usable currency. It was decided in October 2015 that the RMB became one of the SDR composing currencies in October 2016, while leaving some doubts on the second criterion. In the above case, China again gave priority to a leadership in the multilateral currency regime.

2.3.3. International environmental regime: from negative to positive attitude

China is likely to take actions of “voice” or “exit” against the multilateral regimes that are “immature” or in the process of formation. To say nothing of China’s assertive and aggressive behavior in the South China Sea (that is, international maritime regime), it is basically going its own way in such international regimes as cyber space, space development, bioethics, technology standardization, and development aid/finance (the case of development aid/finance regime is analyzed in detail in Section 4 of this paper).

In the environmental regime, at the 15th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15) in Copenhagen in 2009, developed countries were seeking an agreement under which both developed and developing countries would be obligated to reduce emissions.

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9WTO, “Members’ Contributions to the Consolidated Budget of the WTO.”
10On a basis of real effective exchange rate (BIS, “Effective Exchange Rate”).
11Financial Times, May 26 2015.
12As of October 1 2016, the composition of the SDR basket was as follows: US dollar (41.73%), Euro (30.93%), RMB (10.92%), Japanese yen (8.33%), and Pound Sterling (8.09%). IMF, “Fact Sheet: Special Drawing Rights (SDR).”
Emerging economies (including China), on the other hand, argued that developed countries should bear the historical responsibility for global warming (that dates back to the industrial revolution) and thus were fiercely opposed to the reduction of the developing countries’ obligation. Another reason for their opposition was that the legally binding obligation to reduce greenhouse gases would restrict energy use and hinder emerging economies’ development.\(^{13}\) China formed a negotiation group called “the BASIC” with Brazil, India, and South Africa. China also took an initiative – as a spokesman of the G77 – strongly opposing the request for reduction of greenhouse gases.

In response to the Paris Agreement on climate change control adopted at the end of 2015, however, the two largest emitters of greenhouse gases – the United States and China – ratified the new international framework for global warming countermeasures. The Paris Agreement for the first time in the history obligates all countries to tackle the reduction of greenhouse gases. In the field of global warming, China acted as a “responsible superpower” in the international community, whereas President Trump announced the U.S. withdrawal from the Paris Agreement (June 2017) keeping his major campaign promise. As can be seen from the above, China’s stance on multilateral regimes varies depending on issue areas, but its commitment to them is steadily increasing.

3. Relationship between China and the BRI countries

3.1. Proposal of the BRI

In September 2011, U. S. Secretary of State Hillary Clinton rolled out the “New Silk Road Initiative” to stabilize Central Asia after the U.S. withdrawal from Afghanistan. Two years later, in September and October 2013, Xi Jinping proposed the BRI or the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road,” respectively, during his visits to Kazakhstan and Indonesia.

The BRI was regarded as a countermeasure to U.S. “rebalancing strategy.” Meanwhile, in China, there was an argument over the “westward” strategy, which was an extension of domestic “western development.” Conflicts with the United States are unavoidable if strengthening the advance to the Asia-Pacific region. It is a concept to enter the Eurasian area and to develop new markets, which would lead to cooperative relations with the United States.\(^{14}\) After the British exit from the EU or Brexit, and a birth of the Trump administration, there is also a big change in China’s perception against the United States and the universal values represented by western democracy.

In the early stages of opening to the outside world, the U.S. market was of great importance to the export-oriented Chinese economy.\(^ {15}\) It is true that the U.S. market is still important, but it is less easy than ever to enter the U.S. market, and Chinese products are sometimes repulsed by rising protectionism in the United States. Considering increasing difficulties in the U.S. market, the BRI targeting the Eurasian area is also a refreshing new proposal to China’s economic diplomacy.

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\(^{13}\)Xinhuanet, December 18 2009.

\(^{14}\)Wang, “Xijin.”

\(^{15}\)See Ohashi, Beichu Keizai Masatsu.
After Xi Jinping’s proposal in September and October 2013, a very hot argument was made over how to realize the BRI in China. In March 2015, the basic concept of “vision and action” was finally published (see Table 1 below), although it is still lacking in concreteness.

### 3.2. Formation of China-led economic area

There are several purposes of the BRI including development of new market, enhancement of outward investment, elimination of overcapacity, revitalization of regional economy, internationalization of the RMB, promotion of neighborhood diplomacy, etc. With the diversification of foreign trade and the increase in outward investment, it is no doubt that China as the world’s second-largest economy seeks for securing its own interests and creating a new environment where China is easily engaged in economic activities. At the root of the BRI, there must be an aim of forming a China-led economic area where it could hardly compete with other economic powers.

It is an indispensable element for forming an economic area to develop regional infrastructure and networks. Roads, railways, and ports are taken up first as concrete projects in the BRI. Among them, the Sino-European direct rail freight transport draws a worldwide attention. Since opening in 2011, more than 5000 cargoes have already been operated by September 2017, and 33 cities in China and 33 cities in 12 countries of Europe are mutually connected. Many cargoes were currently occupied by IT products made in China such as mobile phones and personal computers, but the merchandizes traded are diversifying including apparel products, automobiles and their parts, food, wood and furniture, and machinery and equipment.16

Chinese firms also have an outstanding advantage in construction and infrastructure development. The BRI provides a lot of opportunities for China’s engineering, construction, and infrastructure-related industries. A huge demand for developing intra-regional infrastructure and network attracts international attention at present, but at the

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16 Renminwang, “Ouya-Zhongguo Shangmao Fenghui Jujiao Yidaiyilu Jianshe.”
same time, there are increasing concerns about feasibility and implementation risks such as whether the profitability of these projects is sufficiently verified or not.\textsuperscript{17}

### 3.3. Establishment of international development finance institutions

Effective financing is indispensable for the realization of the BRI projects. In addition to the New Development Bank (NDB), formerly known as the BRICS Development Bank, China established the development finance institutions such as the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund. Among them, the AIIB, established in January 2016, drew attention as the first international development finance institution led by China. As of the end of December 2017, China represented 29.4% of its total paid-in capital.\textsuperscript{18} The number of its members reached 84 countries, far exceeding 67 members of the Asian Development Bank (ADB), which has led infrastructure development in Asia, and of which both Japan and the United States are the largest shareholders accounting for 15.6%, respectively.\textsuperscript{19} The AIIB was engaged in 24 projects in 12 countries in the past two years, and the total loans amounted to $4.2 billion.\textsuperscript{20} The AIIB received a triple A rating from Moody’s in June 2017, followed by Fitch Ratings and Standard & Poor’s in July 2017,\textsuperscript{21} and the opportunities to raise funds, which had been seen as a pending issue, also expanded significantly.

The AIIB aims to manage economically and quickly, and to operate in line with developing countries. As China’s development aid/finance has often been criticized for “new colonialism,”\textsuperscript{22} considerable doubts have arisen as to whether the AIIB infrastructure projects will sufficiently consider environmental and social considerations and whether it can guarantee the benefits that exceed the costs. Looking back over the past two years since its establishment, however, the AIIB’s business is mainly based on joint projects with the World Bank and the ADB. Because of international attention being paid to it, the AIIB basically maintains high transparency, explanation responsibility, and good governance. Environmental and social considerations are sufficiently reflected in its project implementation.

In addition to the AIIB and the Silk Road Fund, the China Export-Import Bank (CEXIM) and the China Development Bank (CDB) also handle the development aid/finance, but are expected to generate profit. Furthermore, with regard to the AIIB, it must be noted that its main focus is on concessional lending and aid-type business. The fact that China is enhancing and strengthening development aid/finance functions, including the establishment of the AIIB and the Silk Road Fund, can be interpreted as one of China’s challenges to the existing multilateral economic regimes as seen below.

\textsuperscript{17}Li, “Yidaiyilu.”
\textsuperscript{18}AIIB, Financing Asia’s Future, 67.
\textsuperscript{19}ADB, Annual Report, 60.
\textsuperscript{20}Renminwang, January 18 2018.
\textsuperscript{21}AIIB, “2017 at a Glance.”
\textsuperscript{22}During a trip to Nigeria in February 2006, Britain’s then foreign secretary, Jack Straw, remarked that what China was doing in Africa then was much the same as Britain had done 150 years before (Mohan and Power, “New African choices?”, 23).
3.4. Internationalization of the RMB

China has promoted internationalization of the RMB since the Lehman shock to avoid excessive dependence on the U.S. dollar, aiming at forming the RMB-dominated area in the long term. By increasing economic activities of trade and FDI dominated by the RMB, liberalizing interest rates, relaxing capital controls, and expanding currency swap agreements and the RMB based-aid and loans, China tries to satisfy necessary conditions for the RMB to become a leading international currency representing a unit of currency, means of payment, and value storage. During the period of 2010–15, the ratio of RMB-denominated settlement amount to the total trade in China rose from 2.4% to 22.8%, which showed an evolving process of internationalization of the RMB. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the ratio of RMB-denominated settlements to the total international settlements was only 1.75% in December 2017, which was even smaller than Japanese yen (2.62%) and Canadian dollar (1.93%), not to mention U.S. dollar (39.30%), Euro (32.62%), and Pound Sterling (7.42%).

Internationalization of the RMB has just started. To spur the process, it is necessary for the RMB to have international credibility, to be convertible, and to be traded worldwide. The relative position of the RMB increases considerably, however, if the area in the RMB circulation is limited to the BRI countries. If the RMB-denominated projects, investment and financial transactions continue to expand, and with the RMB rate being stable or appreciated, the RMB would be increasingly accepted by the BRI countries. As the BRI is taking shape, a regional “RMB currency area” might be spontaneously formed encompassing several/most of the BRI countries.

3.5. Advancement in industrial adjustment

The BRI provides the opportunities to develop new markets for China’s competitive industries or some industries with overcapacity under industrial adjustment. The policy to cope with the adjustment of overcapacity and to encourage the transfer of sunset industries abroad is called the “international industrial capacity cooperation” in China. Based on the policy, the State Council set the priority industries in May 2015 as follows.

The first is infrastructure-related industries (construction, equipment manufacture, and building materials). Most of the BRI countries are developing and transitional economies with a huge potential demand for infrastructure development, which provide a lot of opportunities for not only China’s competitive industries but also its sunset industries with overcapacity. In addition to construction and operation of harbors, airports, roads, and railroads, their related facility manufacturing and logistics are also designated as priority industries.

The second is natural resources and energy. The BRI countries are well endowed with natural resources. China’s important strategic goal is to secure stable supplies of energy, and to diversify their sources and transport routes. Moreover, the BRI countries

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23 SWIFT, “RMB Tracker.”
24 Guowuyuan, “Guanyu Tuijin Guoji Channeng he Zhuanbei Zhizao Hezuo de Zhidao Yijian.”
are also promising markets for oil and natural gas pipelines, construction of power, and refinery plants, manufacturing of related equipment, and so on.

The third is overseas contracted projects undertaken by China’s contractors and civil engineering firms. They have outstanding international competitiveness and are very aggressively developing new markets all over the world. Many contracted projects have been already carried out by them in the BRI countries.

For Chinese industries to transfer their plants smoothly across the border, it is necessary to setup industrial parks and overseas economic and trade cooperation zones to accept them and provide both infrastructure and public services for them. As of the end of 2016, 77 parks and zones are under construction and operation in 36 countries all over the world. Their cumulative investment amounted to $24.19 billion with their tenants of 1522 companies, total production of $70.28 billion, tax payment to host countries of $2.67 billion, and local employment of 212 thousand workers. Among them, 56 parks and zones are established in 20 of the BRI countries with cumulative investment of $18.55 billion, tenants of 1082 companies, total production of $50.69 billion, tax payment to host countries of $1070 million, and local employment of 177 thousand workers.\(^{25}\) Judging from the fact that more than 70% of China’s overseas economic and trade cooperation zones are located in the BRI countries, it seems that the BRI is considerably increasing its position in China’s opening-up policy.

### 3.6. Economic relations with the BRI countries

Despite the worldwide attention being paid to the BRI, the economic relations between China and the BRI countries have just started. According to China’s customs statistics, in 2017, the imports and exports between China and the BRI countries amounted to RMB 7.37 trillion (17.8% increase over the previous year); RMB 4.30 trillion of exports (12.1% increase) and RMB 3.07 trillion of imports (26.8% increase), respectively, which accounted for 26.5% of China’s total exports and imports, and the growth rate exceeded that of China’s total exports and imports by 3.6 points. Moreover, China became the largest trading partner for 16 neighboring countries in the same year.\(^{26}\)

Indeed, merchandize trade between China and the BRI countries has reached a certain scale, but the BRI countries account for only 8–12% of China’s outward investment (as shown in Table 2 below). In a case of international industrial capacity cooperation, manufacturing sector remains only 12–18% of China’s total outward investment. During the period of 2016–17, as China tightly controlled capital outflows, the outward investment fell sharply. In 2017, China’s firms implemented 62 mergers and acquisitions (M&A) totaling $8.8 billion (32.5% increase over the previous year) in the BRI countries. This included the acquisition of 12% stake ($2.8 billion) in UAE’s Abu Dhabi Oil by PetroChina and China Huaxin Investment.\(^{27}\) As the investment environments improve in the BRI countries, the economic relations between China and them would expand more smoothly.

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\(^{25}\)Ershiyi Shiji Jingji Baodao, February 20 2017.

\(^{26}\)Renminwang, January 12 2018.

\(^{27}\)Ershiyi Shiji Jingji Baodao, February 24 2017.
Table 2. China’s FDI and construction/industrial cooperation in the BRI countries. [FDI*].

| No. of countries | Investment value ($ billion) | Annual increase (%) | BRI/total (%) | Major destinations |
|------------------|-----------------------------|---------------------|---------------|--------------------|
| 2015             | 49                          | 14.82               | 18.2          | 10.2               |
| 2016             | 53                          | 14.53               | −2.0          | 8.5                |
| 2017             | 59                          | 14.36               | −1.2          | 12.0               |
| [Overseas contracted projects] |
| No. of countries | No. of new contracts | Contract value ($ billion) | Annual increase (%) | BRI/total (%) | Turnover ($ billion) | Annual increase (%) | BRI/total (%) |
| 2015             | 60                          | 3,987               | 92.64         | 7.4               | 44.1               | 692.6               | 7.6 45.0 |
| 2016             | 61                          | 8,158               | 125.03        | 36.0              | 51.6               | 759.7               | 9.7 47.7 |
| 2017             | 61                          | 7,217               | 144.32        | 14.5              | 54.4               | 855.3               | 12.6 50.7 |
| [International Industrial Capacity Cooperation] |
| (1) Manufacturing industries ($billion) | Annual increase (%) | (1)/Outward FDI (%) | (2) Facility manufacturing industries ($billion) | Annual increase (%) | (2)/(1) (%) |
| 2015             | 14.33                       | 105.9               | 12.1          | 7.04               | 154.2              | 49.1               |
| 2016             | 31.06                       | 116.7               | 18.3          | 17.86              | 153.7              | 57.5               |
| 2017             | 19.12                       | −38.4               | 15.9          | 10.84              | −39.3              | 56.7               |

*With the FDI in financial sector excluded.
Source: Author's own elaboration based on Shangwubu Duaiwai Touzi he Jingji Hezuosi, "Tongji Shuju."
China’s firms are actively involved in the contracted projects in the BRI countries, where they increase their market shares very quickly. In other words, the economic relationship between China and the BRI countries remains at the initial stage of infrastructure development. With increasing financial supports from China for the BRI countries, it is expected that infrastructure development would further expand and deepen the trade and investment relations between them.

China’s opening-up policy today is no longer simply based on bilateral relations such as its relations with Hong Kong for promoting processing trade, with Japan for introducing capital and technology, and with the United States for developing market. China’s relations with the BRI countries are certainly composed of individual bilateral relationships, but they are positioned in the multilateral international relations in the framework of the BRI.  As a result, that China became the world’s second largest economy, it put a more emphasis on multilateral rather than bilateral relations in a new phase of its opening-up policy.

4. A case of China’s development aid/finance

4.1. Basic principles

Along with the expansion of its presence in development aid/finance, China has made efforts to enhance its transparency and accountability by announcing the “White Paper” on China’s foreign aid.  As the concept and implementation system of foreign aid fundamentally differs from those of the members of the Development Assistance Committee (DAC) in the OECD, however, it is unlikely that the overall picture of China’s foreign aid is disclosed only by the publication of the “White Paper.”

Basic principles of China’s foreign aid are considerably different from those of the donor community represented by the DAC members in the following points.  First, while the donor community aims to improve the economic development and welfare of developing countries, China maintains its aid philosophy based on “eight principles of external assistance.”  Second, while the donor community is implementing aid based on the development models, China is negative from the standpoint of noninterference in internal affairs to apply a specific development model. Third, while the donor community emphasizes high grant ratios, grant elements, and untied aid, China tends to give priority to loans and tied assistance.

Given the differences in basic principles, China’s development aid and the DAC-led development regime cannot/are unlikely to converge.

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28The BRI is not based on any formal treaties but consists of international networks of regional cooperation bodies and bilateral agreements.
29Guowuyuan Xinwen Bangongshi, Zhongguo de Duowai Yuanzhu and Zhongguo de Duowai Yuanzhu 2014.
30Shimomura and Ohashi, A Study of China’s Foreign Aid, 7.
31Watanabe, “Implementation System,” 58–81.
32In 1964, when China approached to nonaligned and developing countries while being confronted with not only the United State but the Soviet Union, China publicized the eight principles on foreign aid including (1) equality and mutual benefit, (2) respect for sovereignty and no conditions attached, (3) reflecting the needs of the recipient countries and offering no-interest or low-interest loans, (4) assistance in self-reliance so as not to create dependence on China, (5) helping the recipient countries with projects that need less capital and quick returns, (6) aid in forms of materials and equipment of high quality manufactured by China, (7) ensuring that local staff master technology transferred from China, and (8) equal treatment of Chinese experts and technicians and the local counterparts (Guowuyuan Xinwen Bangongshi, Zhongguo de Duowai Yuanzhu).
4.2. **Major achievements**

China’s foreign aid (multilateral aid, bilateral concessional loan and grant in aid) amounted to $6.1 billion in 2015.\(^{33}\) On the DAC basis, it is the eighth largest donor in the world, just after the top donors including the United States, Germany, the United Kingdom, Japan, and is larger than the middle powers in Europe such as Sweden, Norway, and the Netherlands, and emerging donors such as Saudi Arabia and the UAE. However, China’s development aid/finance is characterized by economic cooperation that is being implemented outside the framework of official development assistance (ODA) on the DAC basis. In fact, in 2016, the total assets of the CDB and the CEXIM were 3.5 times as much as those of six leading international development finance institutions dominated by the DAC.\(^{34}\)

In this article, we will grasp China’s public fund flows to developing countries by using the AidData database (China’s Global Development Footprint) based on public information.\(^{35}\) Looking at the trend after 2000, the finance to developing countries was more than $30 billion annually on a commitment basis, of which ODA was over $5 billion (as shown in Figure 1 below). The flows were extraordinarily large in 2009

![](attachment:figure1.png)

**Figure 1.** China’s development aid/finance (2000–14).

*ODA (Official Development Assistance) = grant element of at least 25%.

*OOF (Other Official Flows) = grant element of less than 25%.

*Source: Author’s own elaboration based on Dreher et al., “Aid, China, and Growth.”*

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\(^{33}\)Kitano, “A Note on Estimating China’s Foreign Aid.”

\(^{34}\)They are the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), African Development Bank (AfDB), and Inter-American Development Bank (IDB) (Bataineh, Bennon and Fukuyama, “Beijing’s Building Boom”).

\(^{35}\)The database includes 4373 projects totaling $354.4 billion in 140 countries/areas China provided during the period of 2000–14 (Dreher et al., “Aid, China, and Growth”).
because of two big loan projects for Russian oil giants Rosneft ($20.4 billion) and Transneft ($13.6 billion) operated by the CDB.

Looking at the projects to be financed by industry, the largest loans are provided to the energy development sector on a basis of OOF rather than ODA including the above-mentioned loans for Russia (as shown in Table 3 below). Next to energy development is the transportation sector. Obviously, China emphasizes infrastructure in its development aid/finance and the BRI. Meanwhile, China also pays an attention to debt reduction in its ODA scheme. The donor community is somewhat concerned about it from the viewpoint of aid discipline.

Regarding recipients of China’s development aid/finance, there are not any regional features (as shown in Table 4 below). In the database based on the projects up to 2014, the development aid/finance to African countries was still remarkable, and the BRI countries were not particularly emphasized up to then. As seen in the overseas contracted projects in the BRI countries (Table 2 on page 14–15), however, it seems that they are turning to be the priority area for China’s development aid/finance.

### 4.3. Relationship with the existing regime

With the expansion of China’s development aid/finance to developing countries, the donor community are increasingly concerned as follows.
First, China’s development aid/finance in general does not show much interest in risk management because of mostly taking a form of public finance and flow. Based on country risk indicators announced periodically by the international rating agencies, it could be judged that the repayment of a large amount of Chinese funds flowing to developing countries is getting more and more difficult. In addition to the project risks, there are also operational risks after project completion. For these developing countries, it is likely to become difficult to redeem debts to China.36

Second, massive flows of funds from China would lead to causing a debt crisis in developing countries.37 A developing country falling into a debt crisis usually seeks for a support from the IMF. In response to the request of this kind, if the IMF embarks on support for countries in a debt crisis, China’s development aid/finance may indirectly increase burden on the IMF. China is expected to implement its development aid/finance after thoroughly reviewing the risks of developing countries.

Third, there is a subtle relationship between China and existing development finance institutions. If Chinese money becomes another important route for the flow of funds to developing countries, their options for economic development would widely spread. However, for developing countries that are required to implement policy conditionality in support from the IMF, the World Bank, etc., it might be possible to reject the implementation of policy conditionality by relying on Chinese money unilaterally. Speaking of policy conditionality during the period when the Structural Adjustment Loans (SAL) were emphasized, the market-oriented economic and structural reform was inevitably requested as a return for support. Today, however, the universal values of the DAC members such as improving transparency, fulfilling accountability, and conducting anti-corruption activities are often taken as policy conditionality. Perhaps these points are unlikely to be ideologically compatible with the basic principles of China’s development aid/finance.

There are no signs until now that China is aiming for the reform of existing development aid/finance regime. Of course, because there is so much demand for Chinese money, there must be something wrong with the existing development aid/finance regime. The capital increase by developed countries in international development finance institutions and the expansion of the voting rights for developing countries in them have long been regarded as urgent issues in the existing international development aid/finance regime, but both has not been achieved yet. In addition, the establishment of AIIB by China is a very significant challenge to it because the current development aid/finance made by the DAC members does not meet the infrastructure demands in developing countries. It also reminds us of the usefulness of infrastructure development for economic growth in developing countries. If current development aid/finance made by the DAC members is not effective in developing countries, a series of policy measures undertaken by China could be regarded as a new challenge to the existing development aid/finance regime.

36 Dollar, “Is China’s Development Finance a Challenge to the International Order?”.
37 In March 2018, the Center of Global Development announced the findings on the debts of BRI countries and pointed out that eight countries (namely, Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Tajikistan, and Pakistan) are at particular risk of debt distress (Hurley, Morris and Portelance, “Examining the Debt Implications”).
5. Conclusion

In the Political Report at the 19th Party Congress in October 2017, General Secretary Xi Jinping set a new target for China to become “great modern socialist country” by the middle of the twenty-first century, and proposed to promote the building of a “community of shared future for mankind.” Furthermore, the Central Work Conference on Foreign Affairs, which set out the basic policy of Chinese diplomacy, was held in June 2018 after four years’ interval. During the Conference, Xi Jinping announced that “standing firm on national sovereignty, security, and development interests, we will actively get involved in and lead the reform of global governance and open up a new phase of great power diplomacy with Chinese characteristics.” In this context, the BRI is regarded as a practice to build a community of shared future for mankind.

China’s opening-up policy under the Xi Jinping administration no longer means the development of specific bilateral relations and the specific requirements to introduce foreign currency and technology but represents the response to multilateral international relations as an economic superpower. China’s involvement in global governance tends to be inevitably reinforced in the foreseeable future. In major multilateral relations, at present, China is likely to be reform oriented by taking a leadership position within the regime rather than challenging the existing international regime.

With regard to multilateral regime in a process of formation, as mentioned above, China tends to pursue its own way. The relationship between China and the BRI countries is also a place for an experimentation toward the formation of an economic area led by China. In fact, however, along with the progress of the BRI projects, a sense of disappointment is also spreading among some of the BRI countries with China-led project delays and huge debts to China.

The impression that China poses a “threat” is on the rise around the globe. It is a threat that China as an economic superpower would form an exclusive economic area based on the BRI and become a new global rule maker instead of G7. Looking at the relationship with the BRI countries and considering the existing development aid/finance regime, I have come to the conclusion that China’s capacity and intention to create new global norms and rules are really limited (even if China continues to go its own way). In this sense, China is likely to remain what Shambaugh calls a “partial power.”

By pursuing the opening-up policy, China has benefited from trade and FDI by taking an almost “free ride” on the global free trade system. China is likely to enjoy these benefits in future with burdening minimum costs of becoming a rule maker. Ironically, current trends of undermining free trade system with rising protectionism are not necessarily favorable for China. It is the most favorable scenario for China to continue reaping the fruits of free trade system, while forming a China-led economic area with the BRI countries in the backyard.

38Renminwang, “Xi Jinping zai Zhongguo Gongchandang Dishijiuci Quanguo Daibiao Dahuishang de Baogao.”
39Renminwang, “Xi Jinping zai Zhongyang Waishi Gongzuo Huiyishang de Zhongyao Jianghua.”
40Guo, “Goujian Renlei Mingyun Gongtongt.”
41Bataineh, Bennon and Fukuyama, “Beijing’s Building Boom.”
42Shambaugh, China Goes Global, 309–11.
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