

What Happened Before?

- The Formation of the Belt and Road Initiative

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As the most crucial grand strategy of China in the 21st century, the Belt and Road Initiative (BRI) has reached its sixth year since its revelation in 2013. Although its influence continued to grow, the challenges are also prominent for the Chinese central government. Compounding such challenges is the Chinese opaque policy-making process which led most researchers to regard 2013 (Xi Jinping's remark in Kazakhstan) as the initiative's starting point. The author believes that this split has caused some misunderstandings among the Western observers toward this project in terms of its goal and current circumstances. In this context, this paper provides a plain background for the viewer to better understand the reasons behind Beijing's decision to launch the BRI.

This paper will be divided into three different parts. The first part focuses on the Chinese economic development from 2000 to 2010, arguing that despite its prominent achievement, Beijing desperately needs a new strategy to solve the problems that left from the previous economic miracles around 2010. The second part explains the influence of the New Silk Road Initiative (NSRI) toward the Chinese leadership. The author believes the NSRI gave Beijing a significant lesson about how to use the regional economic project to solve its own problems. The final part then illustrates in details about the process of how the NSRI produced its impact on the central leadership in Beijing. As a conclusion, this paper argues that the BRI was never a project that combined the state-owned enterprises (SOEs) with the massive infrastructure building projects. As a conclusion, China does not wish to use the BRI as a tool to control other countries, and the recent situations indicated a dissimulation of this project. Furthermore, the launch of the BRI also marked as a symbol that Beijing, after becoming a great economic power, began to think equivalently.

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The Golden Age of Chinese Economy

As the CCP officially acknowledged the market's rightful position in its economic system in its 15th National Congress,² the long debate of the coherence between socialism and market economy had reached a conclusion. Beijing began to use the market as a tool to boost its economy and then became a member of the WTO in the eve of the 21st century. After that, the Chinese economy has experienced a “golden age” from 2000 to 2010: more than 400% increase of its GDP from 10 trillion (CNY) to 41 trillion (CNY);³ average GDP rate of increase of 11.5%;⁴ quadrupling of GDP per capita into ¥30,808 as in 2010.⁵

There were multiple reasons for this economic miracle, and the most prominent one is the irritant effects of the market. Taking 2008 as a critical divide, this golden age can be separated into two different phases.

From 2000 to 2008, Beijing shared a common view with most western observers, that the most significant stimulators of the Chinese economy were international trade and investments⁶ — made possible by the ‘population dividend’ of China. Based on data from the National Bureau of Statistics of China, the total trade amount increased from ¥3.92 trillion in 2000 to ¥17.9 trillion in 2008, generating billions of revenue to the Chinese government annually.⁷ In terms of trade composition, raw materials and electromechanical parts took a significant share,⁸ creating a vast amount of jobs and

² Jiang Zemin, “Report at the 15th National Congress of the Communist Party of China (In Chinese)”, Sep. 12, 1997. Accessed on Aug. 14, 2019. http://www.gov.cn/test/2008-07/11/content_1042080.htm

³ National Bureau of Statistics of China, “GDP”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

⁴ Ibid.

⁵ Ibid.

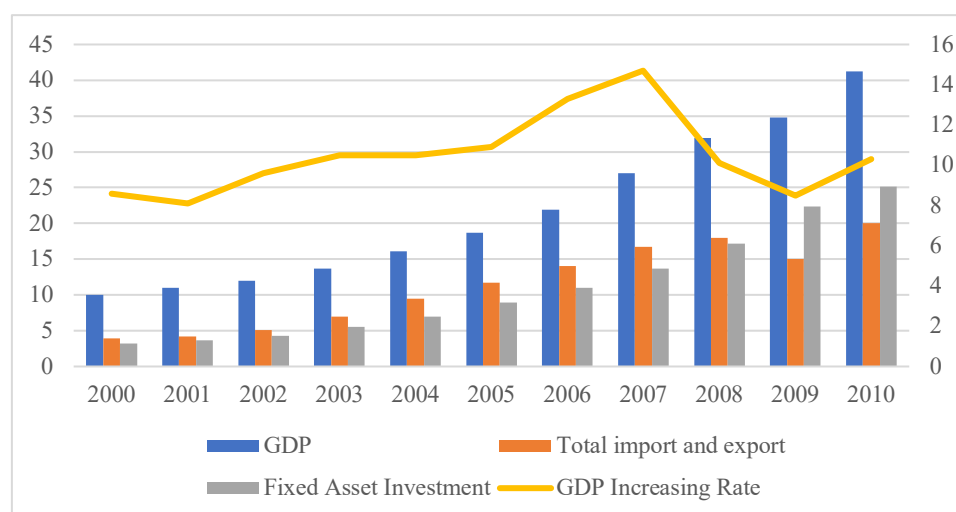
⁶ See, as examples, Hu Jintao, “Report at the 17th National Congress of the Communist Party of China (in Chinese)”, Oct.24, 2007. Accessed on Aug.14, 2019. http://www.gov.cn/ldhd/2007-10/24/content_785431_5.htm ; CRS Report, “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States”, Updated on June 25, 2019, Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>; and CRS Report (RL33534), “Is the Chinese “Economic Miracle” Over?”, Updated on Feb.28, 2016.

⁷ National Bureau of Statistics of China, “Trade”. Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

⁸ Ibid.

significantly boosted the urbanization process in China. Also, more than 90-million jobs were created as a result of urbanization during this period, a 50% rise in 9 years.⁹ In terms of increases in investments, the figures were also noteworthy from 2000 to 2008: growth of actual use of foreign capital from \$59 billion to \$95.2 billion; skyrocketing of fixed asset investments from ¥3.2 trillion to ¥17.2 trillion; increase of government's financial expenditure from ¥150 million to ¥620 million.¹⁰ In this context, China's tertiary sector achieved rapid development and, for the first time, reached a similar level regarding its contribution to the GDP comparing to the secondary sector in 2008.¹¹

Graph 1: 2000-2010 China Economy Data (GDP, Trade, Fixed Asset Investment, and GDP Increasing Rate) (Trillion, CNY)¹²



Nevertheless, despite all these positive indicators, there are three main challenges to the continuation of the Chinese economic miracle.

⁹ National Bureau of Statistics of China, "Jobs". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

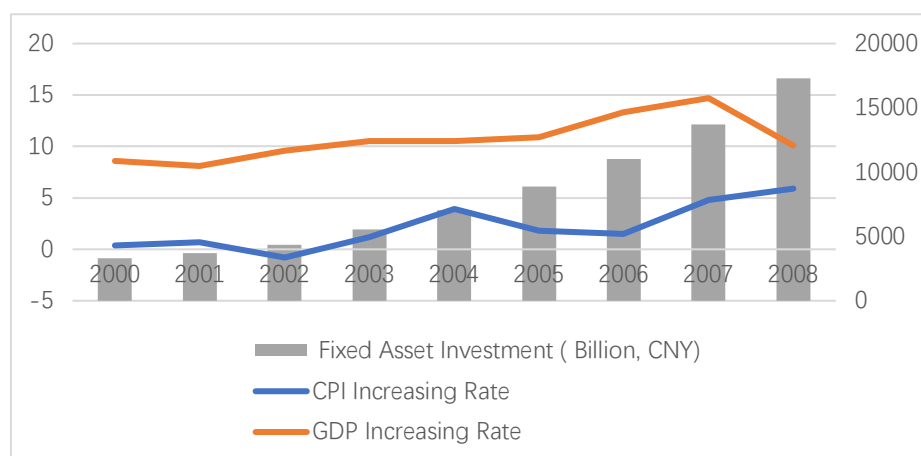
¹⁰ Data from National Bureau of Statistics of China, "Trade & Investment". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

¹¹ Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

¹² Data came from the National Bureau of Statistics of China

First, the unsustainability of the economic model that is predicated on high trade and high investments was fading, as witnessed from 2000 to 2008. As shown in graph 2, an explicit slowdown existed in the Chinese economy around 2008. While China's GDP increased by about 10.1% in 2008 (the lowest since 2001), the country's Consumer Price Index (CPI) continued to rise and hit the highest point in eight years. Since the CPI regularly depicts a country's general price level, a high CPI suggested that China was facing an inflation problem around 2008. In fact, according to *inflation.eu*, the Chinese inflation rate reached 6.58% in 2007, which was far higher than other major economies.¹³ A deterioration in economic growth, together with the high CPI, clearly pointed to stagflation in the Chinese economy around 2008. In other words, such situation showed that the previous trade- and investment-oriented model started to lose its luster, which, in turn, generated a noticeable pressure on the Chinese central government to find an alternative approach.

Graph 2: 2000-2008 Chinese Economy Data (Fixed Asset Investment, CPI Increasing Rate, and GDP Increasing Rate)¹⁴



Second, the challenge to China's development continuity also came from the imbalanced development between the western and the eastern provinces. Although Beijing had long noticed this problem and launched the Great Western Development

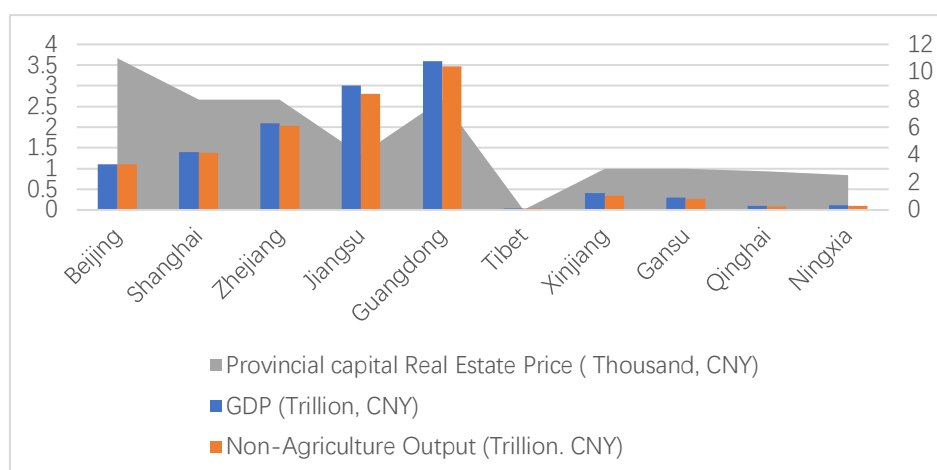
¹³ Inflation.eu, "Historic inflation China - CPI inflation". Accessed on Aug. 19, 2019. <https://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx>

¹⁴ Ibid.

Strategy in 1999, that strategy did not achieve its initial goals based on the official data. As shown in Graph 3, the economic size of the western provinces was nearly negligible as compared to their eastern peers. Furthermore, the real-estate prices in western provinces showed that even after undergoing a decade of policy inclinations, the urbanization process was only at its beginning stage in these regions.

Such an under-development situation in the western region is a reflection that the origin of such problem lied beyond the economic realm. ANBOUND, a Chinese private think tank (which is also the organization the author works at), has launched several field studies on this issue. Our studies indicated that the previous approaches of the Great Western Development Strategy were beset with various shortcomings despite an increase in the economic size of the region. Take the Xinjiang as an example. To date, the autonomous region has been relying on external assistance from other provinces or the central government - a scenario made possible by government orders or policies. Nevertheless, such assistance-oriented approach still failed to solve fundamental problems such as shortage of jobs, capital outflows, unsustainable development, social class gaps, and the minority identity issue. As Islamic fundamentalism rose up in the Middle East and separated globally via social networks, ethnic-religious tensions started to take hold in Xinjiang. According to the data provided by the Chinese government, there were about 190 terrorist attacks organized by the separationists just in 2012 alone.¹⁵ Alarming, such trend continued in 2013 and 2014, with the attacks in Tiananmen Square and Kunming railway station served as wake-up calls to Beijing that terrorism is much alive in their neighborhood. Given such urgency, Beijing certainly needs a new solution for the under-developed western provinces.

¹⁵ Tencent, "Terrorist Attack by East Turkistan Islamic Organization (盘点近年“东突”制造暴恐案)". Accessed on Aug. 20, 2019. <https://new.qq.com/rain/a/20140302005359>

Graph 3: Economic Performance by Province (2008)¹⁶

Third, the occurrence of the 2008 global financial crisis (namely the Great Recession) that compelled the need for a new developing strategy. Although the global crisis in 2008 did not directly hit China's financial system due to its relative tight regulations, the Great Recession severely hurt the global demands of the Chinese goods.¹⁷ In 2009, China's international trade shrank about 16% for the first time in a decade,¹⁸ shocking the Chinese manufacturers and destabilizing the Chinese workers. Considering the facts that the processing trade industry supported about 40 million jobs for China, the decrease in international orders could render significant numbers of exporting companies facing the prospects of bankruptcy.¹⁹ Furthermore, the fluctuation of global financial market posed a distinct threat for investors, with international capitals flocking to safe havens such as China which could further aggravate the ongoing production overcapacity and inflation within China.

¹⁶ Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

¹⁷ Zheng Yang, "How Much Damage Could the 2008 Financial Crisis do to Chinese Economy? (美次贷危机对中国经济影响到底多大)", People.cn, Mar.20, 2008. Accessed on Aug. 19, 2019. http://paper.people.com.cn/gjrb/html/2008-03/20/content_48318932.htm

¹⁸ National Bureau of Statistics of China, "Trade". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

¹⁹ Zheng Yang, "How Much Damage Could the 2008 Financial Crisis do to Chinese Economy? (美次贷危机对中国经济影响到底多大)", People.cn, Mar.20, 2008. Accessed on Aug. 19, 2019. http://paper.people.com.cn/gjrb/html/2008-03/20/content_48318932.htm

To cope with the impact of the Great Recession, Beijing launched a four trillion CNY stimulation package, which was designed to expand the domestic demand and mend the damage caused by the stagnation of international trade.²⁰ Meanwhile, the local governments also followed this track, launching their own stimulation plans, which was about 12.8 trillion CNY in total.²¹ That said, most of the funds were put into the real estate or infrastructure sectors, producing an average increase of 8.7% in its GDP from 2009 to 2013.²² Considering that most states were struggling in recession during this period, it seemed that the plan successfully maintained the Chinese economic growth by large.

Nonetheless, this vast investment plan has created production overcapacity problem throughout China and left three side effects to the Chinese economy. The most prominent one was overcapacity in raw material industry.²³ Due to the needs of infrastructure-building, tremendous amount of funds found their ways into the steel and cement industries - where production overcapacity had long existed. As noted by the Congressional Research Service (CRS), China's production of raw steel recorded a staggering increase of 459.9% from 152 million metric tons in 2001 to 805 million metric tons in 2006. Also, China's share of global production rose from 17.9% to 50.3% in this 6-year period, occupying 87.1% of the increase in global steel production.²⁴ To

²⁰ CNR.CN, "Wen Jiabao presided over the State Council executive meeting to propose ten measures to expand domestic demand (温家宝主持国务院常务会 提出扩大内需十项措施)", Nov. 14, 2008. Accessed on Aug. 20, 2019. http://www.cnr.cn/2008zt/sxcs/hxyd/200811/t20081113_505149639.html

²¹ NetEase Finance, "Local Version of 4 Trillion Stimulation (地方版“四万亿”来袭。" Accessed on Aug. 20, 2019. <http://money.163.com/special/difangzhengfutouzi/>

²² Data from National Bureau of Statistics of China, "GDP". Accessed on Aug. 14, 2019. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2018>

²³ CRS Report, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", Updated on June 25, 2019, Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>; Mamta Badkar, "China Stimulated Its Economy Like Crazy After The Financial Crisis ... And Now The Nightmare Is Beginning", *Business Insider*, Jun.17, 2013. Accessed on Aug. 20, 2019. <https://www.businessinsider.com/chinas-excess-capacity-problem-2013-6>; and Peter Cai, "Understanding China's Belt and Road Initiative", Lowy Institute for International Policy, March 2017. Accessed on Aug. 20, 2019. https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative_WEB_1.pdf

²⁴ CRS Report, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", Updated on June 25, 2019, p.26. Accessed on Aug. 20, 2019. <https://fas.org/sgp/crs/row/RL33534.pdf>

put it in global context, the increased Chinese steel production during this period was more than the combination of the U.S. and the EU.²⁵

The second side effect is the sustainability of state-owned enterprises (SOEs). With the enormous increase in production that was generated by the governmental policy rather than the market demands, it was clear that many steel companies (most of which were SOEs) could not get equivalent revenues after the stimulation projects, and must rely on government bailouts or else, mired in high-debt situations. As revealed by a *Wall Street Journal's* report, more than half of the SOEs in the steel industry was operating in this “zombies” mode.²⁶

The third side effect is the mounting debt for the Chinese government, especially at the local level. While infrastructure projects remained to be the foundation of thriving commercial businesses, most of them are profitable in nature. Instead, such projects should be understood as the provision of public services. With most of the projects launched by different levels of governments could not make enough revenues, a vast amount of debts has piled up. From the IMF's data, China's general government gross debt (Percent of GDP) grew from 27% in 2008 to 37% in 2013.²⁷ Even though this figure was not too high compared to other OECD countries, the symbiotic relationship between the Chinese government and the state-owned banks posed another potential threat. Once the Chinese economy ceased to grow exponentially as it did in the golden age, which is almost inevitable, the government would be incapable of paying its debts to the banks — whose funds are made up by the substantial savings of the masses. In other words, such a high-debt situation posed a direct threat to the bank savings of the populace. In a high-saving society like China, such problem could generate serious

²⁵ World Steel Association Data, accessed 8 August 2016, Accessed on Aug. 20, 2019.

<https://www.worldsteel.org/dms/internetDocumentList/statisticsarchive/production-archive/steel-archive/steel-monthly/Steel-monthly-2015/document/Steel%20monthly%202015.pdf>.

²⁶ World Steel Association Data, accessed 8 August 2016, Accessed on Aug. 20, 2019.

<https://www.worldsteel.org/dms/internetDocumentList/statisticsarchive/production-archive/steel-archive/steel-monthly/Steel-monthly-2015/document/Steel%20monthly%202015.pdf>.

²⁷ IMF, “General Government Gross Debt”. Accessed on Aug. 26, 2019.

https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/CHN/ADVEC/DA

social discontent that would threaten CCP's legitimacy on delivering economic benefits to the masses. In light of this, Beijing certainly needs a solution to fix the problems left by the Great Recession.

In all, although Beijing successfully achieved rapid economic growth during the first decade of the 21st century, it is also facing severe challenges left by its previous successes since 2008. Considering that the 2008 market stimulus failed to rejuvenate its domestic market effectively, the international corporation became the next possible direction in solving China's domestic problems. In this context, the New Silk Initiative proposed by the Obama administration significantly inspired the Chinese central leadership, and directly influenced the launch of the BRI in later years.

The New Silk Road Initiative

During the Obama administration, the New Silk Road Initiative (NSRI) did not receive enough attention from most Chinese policymakers comparing to the famous 'Pivot to Asia' strategy. However, in 1988, the UN had already proposed a similar idea focusing on the development of Central Asia, namely the ancient Silk Road.²⁸ Based on the UN's proposal, the Obama Administration launched a revised version of the Silk Road development project to better achieve its geopolitical interests. In specific, the NSRI was to form a new trade route from southern India to under-developed Central Asia in the north. The primary purpose of the NSRI, as outlined by former Secretary of State, Hillary Clinton, was to create a stable regional environment and build a new regional economic network that could alleviate the situation in Afghanistan after the U.S. troops' withdrawal from the country.²⁹ In October 2011, the U.S. Department of

²⁸ See details at The UNESCO, "THE SILK ROADS PROJECT "INTEGRAL STUDY OF THE SILK ROADS:ROADS OF DIALOGUE" 1988-1997". Accessed on Aug. 26, 2019. <https://unesdoc.unesco.org/ark:/48223/pf0000159189>

²⁹ See details about the NSRI in Hillary Clinton, "Remarks on India and the United States: A Vision for the 21st Century", U.S. Department of State (Obama Administration), July 20, 2011. Accessed on Aug. 21, 2019. <https://2009-2017.state.gov/secretary/20092013clinton/rm/2011/07/168840.htm>

State officially notified its embassies that the NSRI would serve as the core strategy in this region.³⁰

The NSRI had plenty theoretical preparations, of which the Greater Central Asia was the core. In his *The New Silk Roads: Transport and Trade in Greater Central Asia*, Frederik Starr first proposed such idea based on his systematical analysis of a Central Asia-based economic institution.³¹ Later in 2010, Starr and Kuchins further developed this idea, arguing that Washington should use the northern transportation system in Afghanistan as a base to build a regional economic network and thus, solved the Afghanistan problem fundamentally.³² While the NSRI did not position Central Asia precisely the same as Starr and Kuchins' idea, it certainly drew much inspiration from the latter.³³

From the NSRI, it was beyond doubt that the Obama administration hoped to transform Afghanistan into a regional transportation hub. Considering the rapid growth of the Indian economy and the enormous economic potentials of Central Asia, Afghanistan could serve as a bridge between both economies and thus, achieved long-term stability. More importantly, the rapid growth of Central Asia made this proposal particle. Based on data from the World Bank, from 2000 to 2008, Central Asia had been one of the most rapid-growing regions: its total GDP increased about 400%, and almost every state in this region achieved distinguished growth.³⁴ Furthermore, even though it did not become a fully functional yet, many regional economic institutions already began to form up in this area, including the Central Asia Regional Economic

³⁰ Steve LeVine, "New Afghan exit strategy: When in doubt, call it the New Silk Road", *Foreign Policy*, November 7, 2011. <https://foreignpolicy.com/2011/11/07/new-afghan-exit-strategy-when-in-doubt-call-it-the-new-silk-road/>

³¹ S. F. Starr (edt), *The New Silk Roads: Transport and Trade in Greater Central Asia*, SAIS - Central Asia-Caucasus Institute and Silk Road Studies Program (2007).

³² S. Frederick Star, Andrew C. Kuchins (edt.), *The Key to Success in Afghanistan - A Modern Silk Road Strategy*, published by the Central Asia-Caucasus Institute & Silk Road Studies Program In Cooperation with the Center for Strategic & International Studies (2010).

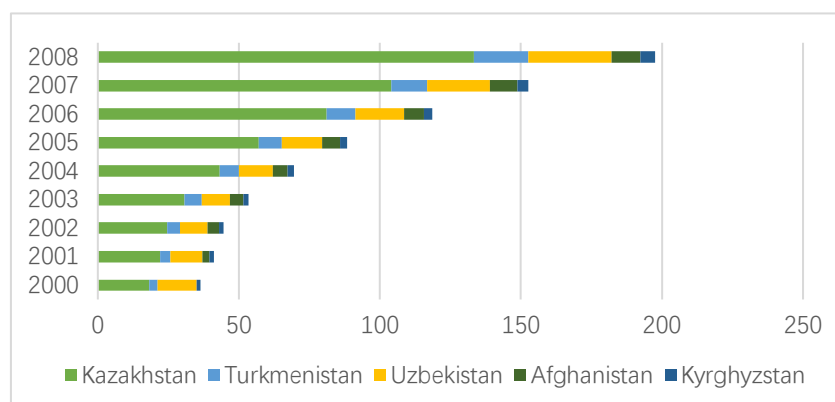
³³ *Central Asia, Afghanistan and the New Silk Road: Political, Economic and Security Challengers*, The Jamestown Foundation (2011).

³⁴ World Bank. "GDP". Accessed on Aug. 21, 2019. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

Cooperation (CAREC) and Regional Economic Cooperation Conference on Afghanistan (RECCA).

In order to achieve the NSRI, Washington zealously invited countries outside this region to participate, including Japan and China.³⁵ However, the NSRI did not go as planned for several reasons. First and foremost, the region is far from the American soil, meaning that Washington must rely on its partners, mainly India and Afghanistan, to achieve the Initiative. Also, prospective member countries in the region have their own sets of problems (such as corruption or insurgencies), which diverted their attention away from the NSRI. Then, the U.S. also devoted limited resources to the Initiative with the Obama administration viewed its ‘Pivot to Asia’ strategy was obviously more important. Finally, major players in this region such as China, Russia, and Iran, was either hesitant or hostile toward the NRSI, rendering it hard to be adopted by these powers. As a result, this project was never really implemented by the Obama administration.

Graph 5: GDP in Central Asia (2000-2008, Billions, USD)³⁶



However, the NSRI did leave its mark on the Chinese policymakers, and it was directly related to the BRI. The author’s organization, ANBOUND, was one of the significant participants during this process. As noted before, most Chinese observers were hesitant about the NSRI as they viewed it as an American deception to draw China

³⁵ In this regard, the U.S. Embassy reached ANBOUND multiple times to discuss the possibility of the cooperation in the New Silk Road Initiative in 2012.

³⁶ Data collected from World Bank. Accessed on Aug. 21, 2019.
<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

into the chaotic Middle East.³⁷ However, ANBOUND³⁸ did not share this view, and with the help from the U.S. Embassy, we conducted multiple field researches on the NSRI.³⁹ Unlike most of our Chinese peers, we believe that the NSRI was not only an opportunity, it was also a case study which China could utilize to solve its economic problems.

From 2008 to 2013, Chen Gong, the Chief Researcher and founder of ANBOUND, conducted multiple field studies in those potential countries that lied within the NSRI. Based on his research findings, Chen subsequently proposed a geopolitical explanation of the NSRI. First, he argued that China has always been a land power throughout its long history. Even though Beijing was (and still is) trying to convert China into a sea power in the contemporary period, this process would inevitably generate conflicts of interests between China and the U.S., the most formidable sea power in the current age. Such confrontation was against the Chinese interests since China still needed a stable international environment to continue its economic development. As such, Chen proposed a land-based strategy for China: Build a new trade axis that across the Eurasia continent. He believed that such an approach, predicated upon the rapid development of Chinese railways, could create a new market for the Chinese enterprises and help them to solve the side effects of the 2008 economic stimulus. Furthermore, given the

³⁷ See examples at ZHAO Hua-sheng, “Towards U.S Strategy on the New Silk Road (In Chinese)”, Journal of Xinjiang Normal University (Social Sciences), Nov.2012 (VOL.33 NO.6); Wu Zhaoli, “Research on the U.S. ‘New Silk Road Initiative’ (美国 ‘新丝绸之路’ 计划探析)”, Contemporary International Relations, 2012 (Vo.7); He Maochun, and Zhang Yibing, “ ” An Analysis on ‘New Silk Road Initiative’ – Chinese Opportunity, Challenge, and Possible Response (新丝绸之路经济带的国家战略分析——中国的历史机遇、潜在挑战与应对策略)”, People’s Tribune. Frontiers, 2013 (Vol.23); Yang Lei, “Objectives of the U.S.’ New Silk Road Initiative and It’s Potential Influence (美国 “新丝绸之路” 计划的实施目标及其国际影响)”, Social Sciences in Xinjiang, 2012 (Vol.5); and etc.

³⁸ ANBOUND is an independent think tank founded in 1993. We provide different kinds of analysis to our clients in areas like economics, geopolitics, and others. We have built a close cooperation with various level of Chinese government in the last three decades, which makes it possible for us to convey our research result to the leadership.

³⁹ Some of relative research can be found in ANBOUND’s *The Strategic Observation (战略观察) (Vol.451 - Vol.455)*, 2015. The Strategic Observation is a weekly product of ANBOUND, which routinely discusses the strategic issues. Sadly, it is only for the eyes of ANBOUND’s clients; And in Relative research can be found in Chen Gong, *Think like Anbound – Understand China and the World 像安邦那样思考-读懂中国和世界*, Beijing: China Financial & ECONOMIC Publishing House (2017); and in (ANBOUND’s *The Strategic Observation (战略观察) (Vol.451 -Vol.455)*, 2015

features of land trade, this new trade axis would also provide the under-developed western provinces the opportunities to become starting nodes of such route and thus, achieved economic independence from the Chinese central government and other relatively developed provinces.

Chen argued that, throughout global history, there have been two principal Trade-axes: the Atlantic Trade-Axis (ATA) and Pacific Trade Axis (PTA). Thrived since the 16th century, the ATA was initially dominated by the European states, and after the US became a superpower, it balanced out the overall trade structure in the Atlantic Ocean. The PTA, meanwhile, generated the various economic miracles in the Asian. Nevertheless, both trade-axes have the U.S. as the link, and thus, it naturally became the most potent economy in the world. Furthermore, as South Asia began to rise, the two trade-axes founded a new connection route through the sea lanes in the Indian Ocean and the South China Sea (SCS). In this sense, Washington's 'Pivot to Asia' strategy and the Indo-Pacific vision should be understood as its attempts in adapting to this new scenario.

In the light of this, Chen argued the next growth point lied on the Eurasian continent (or 'heartland' as proposed by Mackinder)⁴⁰ that would become yet another trade-axis on top of those explained above. ANBOUND termed it as the New Silk Road Trade Axis (NSRTA) — an alternative route connecting the ATA and PTA, with potential in boosting the economic developments of Central Asia, the Balkans, and the Middle East. Comparing with the previous two trade-axes, the NSRTA would be more balanced in terms of the industry chain: China to provide capital and products; the European countries to provide intellectual properties (IP); And the under-developed regions to provide markets for both of them. In his view, Chen believes the NSRTA will also help to solve the global poverty problems as there are no strategic conflicts among the members, like it did in the Middle East, in this new route, which means the fewer possibilities of conflicts.

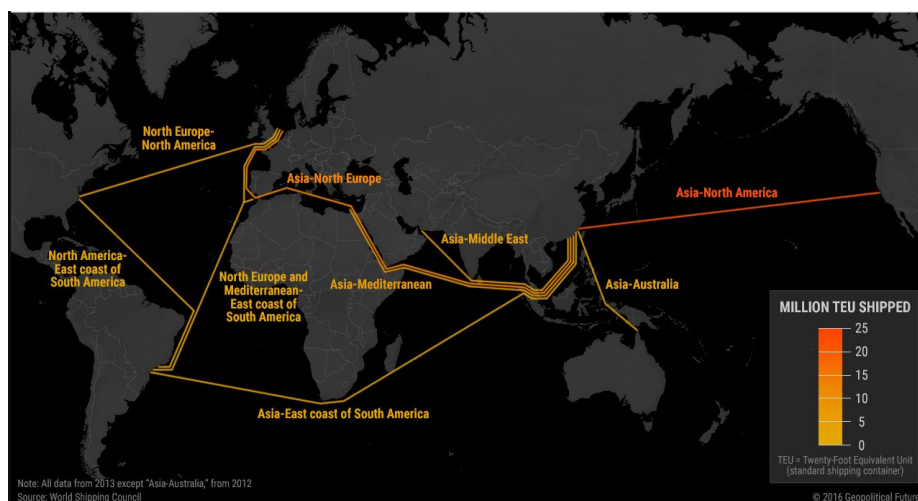
⁴⁰ H.J. Mackinder, "The geographical pivot of history", *Geographical Journal*, 1904 (23): 421–37.

To be noted, ANBOUND does not believe the NSRTA is incompatible with the traditional sea trade route. We acknowledged that sea trade is still and will continue to be the most critical economic mean for a quite long time. This fact means Beijing should not exclude itself from this trend and should continue to build its naval forces because such a force is the key to secured overseas interests.⁴¹ However, the NSTRA may be more suitable for the Chinese case. Based on the NSRTA model, it generated four comparative advantages to China. First, the NSRTA seeks to affirm and extend the historical status of China as a land power. Second, the U.S. has lesser interests in this hinterland (as opposed to maritime routes), and as such, it reduced the chances of head-to-head confrontation between Beijing and Washington. Third, the NSTRA has the potential in solving the unbalanced development between eastern coastal and western regions of China. Fourth, as a region occupying the lower-end of economic development, Central Asia fits well into China's plans to upgrade its own industries, industrial transfer, and expansion into new markets.

Collectively speaking, ANBOUND viewed the NSRI as an insightful case that could potentially solve China's ongoing developmental problems outlined earlier. Such an argument is what ANBOUND conveyed to the Chinese central government (via different channels of communications) which in turn, produced impacts on the eventual BRI's proposal by President Xi Jinping. To better understand this process, the next part of this paper will provide a brief discussion of Chinese policy-making process is necessary.

⁴¹ A. T. Mahan, *The Influence of Sea Power upon History*. Little, 1980.

Graph 6: The First Two Trade Axes (2013)⁴²



Graph 7: The Third Trade Axis: The Road Map of the BRI⁴³



Chinese Policy-Making Process

Given continuous developments in the discipline of political science, it has become increasingly clear that the scientific method could be utilized to analyze the policy-making process even for an authoritarian regime like China. In comparison to

⁴² This graph clearly sketches the ATA and the PTA. It was made by *Geopolitical Futures*. Available at <https://geopoliticalfutures.com/one-belt-one-road-trade-route-isnt-trade-route/>

⁴³ The “Belt” Part is the latest adaption of the NSTRA. Graph is made by the Wall Street Journal (WSJ). Available at <https://www.wsj.com/articles/chinas-new-trade-routes-center-it-on-geopolitical-map-1415559290>

its Western peers, China has a relatively black-boxed policy-making process that is divided into four stages: formation, preparation, examination, and execution.⁴⁴

The first stage is the policy formation, which could also be understood as policy-design at the top level. Unlike the U.S., where the policy usually started from the details, the top Chinese leadership preferred to reach a consensus about a strategic issue before they moved to detailed approaches. In other words, Beijing will decide a general direction of its policy first. The clearest example is the famous judgment of “Peace and Development” proposed by Deng Xiaoping in the early 1980s.⁴⁵ Every policy or strategy of China proposed after that (such as *Tao Guang Yang Hui* (hide one’s capacities and bide one’s time)) was basically predicated upon such judgment. From 1949 to 1978, the top Chinese leadership was relatively closed to the external input, partly due to their ideology and experiences of long period of insurgency. However, as Beijing decides to open up and reform, external parties such as scholars, analysts, and think tanks, began to provide their insights on grand strategic issues via their own channels.

The second stage is policy preparation.⁴⁶ Up to this point, Zhongnanhai⁴⁶ has the general idea about what it wanted, and the rest of the tasks are delegated to the lower-level government agencies. The latter, in turn, must propose a more detailed approach on how to achieve the goals proposed by the top leadership in the previous stage. This is where most governmental think tanks get involved as most of them served under different government agencies. After cooperation and discussions among these government agencies, certain official documents (such as whitepapers) will be adopted, which then become the guidelines for future work.

The third stage is the examination of the entire policy. Most departments or individuals would brief the top leadership about their respective positions on selected

⁴⁴ This is only a summary of the most cases. Views can also refer this mechanism to the Democratic Centralism.

⁴⁵ CPC.CN, “Peace and Development”. Accessed on Sep.3, 2019.
<http://dangshi.people.com.cn/GB/221024/221027/14907094.html>

⁴⁶ Zhongnanhai is the place where the central leadership resides in Beijing. It is next to the Tiananmen Square.

issues. In this stage, Zhongnanhai would also like to hear feedback from the third parties, as long as they are not profoundly hostile to the CCP. Following such diversified input process, leaders would adjust the original policy accordingly, and after that, it is ready to be implemented.

The final stage is the execution of the policy that also included its propaganda dissemination.⁴⁷ Targeting the domestic entities, the propaganda is a means for Chinese society to better understand and collaborate with the government. Also, as the policy is open to public feedback at this stage, everyone could comment or even criticize the policy as long as they do not use it to jeopardize the CCP. The media, state-owned or private-owned, also joined such process at this point. Having said that, any dramatic adjustments toward the policy is hardly seen unless unanticipated events occurred.

In this context, as a private think tank founded in 1993, ANBOUND has built a close relationship with the Chinese government at all levels. It is one of the few organizations that have channels to nearly all stages of the Chinese policy-making process. And by its channels, ANBOUND's findings regarding the NSRI ultimately reached the tables of top leaders. For example, Mr. Chen Gong used to conduct an eight-hour internal briefings to governmental officials in Xinjiang, articulating his arguments about the NSTRA. Even though it is impossible to determine the sources for the Chinese central leadership's position on the BRI, it is reasonable to think that ANBOUND's long-standing engagements with various levels of the Chinese governments influenced, at a certain level, Zhongnanhai's initial thoughts about the BRI.

Frankly speaking, Beijing did not have a completed plan when President Xi announced the "Silk Road Economic Belt" in Kazakhstan.⁴⁸ Nonetheless, the description of the Silk Road Economic Belt was remarkably coherent with the

⁴⁷ I did not use the propaganda in negative means. In the Chinese environment, propaganda is not a negative thing necessarily.

⁴⁸ Xi Jinping, "Promote Friendship Between Our People and Work Together to Build a Bright Future (弘扬人民友谊, 共创美好未来)," Sep. 7, 2013. Accessed on Aug. 26, 2019. <http://politics.people.com.cn/n/2013/0908/c1001-22842914.html>

NSTRA.⁴⁹ Moreover, the fact that Xi added the “21st Century Maritime Silk Road” in Indonesia later showed that there were other factors beside ANBOUND’s proposal on the NSTRA.⁵⁰ It is through institution like ANBOUND, that Beijing learned about the NSRI — an alternative approach to solve its domestic problems. As a result, in November 2013, the “One Belt One Road” was written into the national strategic documents and officially become the unparalleled grand strategy of the Chinese central government.⁵¹



Picture of Mr. Chen Gong at the Internal Brief in Xinjiang

Conclusions

By explaining the pre-BRI history via the lens of China’s economic development and geopolitics, this paper showed that the BRI is not merely an architected move to enforce its influence or even control its surrounding countries⁵². Rather, it should be

⁴⁹ Xi Jinping, “Promote Friendship Between Our People and Work Together to Build a Bright Future (弘扬人民友谊，共创美好未来),” Sep. 7, 2013. Accessed on Aug. 26, 2019. <http://politics.people.com.cn/n/2013/0908/c1001-22842914.html>

⁵⁰ Xi Jinping, “Building the 21st Century “Maritime Silk Road (共同建设二十一世纪 “海上丝绸之路”),” *cpcnews.cn*, Oct. 3, 2013. Accessed on Aug. 26, 2019. <http://cpc.people.com.cn/xuexi/n/2015/0721/c397563-27338109.html>

⁵¹ The Third Plenary Session of the 18th CPC Central Committee, “Decisions of the CPC central committee on several major issues concerning comprehensively deepening reform (中共中央关于全面深化改革若干重大问题的决定),” *GOV.CN*, Nov. 15, 2013. Accessed on Aug. 26, 2019. http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm

⁵² Such arguments are quite common among western observers, for example, Christopher L. Johnson, “President Xi Jinping’s ‘Belt and Road Initiative’”, CSIS, March 2016. Accessed on Sep.9, 2019. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf; Dean Cheng,

understood as a strategy that was mainly designed to resolve China's domestic economic problems left from its rapid growth era and to avoid the confrontation with Washington. As far as domestic economic problems are concerned, the golden age (2000 to 2010) left unbalanced development and overcapacity problems in China. It was due to these two problems that Beijing desperately needed a new development strategy to replace its trade- and investment-oriented model. At the same time, the NSRI as proposed by the Obama Administration gave a lesson to the Chinese leadership. A Chinese version of Silk Road Initiative could help China to solve its problems, further boost the economic development, and help to reduce its confrontation with the U.S. in the Indo-Pacific region. More importantly, such initiative marked the turning point of China's foreign policy - Beijing started to adopt an outward-looking posture and actively using its resources to shape its external environment. After becoming a great economic power, the launch of the BRI indicated that Beijing has begun to think in an equivalent manner.

America Needs a Comprehensive Strategy for Countering China's Expanding Perimeter of National Interests", Apr. 28, 2015. Accessed on Sep. 9, 2019. <https://www.heritage.org/asia/report/america-needs-comprehensive-strategy-countering-chinas-expanding-perimeter-national>; and John R. Bolton, "Remarks by National Security Advisor Ambassador John R. Bolton on the The Trump Administration's New Africa Strategy", White House, Dec. 13, 2018. Accessed on Sep. 9, 2019. <https://www.whitehouse.gov/briefings-statements/remarks-national-security-advisor-ambassador-john-r-bolton-trump-administrations-new-africa-strategy/>

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