# Bold Strategy or Irrational Exuberance
# Can China's Fiscal Foundation Support the Belt and Road Initiative?

Christine Wong

Forthcoming in Thomas Fingar and Jean Oi, Eds., *China's Future: Challenges, Choices, and Contingencies.* Stanford University Press.

In a hearing before the US-China Economic and Security Review Commission in January 2018, Jonathan Hillman of the Center for Strategic and International Studies described the Belt and Road Initiative (BRI) as the "best-known, least-understood foreign policy effort underway."[1] This characterization seems apt. Since the program was launched in late 2013, it has emerged as China's most important foreign policy initiative, one that is tirelessly promoted by the government. A two-day gala Belt and Road Forum in May 2017 in Beijing drew 29 foreign heads of state and representatives from more than 130 countries and 70 international organizations.

Despite the veritable cottage industry that has sprung up to explain, anticipate, conjecture, and speculate about the size and shape of the program and its ramifications for China, the global economy, and the global order, however, the BRI is still evolving, and specifics of the program are as yet hazy and difficult to pin down.

The idea of a new "Silk Road Economic Belt" was first introduced in September 2013 in Kazakhstan, where Xi Jinping called for regional cooperation in building a network of overland road and rail routes, oil and natural gas pipelines, and other infrastructure projects.[2] The following month, in a speech to the Indonesian Parliament, Xi called for building a "Maritime Silk Road," a maritime equivalent of the "Silk Road Economic Belt," with a network of ports and other coastal infrastructure projects. To help finance this "Road." he proposed the creation of an "Asian Infrastructural Investment Bank."

As outlined in Xi's speeches and elaborated in a 2015 document issued jointly by the National Development and Reform Commission, the Ministry of Foreign Affairs, and Ministry of Commerce, the program is of breathtaking scope that aims to build "multi-dimensional" networks that link more than 60 countries from Asia to Europe, going through Central Asia, the Middle East and Africa (Figure A). Together, these countries would comprise almost two-thirds of the world's population and some 40% of gross world product. The cost of building this "Belt and Road" would be enormous, with some estimates running as high as US$8 trillion.[3]

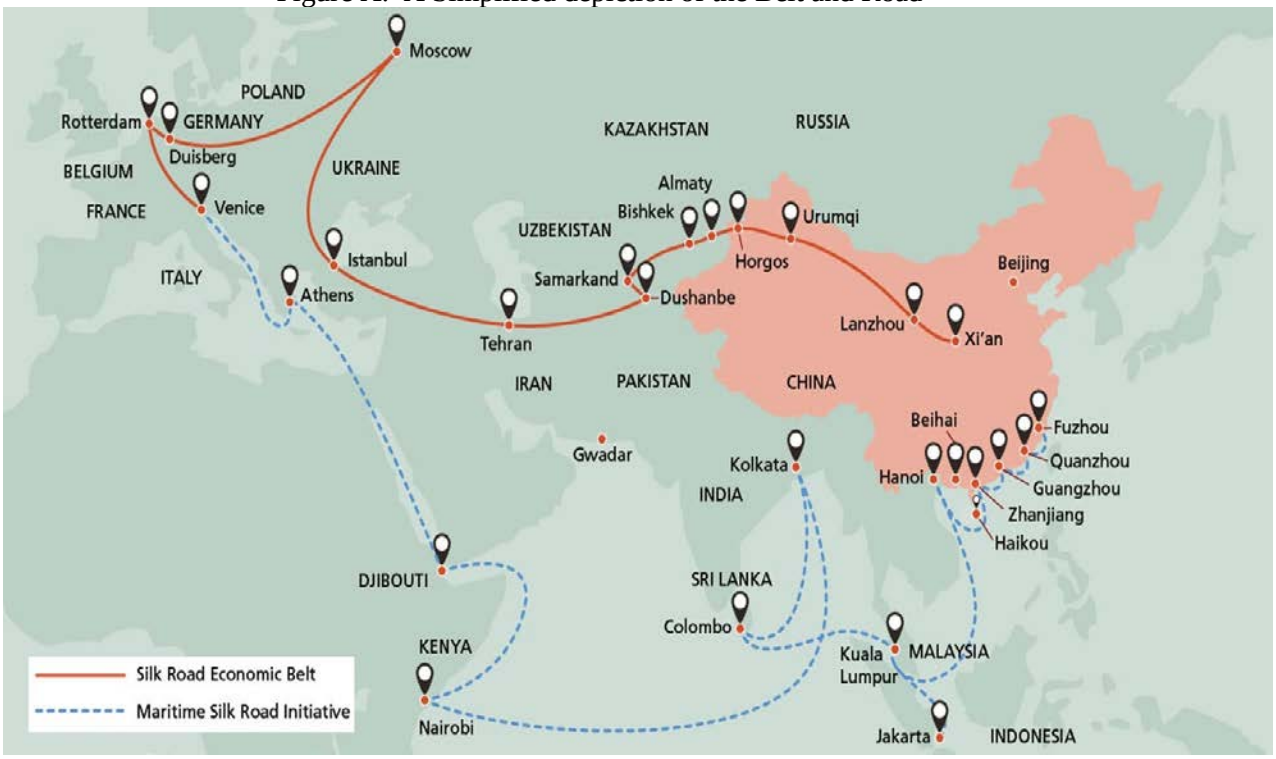
Insert Figure A about here)

[1] Jonathan Hillman, "China's Belt and Road Initiative: Five Years Later," Statement Before the US-China Economic and Security Review Commission, January 25, 2018, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/ts180125_hillman_testimony.pdf?mSTOaqZbgZdRpx4QWoSt1HtIa4fN42uX

[2] Xinhua 24/06/2014. Chronology of China's Belt and Road Initiative, 24 June. http://www.xinhuanet.com/english/2016-06/24/c_135464233.htm (accessed 26.6.2018).

[3] https://www.wsj.com/articles/chinas-financial-reach-leaves-eight-countries-vulnerable-study-finds-1520190000 (accessed 5 March 2018).

Figure A. A Simplified depiction of the Belt and Road[4]




At the risk of over-simplification, we can divide the BRI into two components. One is a hardcore economic program that comprises a mammoth set of infrastructural investments. The other is an aspirational regional integration program that calls for cooperation and coordination with the participating countries on several levels including customs, trade, investment and financial policies, cultural and people-to-people exchanges, etc. Fostering multilateralism has been a big part of the BRI strategy from the outset. Although China proposed the BRI and is spearheading the program, Beijing insists that it will be a joint effort undertaken in partnership with participating countries. In support of this strategy, China has led numerous efforts to build multilateral cooperation and new institutions. In November 2014, for example at the APEC meeting in Beijing, China threw its weight behind the idea of a Free Trade Area of the Asia Pacific, helping to win approval for a new "APEC Connectivity Blueprint 2015–2025".[5] China has also been proactive in other multilateral organizations, advocating policy coordination on issues of trade and investment, as well as negotiations on areas such as rules of origin, intellectual property and electronic commerce, including at the Regional Comprehensive Economic Partnership – a pan-Asia group of 16 countries (ASEAN + 6) launched in 2013.[6] At the same time, China has initiated the creation of new multilateral financial institutions including the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (previously the BRICS bank), and smaller regional funds such as the China-Central Eastern Europe Fund, and has provided generous financial commitments to induce others to join.[7]

[4] https://www.ibanet.org/Article/NewDetail.aspx?ArticleUid=4c748836-b7e1-405b-af44-7dcbea257e64

[5] https://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexd. The idea of the FTA had been raised earlier by other countries, but it was the push by China that got it back on the agenda.

[6] See, for example, https://www.mofa.go.jp/press/release/press4e_002009.html

[7] Both the AIIB and NDB have projected capital commitments of US$100bn. The CEEF began Phase 2 of its operation in 2017, when capital commitment was increased to US$10bn from the initial US$1bn.

The Belt and Road is a key part of the "China Dream"—to return China to its rightful place in the world—and serves clear and extremely important geopolitical objectives in China's development strategy. In this paper I focus on the economic and financial considerations of the BRI on the Chinese economy, with a specific objective of assessing whether China has the financial wherewithal to implement this grand scheme. The economic and financial impact of the BRI will also be large and important, and these results will ultimately determine how the BRI and China's place in the world will be viewed. However, they are outside the scope of this paper.

This assessment places the BRI in the long arc of fiscal expansion in China that began at the turn of the century, when a long run of double-digit annual growth of the economy brought government coffers to overflowing. To keep up, government spending ramped up from RMB1.6 trillion in 2000 to RMB12.6 trillion in 2012. New programs proliferated, each one bigger and more ambitious than the last. The BRI was conceived in that golden era of high economic growth, rising export surpluses, and high foreign reserve accumulation.

This paper asks whether the BRI is affordable in the current era of the "new normal," when China's growth rate has fallen a long way from those double-digit levels. Aside from looking at the numbers, I offer a brief review of recent reforms to assess whether China's fiscal institutions are robust enough to manage the transition to slower growth, and avoid overextending the nation's finances under the BRI.

## The Economic Rationale

The Belt and Road Initiative is a key program in China's economic development strategy. It was included in the Decision of the Third Plenum of the 18th Party Congress in November 2013 as a national strategy, and endorsed at the Central Economic Work Conference held a month later.[8] It was also adopted into the Party constitution in October 2017.

The BRI is part of the strategy to find new sources of development to replace the transfer of labour from low-productivity agriculture to higher-productivity industry that drove miracle growth in earlier decades. The end of the unlimited supply of labour coming off the farms led to rapidly rising wages and is driving low-end labour-intensive manufacturing to Vietnam, Cambodia, and elsewhere. Exports, which for a long time had grown at a rate of 20-25 percent per year, have flattened out since the Global Financial Crisis, and even shrank in 2015. Finally, while building infrastructure has been a big contributor to—and sometimes served as the main driver of—growth over the past decade, China has reached saturation level for many types of infrastructure, especially housing and transport. Moreover, the high leverage level in the economy is forcing curtailment of investment. To sustain high growth, China must revamp its economic model and find new drivers.

The BRI contributes to this paradigm shift in several ways. First, it is designed to open new markets. Almost immediately, the BRI project will create new demand for transport and construction equipment, knowhow, and logistics services, and these will facilitate China's transition to higher value manufacturing and exports and spur innovation. Indeed, after more than two decades of catch-up investment in transport infrastructure, high-speed rail, ports, and logistics facilities, China has honed a competitive advantage in these industries, and is a world leader in high-speed rail technology. The transport infrastructure networks at the heart of the BRI are tailor-made for China's new comparative advantages.

Improved connectivity and reduced transport costs from the networks will spur trade. They have already turned China into the leading exporter to many countries in Central Asia and the Middle East, and it is fast gaining ground in Eastern Europe. Rail service to Tehran since 2016 has delivered Chinese-made clothes, bags, and shoes via Kazakhstan and Turkmenistan.[9] At the BRI Forum, Xi Jinping said that total trade between China and the Belt and Road countries exceeded $3 trillion in 2014-2016.[10]

The BRI initiative is well timed for China's structural transformation. Just as pressures of rising costs had led Hong Kong, Taiwan and South Korea to relocate labour-intensive, low-end

[8] http://finance.sina.com.cn/focus/2013zyjjgzhy/ (accessed 8/02/18).

[9] Miller (2017a).

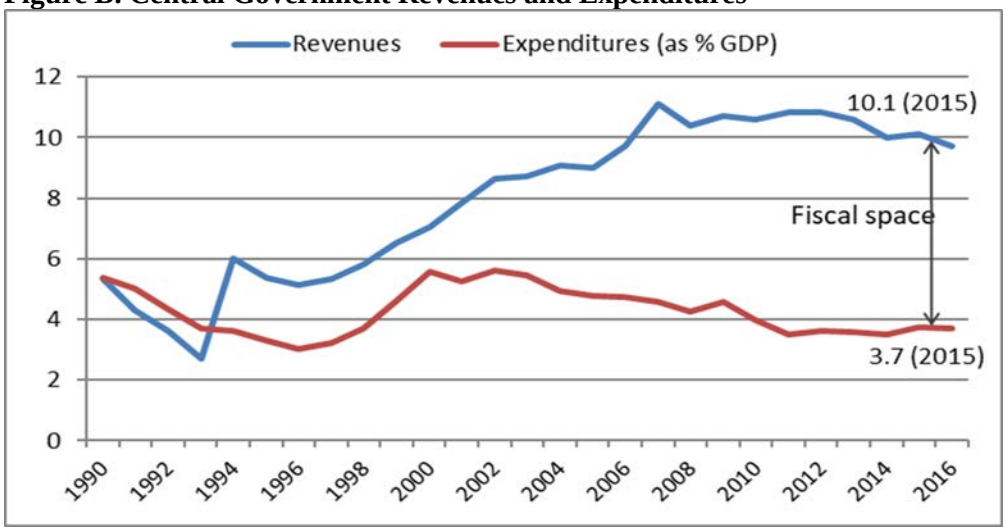
[10] Shannon Tiezzi, What Did China Accomplish at the Belt and Road Forum? The Diplomat, May 16, 2017. https://thediplomat.com/2017/05/what-did-china-accomplish-at-the-belt-and-road-forum/.

manufactures off shore to China as they reached upper middle income levels in the 1980s-1990s, China is now poised to relocate some labour-intensive and low-end manufacturing to poorer countries in Southeast and Central Asia to maintain cost competitiveness. In addition, as China aims to achieve higher quality, greener growth in the 21st century, officials hope to find markets for plant and equipment from some of its resource- and pollution-intensive industries. Jin Qi, Chairwoman of the Silk Road Fund, has argued that moving factories with excess capacity to BRI partner countries helps China reduce the supply glut at home while assisting these less developed countries build their industrial bases, just as China had imported second-hand production lines from unwanted surplus capacity from Germany, Taiwan, and Japan in the 1980s.[11]

The BRI is an integral part of China's regional development strategy. It was adopted at the 2014 Central Economic Work Conference as one of the three prongs of a regional strategy to promote development in China's central and western provinces. Extending highways and rail links to hitherto hard-to-reach regions will turn deep-inland cities into transport hubs and raise their economic potential. For example, the China–Pakistan Economic Corridor will link Kashgar in Xinjiang to the Port of Gwadar, and rail connections to and from Urumqi are already making the city the gateway to Central Asia. Likewise, the economic corridors to South and Southeast Asia will link Yunnan and Guangxi to overseas markets. The BRI will also help to provide a more secure route for China's energy and raw material supplies, reducing its current heavy reliance on shipping through the Malacca straits and the South China Sea.

This recitation of the economic logic of the Belt and Road for China would be incomplete without a discussion of the genesis of the idea in the particular historical milieu in the early part of the 21st century, when China experienced a period of extraordinary economic growth and expansion of government. During 2000-2012, GDP grew at a rate of 13.9% per annum in real terms, and government revenues grew at a rate of 21.8% per annum in nominal terms (and 18.6% p.a. in constant prices). Figure B shows the amount of "fiscal space" provided by the rapid revenue growth that accrued to the central government (i.e., the discretionary, unencumbered revenues at the central government's disposal).[12] This amount was RMB 4.39 trillion ($704.4 billion) in 2015. Needless to say, such budget surpluses can be expected to be emboldening.

**Figure B. Central Government Revenues and Expenditures**




[11] Jin Qi's speech in Hong Kong on 18 May 2016 at Belt and Road Summit, http://www.silkroadfund.com.cn/cnweb/19930/19938/32726/index.html. Cited in Cai (2017).

[12] Strictly speaking, these funds are not entirely "unencumbered" – this is the amount the central government transfers to local governments to help fund their budgets. Of these transfers, only tax rebates (the returned portion of shared taxes) are set by law or regulation, all the rest are made at the discretion of central government. With tax rebates having fallen from half of the total at the end of the 1990s to just 12% in 2015, broadly speaking, we can call this mostly discretionary.

During the administration of Hu Jintao and Wen Jiabao (2002-2012), spending on social services increased rapidly under the call to build a Harmonious Society. New programs proliferated, each one bigger and more ambitious—the free basic education program provided schooling for 140 million children, the rural cooperative health insurance scheme covered more than 800 million rural residents, and the urban and rural residents' basic pension schemes provide coverage for everyone not already under workplace programs—completing the framework for a basic social welfare system, albeit at low and uneven levels of provision.

China also undertook massive investments in infrastructure, building expressways, airports, high-speed rail lines, ports, and logistics facilities at unprecedented rates. The rate of investment in infrastructure rose from 5-6% of GDP in the mid-1990s to 12-14% during the 2000's—more than twice the average for OECD countries.[13] With GDP expanding at double-digit rates each year, actual investments in infrastructure rose from a level of RMB 1 trillion in 2000 to RMB 5-6 trillion in 2012 and some RMB 8-9 trillion today.[14] The results can be seen everywhere. From a starting point of only 147 km of expressways in 1988, China had built 68,000 km by 2011, and has added 10,000 km each year since then to reach 130,000 km today.[15] The pace of building high-speed rail lines has been even more astonishing. China has 25,000 km of lines linking 29 of the 31 provinces and accounts for two-thirds of the world's high-speed rail lines.[16]

These investments coincided with China's rapid growth and ascent to world-leader status as a manufacturing and exporting power. They also propelled China to a top tier ranking in the World Bank's logistics performance index, joining an exclusive group comprised almost entirely of high-income countries.[17] This experience undoubtedly strengthened the belief among Chinese planners in the power of infrastructural investments.

In the meantime, strong export growth and persistent current account surpluses after China's accession to the World Trade Organization in 2001 brought foreign reserves flooding into the central bank vaults (Figure C). The growth of reserves was partly the result of currency controls which, until they were loosened starting around 2006, required the central bank to purchase dollars to sterilize the effect of the current account surpluses on the yuan-dollar exchange rate.[18] The secular increase in foreign reserves gave rise to the "going out" policy that encourages Chinese firms and the government itself to invest outside of China to earn better returns than provided by holding US Treasury bonds.[19] The "going out" push grew even stronger after the global financial crisis in 2008, when the resultant loose monetary policies in the US and Europe drove interest rates to near zero, and the People's Bank ran heavy losses on its dollar holdings.

**Figure C. China's foreign reserves (**unit: USD$ billion)

[13] (Wong 2014, Zhang and Barnett 2014).

[14] Author's calculations.

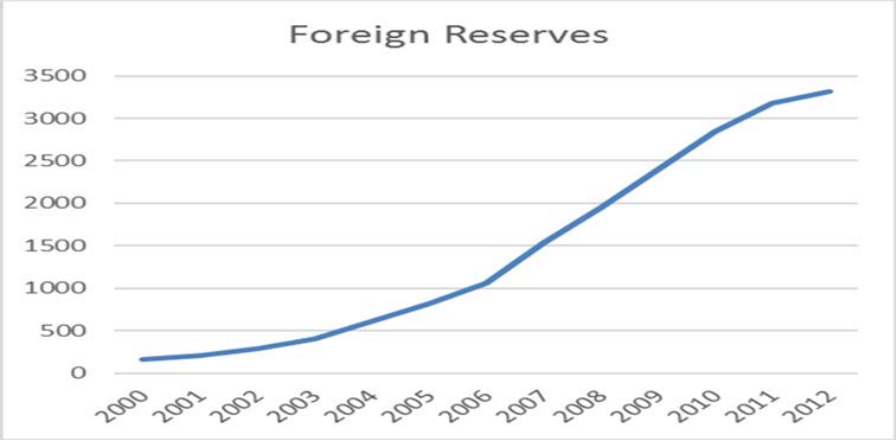
[15] State Council website. http://english.gov.cn/news/top_news/2017/08/27/content_281475818432406.htm

[16] https://en.wikipedia.org/wiki/High-speed_rail_in_China

[17] China was ranked 23rd among 160 countries in infrastructure, and 27th overall. The only country with a higher LPI score but lower per capita GDP is South Africa.

[18] Until 2006/2007, China maintained a fixed exchange rate pegged to the US dollar,

[19] The China Investment Corporation was established in 2007 as a vehicle to diversify China's foreign exchange holdings.




Under conditions of financial repression and given China's high savings rates and the central bank's sterilisation operations, banks were flooded with cheap money and eager to lend. As a result, financial conditions at the end of the 2000-2012 period were extremely favourable for launching the BRI, providing a strong reinforcement for China's need to find new growth drivers. Add to that the almost-fundamentalist belief in the power of infrastructure among Chinese leaders, and the BRI was not only a natural next step in China's development, but also, in this mindset, a bold and innovative foreign policy to win hearts and minds in China's neighbourhood.

**Benefits for Participating Countries**

The importance of infrastructure in promoting economic growth and development has long been recognized. Until the turn of the century, 70 percent of World Bank lending was for infrastructure. Even more important is the network effect that the BRI proposes to create.[20] This effect could potentially multiply the impact of infrastructure and change the calculus of the investments because what may be an uneconomic undertaking for a single country might become viable when linked up and joined by infrastructure in other countries. These effects may be especially large in opening up market access for land-locked regions and countries along the routes. In one of the more unexpected examples of expanding markets through connectivity, the deputy director of the Guangzhou Cargo Transport Center suggested that the opening of the Shenzhen-Minsk freight train has turned Shenzhen into a bridge between the 21st Century Maritime Silk Road and the Silk Road Economic Belt, because "Goods such as rice and fruit from ASEAN countries like Vietnam and Laos can first be transported to Shenzhen by sea and then to Russia and Belarus by freight train."[21]
Many of China's neighbours are poor. They have poor infrastructure, weak tax bases, and little access to market finance because many have below investment-grade credit ratings.[22] Their economic potential could be significantly improved by BRI-proposed investments in infrastructure. For these countries, China's offer of financing is a huge inducement to participate. In fact, many of the BRI projects were made possible by Chinese funding after being rejected by other funders.
In sum, by taking the lead in designing and proposing and committing substantial financial resources to the BRI, China has created incentives for its neighbours to participate in a credible, highly attractive development plan. Beijing's ability to convene an international forum on short notice that drew 29 heads of state and representatives from more than 130 countries and 70 international organizations demonstratesthat the program has generated substantial interest around the world. However, whether these hypothesized benefits can be realized will depend on the underlying economic fundamentals. Given the huge size and lumpy nature of many of the infrastructure projects, and given the difficulty of projecting future growth, the success of the BRI will require exercising

[20] The network effect is a phenomenon where a product's value to the user increases as the number of users grows. Indeed, Metcalfe's Law states that the value of a network is proportional to the square of the number of members in the network. Modern day examples include the internet and Facebook.
[21] Xinhua May 25,2017. http://english.gov.cn/news/top_news/2017/05/25/content_281475666610602.htm.
[22] (Miller 2017).

great care in selecting projects that have passed through cost-benefit analyses based on sound and sober projections of future scenarios.

## The Finances

One of the big unknowns about the Belt and Road Initiative is the scale of investment, especially Chinese investment. Headline numbers look huge. In the course of 2014-2015 alone, China committed a quarter trillion US dollars to creating financial entities dedicated to the BRI. This included $100billion for the AIIB, another $100billion for the New Development Bank (NDB, formerly the BRICS Bank), and $40billion for its Silk Road Fund. During the Belt and Road Forum held in May 2017, Xi pledged to put an additional RMB 100 billion ($14.5 billion) into the Silk Road Fund, and said the China Development Bank and Export-Import Bank would be setting up new lending schemes of RMB 250 billion ($36.2 billion) and RMB 130 billion ($18.8 billion), respectively, for Belt and Road projects.[23] Elsewhere, the number "$1 trillion" is frequently mentioned as the government's promised injection.[24]

How large is China's investment in BRI? The government's statements have been notably restrained in estimating the government's input to date. The 2015 vision statement repeatedly emphasized cooperation and coordination in implementation, with the strong implication that projects should be jointly funded. Elsewhere, the government and its advisors have urged Chinese entities not to get ahead of their partners. The National Development and Reform Commission (NDRC), the lead coordinating agency for BRI, reported in November 2017 that "more than $50bn" has been invested since the 2013 launch, with nearly 2000 projects underway.[25] The Ministry of Commerce reported that investments have totalled "almost US$30 billion in 2015-16"—also at a pace of about $15 billion per year. The quarter trillion dollar commitments to AIIB, NDB, and the Silk Road Fund, are long-term promises. Paid-in capital has been much more modest--$20 billion for AIIB, and $10 billion for the NDB, stretched out over five years or more.[26]

When we turn to reports of cumulative investments and overseas lending to BRI projects financed by Chinese banks, the numbers are much larger. These are shown in Table 1. Together, they add up to a combined total of $846 billion already invested or lent. These numbers must be interpreted with caution, however. The reports do not make clear when the loans were made, and may include projects that predate 2013 and perhaps even only remotely related to the Belt and Road. Since its inception, the concept of BRI has been expanded and stretched to draw in even a polar silk road. The Exim Bank figure probably includes a substantial amount of trade credit, lumped together with infrastructure loans. Nevertheless, the size of these numbers points to a potential source of risk that merits watching because they reflect credit extended to state-owned enterprises and local governments for their BRI projects.

**Table 1. Cumulative investment and lending overseas by Chinese banks**

[23] http://china.org.cn/china/2017-05/14/content_40811348.htm.

[24] (The Economist, WSJ, Caixin).

[25] This was the same figure cited by Xi Jinping in his speech at Davos.

[26] (Kroeber 2015

| Date | Institution | Description | US$bn |
|---|---|---|---|
| to June 2017 | China Exim Bank | over 1,200 projects in more than 50 BRI countries | 670 |
| to yr-end 2016 | China Development Bank | has built a project pipeline of more than 900 projects in 60 countries with investments totalling more than US$890 billion | 110 |
| to Sept 2017 | Bank of China | 480 overseas projects in 20 BRI countries with total investment of $460+ bn, and have provided intent to grant credit support of more than $103 billion | |
| | | completed letters of credit for $90Bn in 51 countries | |
| April 1, 2017 | Industrial and Commercial Bank of China | committed to loans of $67.4Bn to 212 projects in 48 countries | |
| July 31, 2017 | China Construction Bank | Signed loans exceeding $13 billion for 60 major projects in 21 countries | <13 |
| | | + committed to future loans of $110 billion for 200+ projects in 48 countries | |
| end 2016 | Agricultural Bank of China | infrastructure loans | 0.35 |
| to end September 2017 | Bank of Communications | through domestic insurance loans and overseas syndicates, have loaned cumulatively 400 billion yuan to support 37 key projects in the BR region. | 61.5 |
| to May 2017 | Silk Road Fund | set up in Dec 2014 with capital commitment of $40 bn. In May 2017 President Xi committed an additional 100 billion yuan (about US$14.5 billion). | 4 |
| | | **Total reported lending to date** | **845.9** |

Source: compiled from information from websites of the various banks, annual reports and news reports.

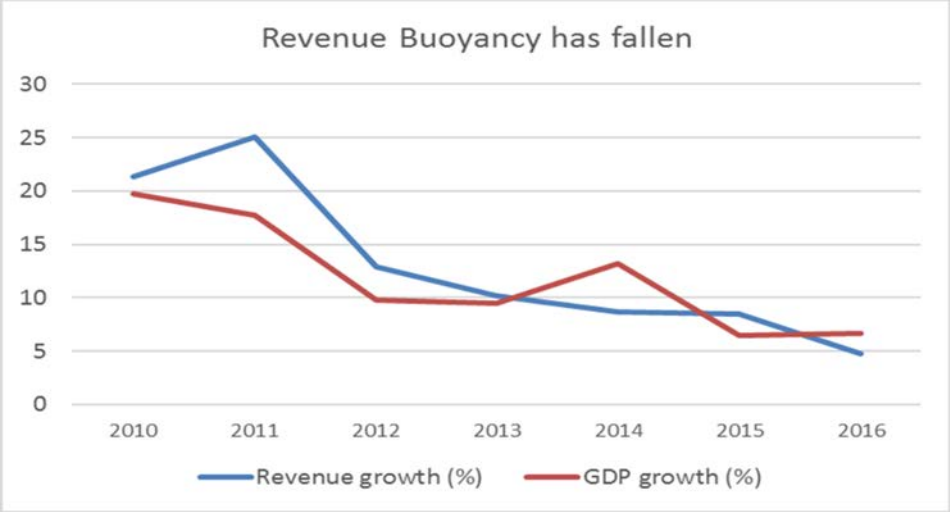
## Principal Sources of Financial Risks

There are two main sources of financial risk of the BRI for the Chinese economy. First, a program that looked sensible may no longer be affordable in the current, less buoyant economic environment, when the consensus view is that China has reached a phase of development where its growth rate will be much slower. The government has coined the term the "New Normal" to characterise this era, whose growth rate they peg optimistically at 6-6.5%. Second, in China's highly fragmented and decentralised economic system, the government has often struggled to rein in investment drives once they have been unleashed, such as what happened to the 2008 fiscal stimulus program. In that episode, the program ballooned from an original target of RMB 4 trillion to more than RMB 10 trillion, and, a decade later, local governments are still digging out from under the mountain of debt they ran up.[27]

Is the BRI still Viable Under the New Normal? China's growth rate has been slowing since 2010, once the 2008 fiscal stimulus had run its course. This has had immediate and significant effects on government revenues, as shown in Figure C. Not only has revenue growth fallen, so has buoyancy; revenue growth is now less than GDP growth. In 2016, revenues grew by just 4.5% when GDP grew by 6.7%.

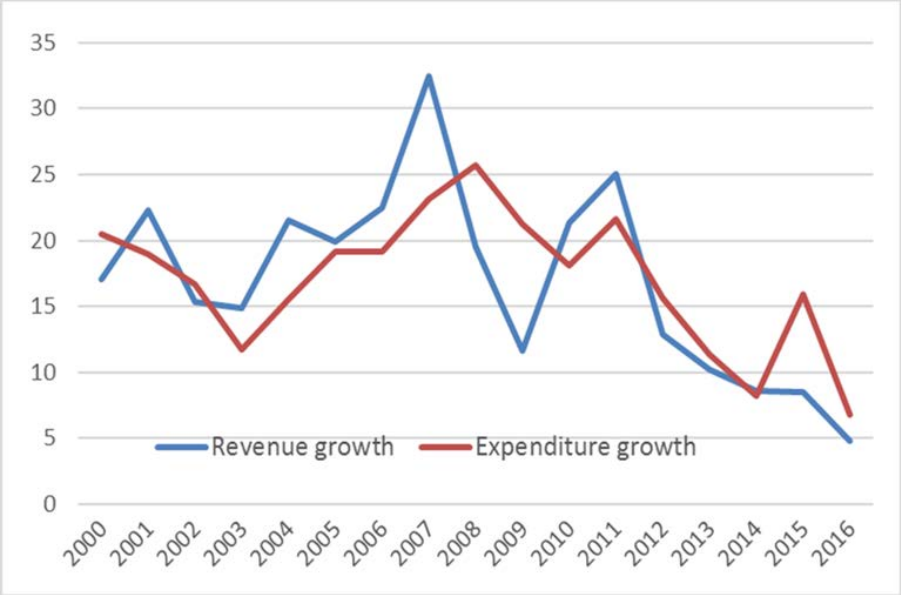
**Figure C. GDP and Revenue Growth**

[27] (Wong 2011).




The budget is also coming under growing pressure as programs introduced over the past decade require continuing funding, and the government's fiscal space has shrunk. In Figure D, it can be seen that expenditure growth lagged behind revenue growth during the first half of the period, with revenues growing faster than expenditures in 6 out of 7 years during 2001-2007. The reverse was true in the second half, when expenditures grew faster in six of the nine years after 2007.

**Figure D. Revenue and Expenditure Growth**




Going forward, China will face intense pressures to further increase expenditures in many areas. For example, even though China raised budgetary spending on education and health at an extraordinary rate of 24% per annum during 2000-2014, at 4% and 6% of GDP, China remains below average levels for middle income countries in both sectors. As China strives to become an innovative economy, it will need to further improve investments in human capital (see chapter by Li, et. al…). Other expenditure needs include investments in diplomacy and military support to the country's rapidly growing global footprint. In other words, the large 'fiscal space' that existed in the fiscal expansionary period is gone – filled up with expenditures from new programs introduced during the Hu-Wen era.

Foreign currency reserves have also come under pressure in recent years. After climbing to $3.8 trillion in 2013-2014, they declined by $500 billion in 2015 and another $320 billion in 2016. This trend was stemmed in 2017, but only with the aid of strict capital controls. The changed circumstances point to a need for greater caution in proceeding with the BRI, but are far from making the program unaffordable. China is now a $12 trillion economy that has $3 trillion in foreign reserves and a healthy current account balance. Its capacity to invest is enormous; the financial sector has assets of more than RMB 300 trillion, and domestic investments are some RMB 35 trillion ($5 trillion) per year.[28] It can easily absorb $10-15 billion per year investment in BRI, or even $100 billion.

Can Decentralised Investments be Contained? The tendency toward overinvestment by decentralized agents—not just local governments, but also state owned enterprises and even central government ministries—is the Achilles heel of Chinese macroeconomic management. Throughout the history of the People's Republic, China has struggled to manage its sprawling, fragmented, and decentralized structure of government. Since the 1950s it has gone through repeated cycles of centralization – decentralization in a search for the right balance between maintaining control and encouraging local initiative. One scholar has called this the "groundhog day" cycle, where "high investment supported by expansionary policy drives growth; inflation follows after (sic) lag; policy is tightened; growth drops away, but inflation is still high; more tightening; inflation falls at last, but growth falls away more than desired at the same time; policy is shifted from tight to expansionary; again, led by investment, growth rebounds," and the whole cycle starts again.[29]

The main source of financial risk for the BRI today is that these decentralized agents can push the program to overextend China's finances. When the government called on all provinces and cities to make plans to support the BRI, some commentators warned that it risked opening the door to a repeat of the fiasco during the 2008 fiscal stimulus program, when local governments responded to

[28] Estimated at 45% of GDP.
[29] (Yu 2013).

the same call with frenzied enthusiasm. In that episode, local governments rushed to support the central government's stimulus plan by declaring huge investments of their own. One report noted that within less than a month of the announcement of the stimulus package, provinces had proposed a combined total of RMB 18 trillion in investment projects. By March 2009, *Caijing* estimated the first 18 provinces to publicize plans had announced investments worth RMB 25 trillion yuan.[30]

In this round, every province has reportedly produced a BRI plan, as did many cities, although not all of them are publicly available. Among the most ambitious was a 67-page "Construction Plan for the Transportation Hub and Silk Road Economic Zone for 2016-2030" presented by Xinjiang. The plan calls for the autonomous region to be transformed into a transport hub for the Silk Road, with Urumqi and Kashgar becoming "comprehensive exchange centres for people, logistics, and information between China, Central and West Asia, and Europe." The Plan calls for investments of RMB 1.86 trillion, front-loaded to have RMB 1.4 trillion spent during the 13th Five Year Plan (2016-2020).[31] Henan Province issued a plan for developing the "Silk Road in the Air" from Zhengzhou to Luxemburg, with each to become a logistics hub for the Asia-Pacific and Europe-America regions, respectively.[32]

These examples are indeed frothy, but they appear to be the exception. Most plans are more modest and vague. For example, Chengdu's plan calls for building 10 industrial parks or trade zones in countries along the Belt and Road and participating in 100 overseas investment projects with a total value of more than $10billion by 2018, and to double these figures by 2020.[33] Quanzhou (Fujian) called for making the city a "Pioneer Zone for the 21st Century Maritime Silk Road" and set targets for overseas investments worth $2billion and attracting Foreign Direct Investment of $3.5billionn to Quanzhou by 2020.[34] The restraint shown in these local plans probably reflect local officials' expectation that overly ambitious plans were unlikely to pass through the tough vetting process that has been put in place by recent reforms.[35]

## Conclusion

The Belt and Road Initiative is a bold strategy that has sound economic rationale but substantial risks, both geopolitical and economic. In introducing the BRI, China imposed a coherent vision to what had already been taking place in a piecemeal fashion over the past decade, with Chinese firms (often SOEs) investing in and building infrastructure in Southeast and Central Asia. Recasting these activities in a new framework of collaboration fits neatly into Xi's emerging foreign policy framework, and may be seen as China's new pledge of improved behaviour, or, as one author calls it, "Asian Integration 2.0."[36]

At this stage in its development, China has the technical and financial capacity to implement the BRI. The question is whether the government can manage the program prudently. After undertaking reforms and institution-building over the past three years in public financial management, China is better able to manage the risks than it was. But these are still works in progress, and local governments are still running ahead of regulators. However, with continuing efforts from the Ministry of Finance, the National Audit Office, and other ministries, and with strong reinforcement

---

[30] Huo Kan, Wang Changyong and Wang Jing, "Can Stimulus Light China's Consumer Fire?" Caijing, 6 March 2009, at http://english.caijing.com.cn/2009-03-06/110114349.html.

[31] Xinjiang (2017). Xinjiang's Construction Plan for Development of a Transport Center on the Silk Road Economic Belt from 2016 to 2030, 30 August. https://eng.yidaiyilu.gov.cn/zchj/dfgg/25503.htm (accessed 26/6/2018).

[32] Henan Provincial Government (2016). Circular of the People's Government of Henan Province on Issuing the Special Plan for the Development of the "Silk Road in the Air" from Zhengzhou to Luxemburg (2017 - 2025). https://www.yidaiyilu.gov.cn/zchj/dfzc/29573.htm (accessed 9/03/2018).

[33] Chengdu Five-Year Action Plan for Chengdu to Participate in the "Belt and Road Initiative" and Promote the "Go Abroad" Strategy in Enterprises. https://www.yidaiyilu.gov.cn/zchj/jggg/1856.htm (accessed 26/6/2018).

[34] Action Plan for Quanzhou to Participate in Building the Pioneer Zone for the 21st Century Maritime Silk Road. https://www.yidaiyilu.gov.cn/zchj/jggg/1481.htm (accessed 26/6/2018).

[35] See Wong (2018).

[36] (Miller 2017b).

from the anti-corruption campaign, prospects are good that China will finally be able to build frameworks that can curb the ability of local governments to go off budget for resources.

Although recent reforms have introduced safeguards for managing bottom-up risks, however, they provide little protection against risks introduced from the top—those introduced by central ministries, large SOEs, and hubris. In the 2008 episode, central ministries piled on to take advantage of the stimulus program as an opportunity to grow their portfolios. The most egregious was the Ministry of Railroads. Under then-Minister Liu Zhijun, the Ministry pushed investments up more than 10-fold from 2004-2010 by adding lines and increasing the speed of trains. The China Development Bank, too, expanded its portfolio of lending overseas far beyond its mandate, as did the China Exim Bank. The biggest risk today is that the Belt and Road program will be pulled into irrational exuberance by an overly ambitious foreign policy agenda.

**Bibliography**

Huo Kan, Wang Changyong and Wang Jing (2009). "Can Stimulus Light China's Consumer Fire?" ***Caijing***, 6 March. http://english.caijing.com.cn/2009-03-06/110114349.html

Hurley, John, Scott Morris, and Gailyn Portelance (2018). "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective", Center for Global Development Policy Paper 121, March.

Kroeber, Arthur (2015). "Financing China's Global Dreams," *China Economic Quarterly*, November.

Miller, Tom (2018). Dangerous Dealings along the Belt and Road, Gavekal Dragonomics, China Ideas April 24.

Miller, Tom (2017a). *China's Asian Dream: Empire Building along the New Silk Road*. Zed Books.

Miller, Tom (2017b). "The Belt And Road To Leadership", *China Economic Quarterly*, June.

Tiezzi, Shannon (2017). "What Did China Accomplish at the Belt and Road Forum?" *The Diplomat*, May 16 . https://thediplomat.com/2017/05/what-did-china-accomplish-at-the-belt-and-road-forum/

Wong, Christine (2018). "An update on fiscal reform," in R. Garnaut, Cai Fang and L. Song, Editors, *China Update 2018*: *China's Forty Years of Reform and Development: 1978-2018*. Canberra: Australian National University.

Wong, Christine ( 2014). "China : Public Investment Management under Reform and Decentralization." World Bank, The Power of Public Investment Management: Transforming Resources into Assets for Growth. Washington, DC. 2014.

Wong, Christine (2005), "Public Sector Budgeting Issues in China" in OECD, *Governance in China*, OECD Publishing, Paris.

Xinhua (2016). Chronology of China's Belt and Road Initiative, 24 June. http://www.xinhuanet.com/english/2016-06/24/c_135464233.htm (accessed 26.6.2018).

Yu Yongding (2013). "China's Groundhog Day growth pattern", *East Asia Forum Quarterly*, February.

Zhang, Yuanyan Sophia and Steven Barnett (2014). Fiscal Vulnerabilities and Risks from Local Government Finance in China, IMF Working Paper No. 14/4. January. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=239360