

China's New Pattern of Economic Opening-Up Led by the Belt and Road Initiative

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Since Chinese President Xi Jinping proposed the Belt and Road Initiative (BRI) in 2013, the project has sparked off intense discussions worldwide. Media outlets in more than 170 countries have published numerous analyses and commentaries on the BRI.¹ Internet archives show that the number of academic papers which include the terms “Belt and Road,” “One Belt, One Road” or “China’s New Silk Road” in the title have grown dramatically in 2019. Opinions and conclusions concerning the many aspects of the BRI vary greatly. Therefore, only by analyzing the background and policy objectives of the BRI can the impact of the initiative on the world economy and on China’s economy be correctly evaluated.

This article starts off with a review of the background and motivation of the BRI, and subsequently examines the changing objectives of the initiative amid turbulent international circumstances, followed by an assessment of the role of the BRI in encouraging the further opening of China’s economy.

Background and Motivation of BRI

When Chinese president Xi Jinping visited Kazakhstan and Indonesia in 2013, he proposed the initiatives of jointly building the “Silk Road

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¹ Based on data by the Global Database of Events, Language, and Tone (GDELT), and the searched period is between May 1, 2017 and December 25, 2019.

Economic Belt” and the “21st Century Maritime Silk Road,” which have become collectively referred to as the Belt and Road Initiative. The world at that time was almost surprisingly confronted with the question: What is the meaning and motivation of this initiative? Why did China put forward this initiative at that very moment? To better understand these issues, one has to place it in the evolving international background, especially in connection with the attitude of the United States towards China’s development.

The United States has accelerated its efforts to contain the development of China

International attention today is mainly focused on the China-US trade dispute and their dissention on the coronavirus, the effects of which are progressively being felt globally. However, the increasingly confrontational stance towards China did not begin with Donald Trump’s accession to the presidency. The 2008 US National Defense Strategy had already positioned China as a potential competitor to the United States. When Barack Obama entered the White House, the United States immediately joined and shortly after led the negotiations on the Trans-Pacific Partnership (TPP) agreement. In spite of the fact that China is one of the largest economies in the Asia-Pacific area, the country was not invited to sit at the negotiating table. In 2011, then US Secretary of State Hillary Clinton proposed her “Pivot to Asia” strategy to limit China’s growing regional influence. This move significantly intensified tensions in the South China Sea and, from the viewpoint of China’s government, has affected the sovereignty of China’s islands and has endangered national security. When the Xi administration took over in 2012, the Chinese government was convinced that the country faced a severe external economic and national security emergency, and sought measures to mitigate the perceived risks to China’s development.

It is in this context that the initiation of the BRI needs to be understood. Since the United States is increasingly dedicating resources to marginalizing and containing China’s development, China, in return, has

more vocally expressed willingness to strengthen its economic cooperation with neighboring countries and beyond.

The BRI seeks to convey the promotion of peace, development and win-win cooperation to the world

But then, why use the term Silk Road? According to Professor Liu Weidong at the Chinese Academy of Sciences, the Silk Road flourished mainly in periods of peace and broke down during war times; hence, the phrase carries the connotation of peace, friendship, exchange, and prosperity.² The Silk Road has historically referred to peaceful and prosperous transit corridors for commodities, cultural goods and religious ideas between the continents of Asia and Europe, which were first explored by the Chinese envoy Zhang Qian more than 2,000 years ago.³ Later, the term was gradually also used to describe the historic maritime trade routes between Asia, Europe, and Africa, including those of the 15th-century grand voyages of Zheng He in the Ming Dynasty. These ancient roots of the Silk Road have influenced the language and stated aims of current policy initiatives. The Chinese government has borrowed the cultural symbolism of the Silk Road, to convey its willingness to promote “peace, development and win-win cooperation” to the world.⁴

The BRI is therefore not some geopolitical game plan designed to impinge upon US interests and the US-centric world order, but it was in part conceived of as a way of mitigating risks associated with China’s changing relationship with the United States. More broadly, however, the BRI is best understood as an attempt to strengthen economic cooperation with neighboring countries and beyond, in order to maintain a stable economic environment for sustaining China’s development. The BRI is neither an endeavor by China to move towards the center of the world stage, nor is it a

2 Liu Weidong, “Scientific Understanding of the Belt and Road Initiative of China and Related Research Themes,” *Progress in Geography*, Vol.34, No.5, 2015, p.539.

3 “Silk Road” was coined by Ferdinand Richthofen in 1877. Daniel Waugh, “Richthofen’s ‘Silk Roads’: Toward the Archaeology of a Concept,” *The Silk Road*, Vol.5, No.1, 2007, pp.1-10.

4 Liu Weidong, “Scientific Understanding of the Belt and Road Initiative of China and Related Research Themes,” p.539.

geopolitically motivated scheme to expand China's influence and to establish global leadership. China has no intention of challenging the present world order.⁵ The Chinese government has instead provided a fact-based assessment of China's economic situation, given that China's per capita GDP remains at about US\$10,000, which is lower than the World Bank's minimum threshold for high-income countries. China is convinced that it should continue to pursue medium-to-high speed economic growth and further raise living standards for its people, while seeking to escape the middle-income trap. Overall, the BRI should maintain stable conditions for China's development by enhancing economic cooperation with its neighboring countries and beyond, as well as by providing additional impetus for the development of the global economy.

The BRI is an inclusive cooperation platform for global economy

The nature of the BRI has shifted over time, evolving in response to changing international trends and mounting geopolitical challenges. As protectionism and unilateralism rise internationally, and globalization seems to be receding, China now hopes to counter this trend by jointly building the Belt and Road with more and more countries through promoting infrastructure connectivity, investment, trade, and people-to-people exchanges, which is expected to inject new vitality into global economic development. Events over the past six years have increased the need for this approach to regional cooperation, and has subsequently shaped how the BRI has evolved in two key ways: first, by expanding from a regional to a truly global initiative, and second, by extending its scope from a vision mainly tailored to enhance China's economic requirements, to becoming a driver for global economic growth.

America's recent orientation towards unilateral protectionism, particularly in trade and investment policies, has prompted this shift of the

5 Some scholars have different ideas. For example, Aasim Akhtar considers that China is an emergent global superpower which challenges not only US hegemony, but capitalist imperialism itself. See Aasim Akhtar, "The China-Pakistan Economic Corridor: Beyond the Rule of Capital?" *Monthly Review*, Vol.70, No.2, 2018, pp.34-48.

BRI towards becoming a broad international platform.⁶ In effect, the prior format has been broadened from China and its neighboring countries, to a large-scale inclusive international platform, which was originally set up by China, but belongs to all countries willing to participate. The fact that the BRI is an open and inclusive framework without geographical boundaries has resulted in a strongly increased participation over the last six years. By the end of January 2020, 138 countries and 30 international institutions had signed cooperation agreements with China to participate in the BRI.⁷ Public media evaluations of the BRI in more than 130 countries were generally positive, although South Asia and occasionally some countries elsewhere were exceptions.⁸

The BRI began as a vision of promoting and extending China's economic growth by opening western China beyond its borders, and upgrading its industrial level by enhancing industrial capacity cooperation. But in recent years, the BRI's purpose has been to promote global economic development through enlarging financing channels and improving transport infrastructure. According to the evaluation of the World Bank in 2018 and 2019, BRI transport infrastructure projects have a significant effect on saving time and costs in international trade. While globally the average reduction in transport time has been 1.2 percent to 2.5 percent, and trade costs decreased by 1.1 percent to 2.2 percent, for economies along the BRI routes,⁹ the reduction in transport time and trade costs have been 1.7 percent to 3.2 percent and 1.5 percent to 2.8 percent respectively. The greatest benefits were realized for countries along the BRI economic corridors, where transit times had been reduced by 11.9 percent and trade costs decreased by 10.2

6 "Xi Jinping's Keynote Speech at the Opening Ceremony of the Boao Forum for Asia Annual Conference 2018," *Xinhua*, April 10, 2018, http://www.xinhuanet.com/politics/2018-04/10/c_1122659873.htm.

7 China's Belt and Road Portal, <https://www.yidaiyilu.gov.cn/xwzx/roll/77298.htm>.

8 Alicia Herrero and Xu Jianwei, "Countries' Perceptions of China's Belt and Road Initiative: A Big Data Analysis," *Bruegel Working Paper*, Issue 01, 2019.

9 Based on the direction of the ancient Silk Road, scholars have listed 65 countries in Asia, Europe, and Africa, including China, as countries along the BRI route; but this essay deviates from this concept and refers to those countries which have signed MOUs with China to cooperate on the construction of the Belt and Road.

percent. A study by the World Bank also shows that these recorded effects can be even further amplified through policy reforms, which would reduce border clearance time and improve transport channel management.¹⁰ Beyond enhancing infrastructure, China has launched the Asian Infrastructure Investment Bank (AIIB) with 57 initial signatory countries, contributing financial support for projects, some of which are included in the BRI. The AIIB was not created to replace other multilateral financial institutions, but to complement the current global economic and financial system. Notably, most AIIB projects are realized in cooperation with the World Bank and the Asian Development Bank.¹¹ The number of AIIB members has thus far exceeded 100.

Besides its significance to the world economy, the BRI is of particular importance for China's economic development, helping forge a comprehensive opening-up pattern for China's economy.

Promotion of China's Economic Opening-Up Led by BRI

The 19th National Congress of the Communist Party of China, held in 2017, provides the most useful overview of China's economic opening-up as promoted by the BRI. There were five references to the BRI in the report delivered at the Congress, touching on topics such as regional development, diplomacy, opening up, and fundamental national policy. A key phrase states: "We should pursue the Belt and Road Initiative as a priority, give equal emphasis to 'bringing in' and 'going global', follow the principle of achieving shared growth through discussion and collaboration, and increase openness and cooperation in building innovation capacity. With these efforts, we hope to make new ground in opening China further through links running

10 Francois De Soyres, et al., "How Much Will the Belt and Road Initiative Reduce Trade Costs?" World Bank Policy Research Working Papers, No.8614; Baniya Suprabha, Rocha Nadia Patrizia, and Ruta Michele, "Trade Effects of the New Silk Road: A Gravity Analysis," World Bank Policy Research Working Papers, No.8694.

11 Hideo Ohashi, "The Belt and Road Initiative (BRI) in the Context of the China's Opening Up Policy," *Journal of Contemporary East Asia Studies*, Vol.7, No.2, 2018, pp.85-103.

eastward and westward, across land and over sea.”¹²

China faces the challenge of managing the transition of its growth model from one based on resource consumption and low-cost labor, to one that is determined by higher-quality growth. The government intends for the BRI to boost economic growth as China seeks to avoid the middle-income trap. China faces two crucial problems in its pursuit of continued economic and social progress, which have not emerged in a similar way in other large economies after the Second World War. Firstly, China’s economy has become large before the country has become wealthy. Despite the fact that it has overtaken Japan as the world’s second largest economy in 2010, China is still a developing country in terms of per capita GDP, and pockets of poverty persist throughout the country. Accordingly, it needs to maintain medium-to-high growth rates to continue improving the living standard of the country’s population. However, it is more difficult for an economy that currently exceeds the volume of US\$14 trillion to keep up the required medium-to-high-speed growth. Secondly, China is becoming older before getting rich. China’s demographic dividend is disappearing, and it is necessary to find new momentum to drive forward medium-to-high growth rates. China has a disproportionately large group of aging citizens, and has already far exceeded the United Nations’ definition for a rapidly ageing economy. According to the United Nations, a country is aging if more than 10 percent of its population is over 60 years old, or 7 percent is over 65 years old. In 2019, 18.1 percent, or about 254 million, of China’s population was over 60 years old and 12.6 percent of the population had surpassed the age of 65.¹³

How can China deal with the above two problems and find new growth drivers for its economy? In its search for new sources of growth, the Chinese government considers the BRI not only an impetus and an

12 “Full Text of Xi Jinping’s Report at 19th CPC National Congress,” *Xinhua*, November 3, 2017. http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm.

13 “Press Conference of the State Council Information Office,” *People.cn*, January 17, 2020, <http://tv.people.com.cn/n1/2020/0116/c43911-31551748.html>.

optimized blueprint for the opening up of less developed parts of the country, particularly in western inland regions, but also a driver for balancing trade and capital flows, upgrading economic governance and accelerating technological innovation.

Optimizing China's regional opening-up

Given the huge disparity in development between the eastern coastal area and the western inland region, the BRI's purpose is to open and improve the access of China's western inland provinces to the world market, and to interlink inland and coastal areas, domestically and abroad.

Extending the opening-up of western inland areas. In the three decades before the BRI was put on the agenda, it was China's eastern areas that attracted the bulk of investment from the Hong Kong, Macao and Taiwan regions as well as foreign direct investment (FDI) from the United States, Singapore, Japan, and other developed economies.

Through railways, highways, and air routes, the BRI is intended to provide and improve the access of China's western landlocked provinces to Central Asia, Southeast Asia, West Asia, South Asia, the Middle East, North Africa, and Central and Eastern Europe. In 2015, the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs and the Ministry of Commerce of China issued the *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, which highlighted 18 provincial-level regions, including Shaanxi, Qinghai, Ningxia, Gansu, Xinjiang in the northwest of China, and Chongqing, Tibet, and Yunnan in the southwest.¹⁴ The BRI focuses on transforming the western interior into hubs for international economic cooperation, which is happening for the first time since China's original opening-up was launched in 1979. The objective is to both accelerate the development of the western inland areas, and to spur economic growth for the entire country. In May

14 National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," March 2015.

2020, a policy document jointly issued by the Central Committee of the Communist Party and the State Council of China states that the opening-up of western areas should be intensified by jointly building the Belt and Road.¹⁵

Interlinking inland and coastal areas, domestically and abroad. Some Chinese scholars believe that the BRI embodies a “third wave of globalization,” which will bring benefits domestically, regionally, and internationally. However, mindful of China’s experience in the second wave of globalization from the 15th to the early 20th century, when it was often bullied by the gunboat diplomacy of foreign powers, policymakers are now prioritizing China’s maritime power as well as its land power. China’s leaders are keen to develop greater connectivity of the country’s coastline, both internationally and as an intermodal hub for China’s inland regions. This prioritization of China’s coastline can be identified from public events and policy documents. In 2005, China held a series of celebrations commemorating the 600th anniversary of Zheng He’s voyages westward, and set up the first National Ocean Day on July 11. The report of the 18th National Congress of the CPC in 2012 for the first time explicitly articulated an objective of building China into a “maritime power.”

Under this approach, the BRI is intended to position coastal areas as intermodal transport junctions for inland areas, and to provide additional channels for economic and cultural exchanges between inland areas and other countries. For this reason, the Chinese government has launched new international projects, many of which have domestic components. For example, in November 2015, China and Singapore launched the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity.¹⁶ Chongqing, in western China, is the operational center of this project.

Such bilateral development projects set up under the BRI generate

15 “Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Development of Western Area and Forming a New Pattern in the New Era,” Central People’s Government of China, May 17, 2020, http://www.gov.cn/xinwen/2020-05/17/content_5512456.htm.

16 Also known as the Southward Passage project, which was renamed the New International Land-Sea Trade Corridor in 2018.

secondary effects in some of China's poorest provinces. As a result of the China-Singapore cooperation, the landlocked provinces of Guizhou, Qinghai, Gansu, Xinjiang and Shaanxi, and four additional provinces have signed a memorandum of cooperation with Chongqing to jointly establish a new land-sea trade corridor. The corridor allows the inland provinces to use ports in Guangxi to access Singapore, Southeast Asia and the Indian Ocean, with which they put a Chinese proverb into practice: "Borrowing a boat to go out on the sea." In August 2019, China's NDRC issued the Master Plan for New Sea-Land Transportation Channel of the Western Regions,¹⁷ to connect China's western land-based transport channels, such as the China-Europe railway routes, with the recently constituted New International Land-Sea Trade Corridor into Southeast Asia, and thereby connect the Silk Road Economic Belt on land with the 21st-Century Maritime Silk Road's seaward routes, while simultaneously constructing links with China's principal inland waterway, the Yangtze River.

Balancing trade and capital flows, upgrading economic governance and accelerating technological innovation

During the more than three decades of reform and opening-up that took place before the BRI, China was highly dependent on external capital, technology, and consumer markets. It is the BRI's objective to remedy the imbalance of this system through boosting overseas investment, spurring technological development, and incentivizing domestic consumption.

Balancing inward and outward investment flows. China's economic development has gone through various distinct phases, which have led to economic strengths and weaknesses that the BRI is now intended to address. In the early 1980s, China opened four special economic zones, all in eastern coastal cities. Since then, more than 2,000 economic zones at various levels have been set up. China's entry into the World Trade Organization (WTO)

17 "Notice of the National Development and Reform Commission on the Master Plan for New Sea-Land Transportation Channel of the Western Regions," Central People's Government of China, http://www.gov.cn/xinwen/2019-08/15/content_5421375.htm.

was a significant milestone in that context. China’s factories largely processed and assembled products for export to overseas markets, thereby earning foreign exchange and creating job opportunities for China’s massive labor force. In doing so, China has attracted capital and technology, as well as management expertise from the global market. During that period, the distinctive feature of China’s economic opening-up was that it was externally oriented. Figure 1 below shows that before the global subprime crisis in 2007, the amount of FDI attracted by China was much higher than that of outward direct investment (ODI).

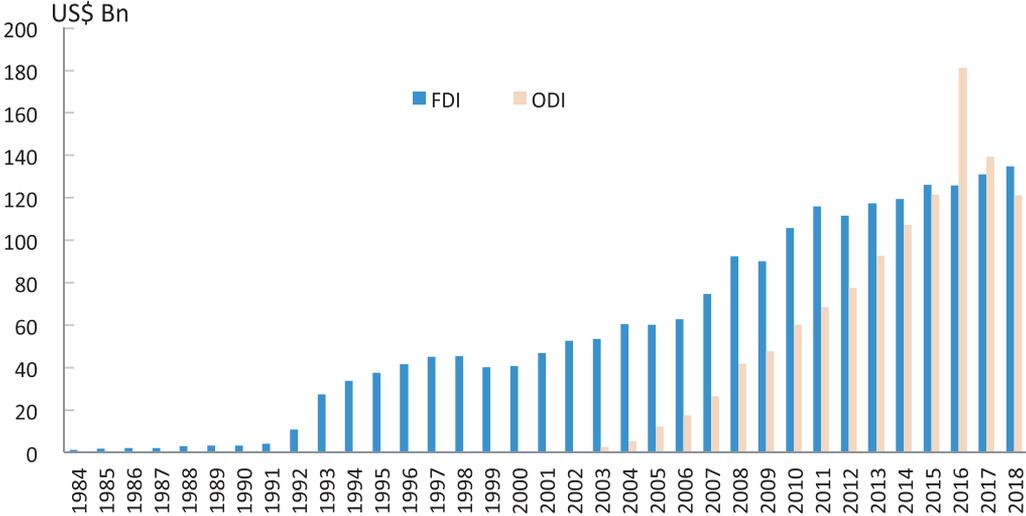


Figure 1 China's Inward and Outward Investment (1984-2018)

Source: Wind, National Bureau of Statistics of China, and Ministry of Commerce of China.

The 2007 subprime crisis and the global recession that followed hit developed economies such as Europe, the US, and Japan hard, which resulted in a decline of their investment capacity. In contrast, China’s outward investment increased rapidly. Since 2013, the large-scale expansion of Chinese capital and technology into the global market has been mainly driven by the BRI. In 2016 and 2017, China even became a net outward investor.

The BRI has played a particularly important role in urging Chinese

companies to shift their focus and invest more abroad. However, the recent rapid growth of China's overseas investment has yielded mixed results. Some of the early outward investments were ill-judged, as they were primarily intended to demonstrate to the central government their enthusiasm for the BRI, but subsequently led to severe losses of investment and state-owned assets. The central government has since strengthened supervision and reviews of outward investment to ensure that the construction of the BRI abides by rational guidelines and is based on principles of commercial efficiency. Following this policy adjustment, China's ODI in 2017 and 2018 dropped to US\$139 billion and \$121 billion respectively, which kept them largely in balance with inward FDI.

Attracting FDI still remained a priority, even as ODI grew. In September 2013, China set up its first domestic pilot free trade zone (FTZ) in Shanghai, as a mechanism to extend investment liberalization, improve trade facilitation, and further open up the financial sector, while the supervisory authority was strengthened. Concurrently, there has been a significant relaxation of thresholds for FDI to enter China. The negative list for FDI in pilot FTZs has shrunk from 190 items in 2013 to 37 in 2019, markedly improving the business environment in China. Pilot FTZs have experimented with integrating high-standard international trade rules to attract and serve a wider range of corporate entities, including foreign companies. Such initiatives have made the general business environment much more appealing, so that according to an official evaluation by the World Bank, China's "ease of doing business" ranking improved from 96 in 2013 to 31 in 2019.

Actively expanding China's imports. One of the main goals of the BRI is to accomplish greater balance for China's trade, which it has accomplished by organizing large-scale international trade fairs and targeted import increases through free trade agreements. The impact of these efforts can be observed from the trend of China's trade surplus. After China's accession to the WTO, the country's trade surplus increasingly expanded until 2016, after which it sharply declined (Figure 2). This decrease is in part due to the rapid

growth of Chinese domestic consumption, as per capita incomes increased and demand for high-quality products from overseas markets swiftly grew. However, it is in part also due to China's endeavors to actively expand imports via the BRI.

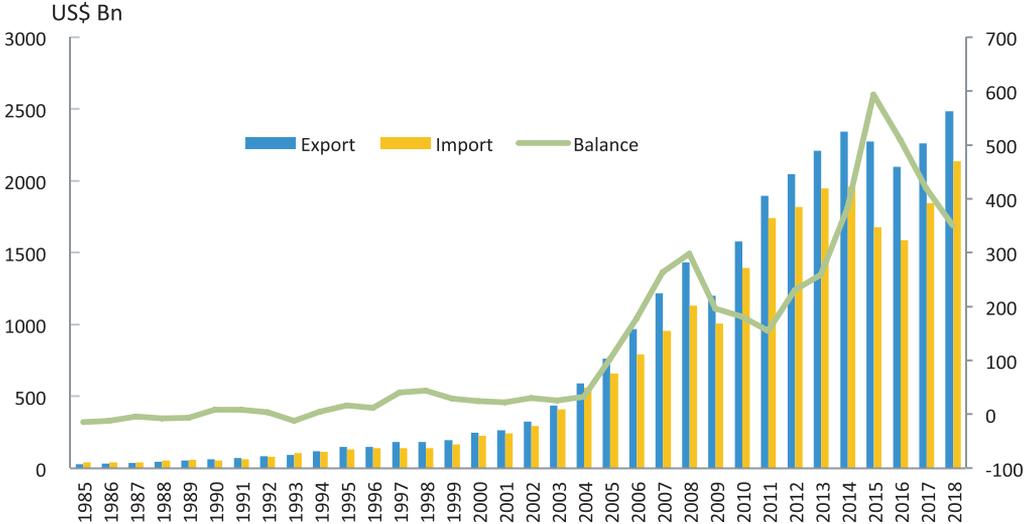


Figure 2 China's Imports and Exports (1985-2018)
 Source: Wind, and National Bureau of Statistics of China.

The most prominent example of China's new trade fairs is the International Import Expo, which is held annually in Shanghai since 2018. More than 3,800 companies from 181 countries and regions, and furthermore many international organizations participated in the Expo in 2019. The volume of contract intent reached US\$71.13 billion, an increase of 23 percent compared with 2018. The Expo is designed to be a focal point for China to actively expand imports, and a platform for partner countries, especially those who are already involved in the BRI, to showcase their products and technologies.

The BRI has also proven effective in facilitating and enhancing bilateral import-export relations. Data for the year 2019 showed that China's imports and exports with BRI countries grew by 7.4 percent, which was faster than the national average. The trade volume between China and BRI countries has

consistently continued to grow. The volume of processing trade is increasing, and new modes of trade such as cross-border e-commerce are emerging. Between 2013 and 2019, the ranking list of China's top ten trading partners has, on the whole, not significantly changed, but the share of trade volume between China and BRI economies, such as the Association of Southeast Asian Nations (ASEAN), South Korea, and Russia has increased significantly (Table 1). Affected by the China-US trade friction and the BRI's progress, ASEAN has replaced the US as China's second largest trade partner in 2019.

Table 1 China's Top 10 Trade Partners (2013 and 2019)

	2013			2019		
	Rank	Billion US Dollar	Proportion %	Rank	Billion US Dollar	Proportion %
European Union	1	559.06	13.4	1	706.12	15.4
United States	2	521.00	12.5	3	541.91	11.8
ASEAN	3	443.61	10.7	2	642.60	14.0
Hong Kong, China	4	401.01	9.6	5	288.54	6.3
Japan	5	312.55	7.5	4	316.02	6.9
South Korea	6	274.25	6.6	6	283.96	6.2
Taiwan, China	7	197.28	4.7	7	229.00	5.0
Australia	8	136.38	3.3	8	169.46	3.7
Brazil	9	90.28	2.2	9	114.50	2.5
Russia	10	89.21	2.1	10	109.92	2.4

Source: Report on China's Foreign Trade Situation (Spring 2014) and Report on China's Foreign Trade Situation (Spring 2020). Institute of International Trade and Economic Cooperation, Ministry of Commerce of China.

Deepening China's economic integration into the global system and helping improve global economic governance. With the BRI, China has been able to accelerate its integration with the global economy. It is now playing an increasingly important role in improving existing rules, and has taken the lead in creating new ones for some key areas. China's first domestic pilot FTZ, in Shanghai, is at the forefront of this effort to establish an institutional

system that is compatible with international economic rules. The stated goal of the Shanghai pilot FTZ is to “integrate with the highest international standards.”¹⁸ By 2019, China had set up 18 domestic pilot FTZs, in eastern, middle and western areas, which are designed to become increasingly compatible with world economic rules.

One main task of the BRI is to push Chinese enterprises to operate in accordance with generally accepted international rules and standards in areas such as construction, procurement, and bidding. These compliance requirements are necessary when China’s high-speed railway, 5G technology, e-commerce platforms, and new e-commerce retail model, are supposed to assert themselves on the world market. Chinese government and industrial institutions are being encouraged to take part in or lead the making of standards and rules in these fields. BRI projects are intended to adhere to WTO principles in terms of trade facilitation and non-discrimination, while exploring the joint establishment of standards for investment principles, digital trade rules, and cooperation mechanisms for tax collection and management, etc. This provides innovative solutions for the requirements of regulations for the BRI, and thus ultimately for a better governance in the global economy.

Strengthening innovation capabilities of Chinese companies. A central policy goal of the BRI is to improve China’s innovation capacity, both with respect to economic policy-making and technological skills. In 2019 President Xi stated at the opening ceremony of the Second Belt and Road Forum for International Cooperation: “We need to keep up with the trend of the Fourth Industrial Revolution, jointly seize opportunities created by digital, networked and smart development, explore new technologies and new forms and models of business, foster new growth drivers and explore new development pathways, and build the digital Silk Road and the Silk Road of innovation.”¹⁹ Within this extensive framework, the Chinese

18 “Benchmarking the Highest Standards and the Best Level, the Shanghai Free Trade Zone Focuses on Improving ‘Four Major Systems,’” <http://sh.people.com.cn/n2/2017/0401/c134768-29957598.html>.

19 “Xi Jinping’s Keynote Speech at the Opening Ceremony of the Second ‘Belt and Road’ International Cooperation Summit Forum,” *Xinhua*, April 26, 2019, http://www.xinhuanet.com/2019-04/26/c_1124420187.htm.

government has designed the BRI in such a way that it serves as a platform for underdeveloped countries to move up the value chain, improve their industrial capacity, and learn from China's development successes. These elements will be explored in detail below.

The BRI encourages a large number of Chinese enterprises to expand their business operations to an international level, and incorporate more underdeveloped countries into the global system of industrial and value chain cooperation. Prior to the BRI, China was primarily engaged in the industrial division of labor and cooperation with developed countries and regions. Chinese companies mainly worked in the processing and assembly of goods with low added value in the global value chain. In the terminology of the central-peripheral economic theory, Professor Zhang Hui at Peking University believes that China's economic cycle has now shifted from the central-peripheral single cycle to a dual circulation system, with China at the pivot point. One of the circulation cycles is between China and developed economies like North America and Western Europe, and the other is between China and developing economies in Asia, Africa, and Latin America. The BRI has linked these two cycles together,²⁰ allowing underdeveloped countries to participate in the labor division within the global economic system. Sun Guorui of the Risk Advisory Group in London and Alex Payette at the University of Toronto argue that BRI has enabled some underdeveloped regions, such as Central Asia and parts of Africa, to connect more effectively with the global economy.²¹

The BRI also serves as a mechanism to improve China's cooperation with developing countries along the routes. Developing countries often have abundant natural resources and a young labor force, but low levels of industrialization. In the capital-intensive industrial sectors, China possesses a strong production capacity and advanced technologies, and can offer them

20 Zhang Hui, "One Belt, One Road' Strategy under the Global Value Dual Circulation Structure," *Economic Science*, No.3, 2015, pp.5-7.

21 Sun Guorui and Alex Payette, "The Sino US Trade War: Survival, Domestic Reforms and the Belt and Road Initiative," *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, Vol.4, No.3, 2018, pp.781-819.

with low costs. A report issued by the Chinese Academy of Social Sciences in 2015 showed that, of the more than 60 countries along the BRI routes,²² one is in the pre-industrial stage (Nepal), 14 are in the early stages of industrialization, and 16 are in the mid-range of industrialization. In general, levels of industrialization in 44 countries are lower than China's.²³ The intention is that China's overcapacity of steel, cement, electrolytic aluminum, glass, etc., can be used to accelerate the industrialization and urbanization ambitions of some countries along the BRI routes.

China's policymakers want to use the BRI to support participating countries in reaping the same benefits as China has done from the pathway of development it has experienced in the last 40 years. When cooperating with Chinese industries and value chains, some BRI countries seek to increase incomes and foreign exchange reserves by processing and assembling for Chinese companies. In the course of the long-term learning process from Chinese companies, relevant governments are engaging in an upgrade of their industries and in the application of technologies. In following China's development path, there is also an anticipation that these countries can both urbanize and benefit from demographic dividends.²⁴

China's policy goal is to enable companies to lead the development of supply chains. One necessity is to considerably strengthen their competence for innovation and brand marketing, so as to improve cooperation outcomes with BRI-associated developing countries. But the reality is that the core innovation capabilities and brand marketing or soft skill expertise among Chinese companies still need to be consolidated to match China's ambitions as the second largest economy worldwide. Chinese businesses

22 This refers to the initial stage of the BRI. Based on the direction of the ancient Silk Road, scholars listed 65 countries in Asia, Europe and Africa, including China, as countries along the BRI routes. Later, the BRI has deepened to position itself as the most inclusive and wide-ranging international cooperation platform with no geographical boundaries.

23 Huang Qunhui, et al., *Report on Industrialization Process of Countries along the Belt and Road*, Social Science Literature Press, 2015, pp.16-17.

24 The consistent emphasis on education is also an important factor for China's success in opening-up. The Belt and Road cooperation project on people's livelihood will play a positive role in promoting the development of education in developing countries along the routes.

are now actively improving their innovation capabilities during their joint construction of the BRI, and are sharing their own capabilities for technological innovation. The China-Israel (Shanghai) Innovation Park is a good example that is designed to use the BRI to improve innovation capabilities, which is impacting China and other innovating countries.

Conclusion

Global economic development is facing serious obstacles from rising protectionism, unilateralism, and populism, currently exacerbated by the rampant coronavirus pandemic and its devastating economic consequences. Multilateral institutions like the WTO and the United Nations are also encountering significant challenges. China now has both the capacity and obligation to contribute more to global economic growth and governance. The BRI is one of China's key strategic projects to achieve this objective, since its vision is to set up an inclusive platform for all countries to cooperate with each other in economic and pragmatic programs.

As far as China itself is concerned, the BRI is opening up and accelerating the development of its western landlocked provinces, while interlinking its inland and coastal areas, domestically and abroad. It has also taken China's economy into a new stage of national opening, where capital, trade, and economic rules are balanced between patterns of "bringing in" and "going global". Furthermore, the BRI has brought about new demands for Chinese companies to improve their innovation capabilities, and to upgrade industrial cooperation and value chain division when working together with countries involved in BRI projects. In summary, the BRI has led the Chinese economy into a new pattern of comprehensive opening-up. It has become a strategic focal point of China's opening-up efforts to the outside world and seeks to be a benchmark and a new vehicle for other developing and emerging countries to address their development needs. 