

Unveiling the Real Motivations: How Domestic Economic Constraints Drove China's Belt and Road Initiative (BRI)

Hidayatullah Khan^{*1}, Muhammad Akram², Aftab Alam³

^{1*} Assistant Professor, Department of International Relations, Balochistan University of Information Technology, Engineering and Management Sciences (BUITEMS), Quetta, Balochistan, Pakistan.

² MS IR scholar at the Department of International Relations, Balochistan University of IT, Engineering and Management Sciences (BUITEMS), Quetta, Balochistan, Pakistan.

³ Postdoctoral Researcher, Department of Political Science, LMU Munich University, Germany.

Corresponding author: hidayat.ullah@buitms.edu.pk

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This article provides an analysis of the domestic economic constraints that have motivated China to embark on Belt and Road Initiative (BRI). The BRI is an ambitious development strategy aimed at promoting economic integration among countries across Asia, Europe, and Africa. While there has been significant academic and policy debate about the BRI's geopolitical implications, less attention has been paid to the domestic economic factors that driven China to embark on this initiative. This article fills this gap by examining how domestic economic constraints, such as the challenge of surplus capital, dependency on global demand, the problem of industrial overproduction, the fear of middle-income trap, and addressing the underperforming western region motivated China to launch the BRI. Using unstructured interviews, the article shows that the BRI is China's strategy to mitigate domestic economic constraints by spatial reorganization. Building on this, the paper argues that geopolitics can be a consequence of the BRI, not the motivation. Overall, this article contributes to a better understanding of the BRI.

1. Introduction

The Belt and Road Initiative (BRI) is one of the most impressive foreign policy initiatives under President Xi Jinping's administration, it can also be considered Xi's economic foreign policy – while the world's other major economies were still struggling to come to terms with the shocks of the global financial crisis of 2008. It can be reasonably (but wrongly) assumed from the outset that the BRI constitutes China's geopolitical move to dominate the world's economy, whereby gaining influence over its neighbors is part of China's strategic thinking (Gao, 2018; Callahan, 2016; Liao, 2016; Ferdinand, 2016; Wang, 2016; Leverett & Wu, 2017; Rolland, 2017; Sacks, 2021). However, this paper argues differently – domestic economic concerns are actually the key drivers of China's embarkation on the BRI. This paper therefore highlights those domestic economic concerns, and is divided into three sections which respectively discuss: (1) the framework of the BRI; (2) the domestic economic issues that motivated China to launch the BRI; followed by (3) conclusion.

1.2 The Belt and Road Initiative Explained

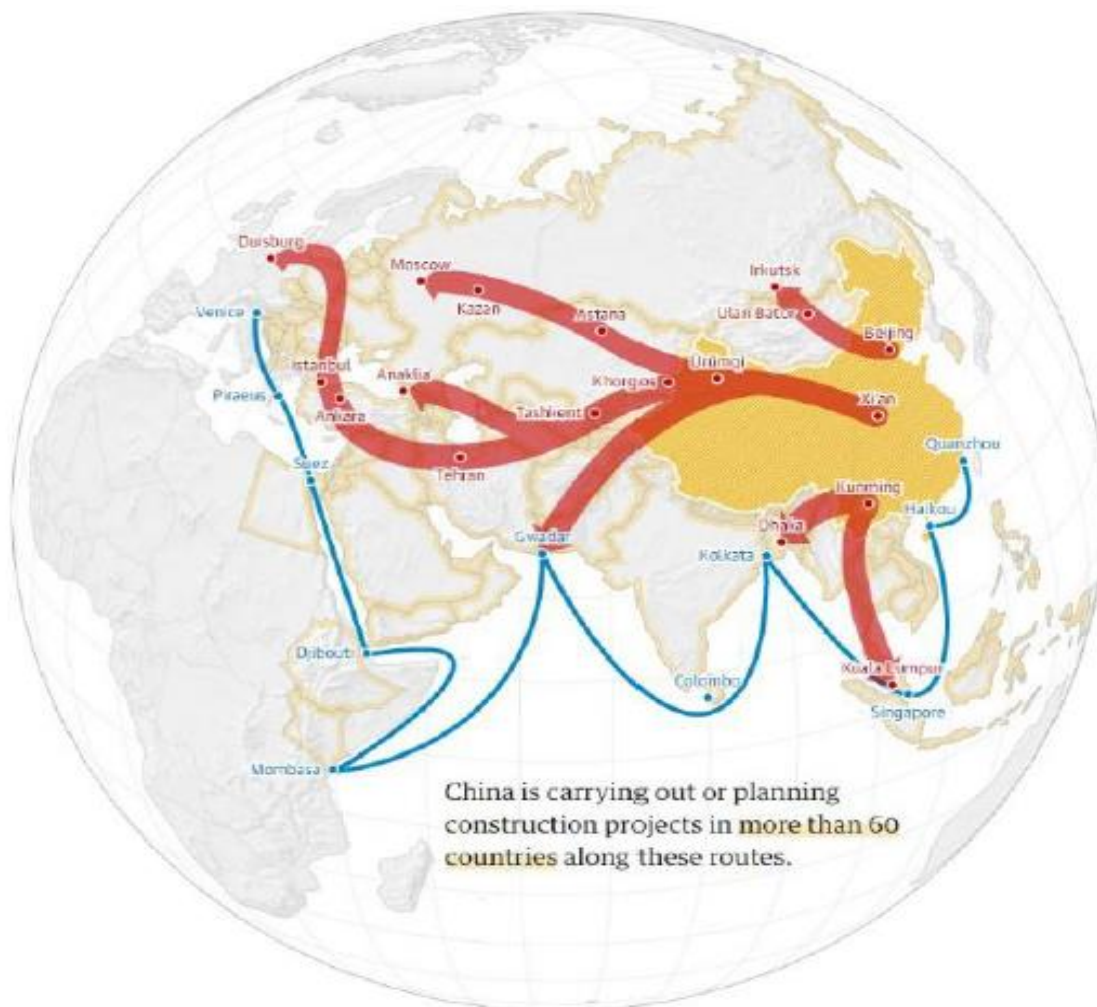
Initially, no detailed framework was made public by the Chinese government regarding the BRI. Remarkably, there were neither officially defined geographical areas that the projects were meant to cover, nor a single official map depicting them. Eventually, all the maps published on the BRI's scope, either by Chinese or other sources, were based on interpretations of official documents or statements – a vague situation which generated intense debate and criticism in academia, by the media and among the public (Godehardt, 2016; Sacks, 2021). Following this, the National Development and Reforms Commission (NDRC) was designated as the BRI's major coordinating government body. On 28 March 2015, at the Boao Forum, the NDRC issued its "Visions and Actions" document (which outlined the BRI's framework), defining its scope of connecting Asian and African economies with developed European economies through both overland and maritime routes: to recapitulate, the overland Silk Road Economic Belt (SREB) aims to connect China with Central Asia, West Asia, South Asia, Russia and Europe, while the Maritime Silk Road (MSR) is expected to connect China with Southeast Asia, the Middle East, Africa and Europe through the South China Sea and Indian Ocean (NDRC, 2015; personal communication, 2020), as seen in Map1 below.

The BRI is designed to construct a vast network of highways, ports, railways, pipelines and communications infrastructure across Eurasia, and therefore, it would not only enhance and facilitate trade and investment but also improve people-to-people contact (Koboević et al., 2018). Furthermore, regarding the actualization of this vast network, in 2015, the Chinese government, in specifically addressing SREB, announced its plan of building six international economic cooperation corridors, which are listed as follows (NDRC, 2015):

1. The New Eurasia Land Bridge;
2. China-Mongolia-Russia;
3. China-Central Asia-West Asia (i.e., CCWAEC);
4. China-Indochina Peninsula;

5. China-Pakistan (i.e., CPEC); and
6. Bangladesh-China-India-Myanmar.

Figure No 1: Belt and Road Initiative



Source: (Kuo & Kommenda, 2018).

Five priority areas of international cooperation were identified:

1. Policy coordination;
2. Facilitated connectivity;
3. Unimpeded trade;
4. Financial integration; and
5. People-to-people bonds.

After a careful and thorough analysis of these five priority areas, it can be deduced that free flowing trade (No. 3) and investment aspects (no. 4) appear as to be the BRI's key areas. The trade and investment under the BRI can take place in any sector, but the major investments are especially focused in the energy, extraction of natural resources, manufacturing and communications sectors.

In comparison, infrastructure building includes all types of transportation, such as roads, railroads and seaports.

Keeping in view the BRI's scope, in 2013 and 2014 only ten countries signed the cooperation agreement with China, according to Sacks (2021). In 2015, 17 more countries joined the BRI: according to Wu (2015a), the countries involved had a combined population of 4.4 billion, a significant proportion of the global population (as of research conducted up to that year). When the BRI was incorporated into the Communist Party of China (CPC's) constitution in 2017, economic activities further accelerated and resulted in 60 more countries joining the BRI a year later, increasing to a total of 139 countries today (Sacks, 2021). More significantly, Grieger (2016) posits that the geographical reach of the project covers an estimated 75 percent of global energy reserves, heightening interconnectivity in a geographical area that produces nearly 55 percent of the world's gross national product. The same geographical area accounts for 40 percent of global GDP (Sacks, 2021).

Furthermore, Beijing also introduced financial mechanisms to fund the BRI projects: the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF) (Cui, 2018; personal communication, 2020). The AIIB is a multilateral bank which was first proposed by the Chinese government in 2013, but only started its operations in 2016 when 57 prospective members signed the required documents. Currently, the AIIB has a membership of 105 states (Asian Infrastructure Investment Bank, 2022). According to Cui (2018), RMB1 trillion (US\$160 billion) was pledged for the development of infrastructural investment projects. According to Ferdinand (2016), the AIIB's initial starting capital was US\$65 billion. In addition, US\$40 billion from the SRF was invested in connectivity projects. The SRF is a state run fund that draws on resources from policy banks such as the Export-Import Bank of China (Exim Bank), China Development Bank (CDB) and China Investment Corporation (Cui, 2018). In addition, Grieger (2016) notes that the People's Republic of China (PRC) government has transferred substantial amounts of capital into the BRI from different sources, including US\$20 billion from the China-Association of Southeast Asian Nations (ASEAN) Investment Cooperation Fund, US\$3 billion from the Investment Cooperation Fund between China and the Central and Eastern European countries, US\$746 billion from China's sovereign wealth and its foreign exchange reserves

After a careful and thorough analysis of the geographical reach and scope of the BRI, such as its economic corridors, financial mechanisms and priority areas of cooperation, it can be deduced that domestic issues are an important factor at play. This can be specifically seen from the five priority areas that China has emphasized (in particular economic integration and infrastructure building), thus strengthening the argument that China is facing capital over-accumulation. In a capitalist mode of production, the emergence of crises is built into its very nature and indicated by capital accumulation, according to Harvey (2014) – these emerge if a combination of surpluses of capital, labor and commodities, among others, remain idle for a long period of time, thus requiring governments to look for new spaces to relocate and reutilize overcapacity. The next section will discuss over-accumulation in detail.

2. Domestic Issues as Motivating Factors

Foreign policy decisions reflect certain patterns of thinking which emerge from the situation prevailing on the ground. Apart from global influence, internal constraints have been factors for why China chose to launch the BRI, specifically its six economic corridors. Broadly, these can be divided into economic, strategic, commercial and political factors at the domestic level, as explained below.

2.2 The Challenge of Surplus Capital

Capital is continuously over-accumulated and also creates surplus unemployed labor in the process, and thus “[t]he absorption of these surpluses through geographical expansion and spatial reorganization helps resolve the problem of surpluses lacking profitable outlets” (Harvey, 2014, p. 151). In this regard, David Harvey, a Marxist economic geographer, posits that a state facing capital over-accumulation normally embarks on urbanization and regional development. Similarly with China, this is believed to have been the case at the time of the BRI’s launch. According to Janet Xuanli Liao (personal communication, 2020), senior lecturer in energy and climate diplomacy at the Centre for Energy, Petroleum and Mineral Law and Policy of the School of Social Sciences at the University of Dundee, the BRI is believed to have been initiated to help export China’s excess domestic capacity in order to sustain economic development. Likewise, my personal communication with Dr Li Mingjiang, an associate professor at the Rajaratnam School of International Studies at the Nanyang Technological University and Rafiullah, a development and public policy expert from Pakistan, concurred with Liao’s assertions. All three individuals observe that capital over-accumulation is a major challenge facing the CPC regime, positing that the BRI’s launch aim to resolve this problem accordingly, thus paralleling Harvey’s notion of resolution through geographical expansion or spatial reorganization. Furthermore, Julie Yu-Wen Chen (personal communication, 2020), professor of Chinese studies and director of the Confucius Institute at the Faculty of Arts at the University of Helsinki, further reinforces the belief that under the BRI, China is using overseas investment and cooperation to boost domestic economic growth and development, which has stagnated due to overproduction. Similarly, Air Commodore (Retired) Khalid Iqbal (personal communication, 2020), an expert on China affairs in Pakistan, observes that the BRI is China’s attempt to look for newer markets for its rapidly expanding manufacturing sector. With state legitimacy dependent on continuous economic growth, capital over-accumulation had eventually resulted in a detrimental economic slowdown.

The problem of surplus capital has a direct link with the 1978 “Reform and Opening-up Policy” that paved the way for China’s integration into the world economy, which at that time was experiencing a transformation: the information technology sector was booming and the costs of production begin to decline. As a result, it became easier to bring together various phases of production over time and space. Specifically, global value chains were divided and therefore provided opportunities for less developed countries to invest in the manufacturing sector and specialize accordingly. In this regard, Zhang (2017) explains how China developed export processing industries by relying on low labor costs and targeting advanced export markets such as

Japan and the United States (US). China's export industry benefited significantly when China joined the World Trade Organization in 2001 (Rafiullah, personal communication, 2020), thus sustaining its economic growth for several decades. As seen in Table 1, China's export "boom" during the early 2000s is evident from its rapidly increasing share of total exports in GDP: increasing from 20.3 percent in 2001 to 36 percent in 2006, thus resulting in an approximately 16 percent increase.

Table No 1: Percentage Increase in Chinese Exports, 2001–6

Year	2001	2006
Share of Exports (GDP, %)	20.3	36

Source: World Bank (2020).

While the GDP share of exports increased and China saw massive economic growth with rapid industrialization, simultaneously, problems such as trade surpluses and rising labor costs began to emerge. The social changes which came about through industrialization resulted in higher costs of labor. Since the export-oriented processing industries were established in the southeastern coastal cities, the need for cheaper labor became more pressing by early 2004. According to Demiryol (2019), the ostensible average wage in China increased by more than seven-fold from 2007 to 2017 alone. While China's competitive advantage began to erode due to these rising costs, the export boom after China's entry into the World Trade Organization was sustained, i.e., the key factor that sustained this boom was the high global demand for its products, which in turn sustained China's trade surplus and became the key to its economic growth model and uplifting its economy.

This trade surplus resulted in China's excessive foreign exchange reserves, which in 2013 peaked at US\$4 trillion. It is interesting to note that comparatively, the US's total reserves were valued at US\$537 billion the same year (Demiryol, 2019). It is commonly believed that the composition of the reserves held by the Central Bank of China is classified, but according to Rafiullah (personal communication, 2020) and Wang (2016), China was able to invest approximately US\$1.4 trillion of its financial assets by buying US Treasury bonds (which constitutes a form of debt security). According to Luft and Nye (2017), from 2001 to 2017, China's share of US foreign held financial assets increased from 6 to 25 percent, reinforcing the significance of China's trade surplus. Simultaneously, the most concerning element for China in this equation was the continuous depreciation of foreign reserves: between 2001 and 2017, interest rates of China's financial assets declined by two-thirds (Luft & Nye, 2017). Similarly, Rafiullah (personal communication, 2020) highlights that China's Return on Investments (ROI) in Treasury bonds became very low. Therefore, given these declining interest rates on debts, China was forced to seek alternate avenues to divert its massive foreign exchange reserves away from buying financial assets (i.e., debt) toward more productive investments, in line with Harvey's argument that geographical expansion or spatial reorganization is helpful for providing a new and more profitable outlet for idle capital.

In 2005, Beijing realized the flaw in its export driven growth model and looked for an alternate strategy to rebalance the economy. Initially, Beijing thought to restrict the rate of trade surplus accumulation to deal with surplus capital, thus decreasing the profitability of exports. Furthermore, China wanted to encourage manufacturers to enhance production for the domestic market instead, thus indicating a shift towards a more consumption and inward driven growth path. In line with these policies, a new exchange rate was introduced by Beijing in 2005 which pegged the RMB to a basket of foreign currencies. Capital was redirected to the domestic infrastructure and real estate sectors, which were mainly financed by local governments. Hence, the policies devised to rein in the export boom created imbalances at the domestic level in turn. In other words, debt was rising because of decreasing ROI on excessive investments in the domestic real estate sector (Amighini, 2015).

China's drive to address the unfolding capital accumulation "crunch" was not limited to domestic policies, but the authorities considered external initiatives as well. Therefore, the "Go Out Policy" policy (走出去战略, romanized in pinyin as "zouchuqu zhanlue") became the outcome, where Chinese firms were encouraged to invest abroad, especially in the infrastructure and energy sectors. This was not a novel idea: since 1994, SOEs have been engaged in limited scale oil exploration in Africa, but because the former priority was to develop the domestic energy sector, those overseas investments did not receive much support from the government. SOEs were encouraged to invest in overseas projects only when the government announced its above mentioned "Go Out Policy" in 1999 (incidentally, this was the same year the GWD was announced) and launched it a year later. To coordinate these overseas efforts and engagements, a separate State-owned Assets Supervision and Administration Commission was established by Beijing under the State Council, which resulted in a massive outward FDI flow, as seen in Table 2.

Table No 2: China's Outward Flow of Foreign Direct Investment, 2000–2016

Year	2000	2005	2009	2015	2016
Outward Flow of FDI (US\$ billion)	1	12	69	145	196

Source: (Demiryol, 2019).

It is evident that this outward flow was on the increase during the period surveyed. Compared to 2000–8, the outward flow of Foreign Direct Investment (FDI) from 2009–15 peaked at US\$76 billion, clearly indicating that China wanted to diversify its surplus capital by investing in more profitable outlets, rather than just being content with less productive bonds – comparatively, FDI inflow stayed at US\$133 billion in 2016 (UNCTAD, 2019). The primary motive of the "Go Out Policy" was to alleviate the pressure of over-accumulation, and the most viable option was the redirection of the trade surplus toward overseas investments in infrastructure building. One could say that this was an antecedent of the BRI.

The abovementioned trajectory shows that while China's export driven growth model contributed significantly to its economic expansion, the same model resulted in the problem of surplus capital. Therefore, under the BRI's economic corridors, China attempted to diversify, switching from a focus on US Treasury bonds to infrastructure and energy investments. In other words, China was now mobilizing its surplus capital away from debt buying and toward debt financing, i.e., diverting capital to more productive investments while also reducing dependency on the US dollar, in line with Harvey's argument of geographical expansion or spatial reorganization: the key activity is urbanization or regional development (which is usually based on debt financing). In this context, the economic corridors under the BRI (for example CPEC) provide new geographical spaces for China to diversify its surplus capital toward the debt financing of under-saturated markets, which were ready for the absorption of China's surpluses.

2.3 Dependency on Global Demand

As noted earlier, export booms and a high global demand were key pillars of China's economic strategy. While this model contributed significantly to its economic growth for decades, it also made the country dependent on external trends. Policymakers realized that any point in time, foreign declines had the potential to affect economic growth, a threat which emerged soon after the global financial crisis. According to Harvey (2017), the crash in demand from consumer markets in the US and the European Union badly hit the export industry in China, leading to a 30 percent contraction in exports. This external shock had the potential to bring China's economy into a recession, further compounding its struggle with high labor costs and the over-accumulation of capital. Dr Li Mingjiang (personal communication, 2020) observes that this external shock to the export oriented sectors resulted in massive unemployment: the unemployment rate rose to a record high of 4.3 percent in March 2009 (Cai & Chan, 2009), i.e., increasing surplus labor. Downsizing the labor force was not a feasible option for China, so unemployed laborers looking for employment had to be utilized elsewhere by creating a demand for them in newer geographical spaces through urbanization and regional development.

A quick response was needed from the government, which immediately mitigated the impact of the crisis by announcing a stimulus package worth RMB4 trillion, which at that time was worth approximately US\$580 billion (Jones & Zeng, 2019). Under this stimulus package, state owned banks were directed to lend credit to local governments on relaxed terms and conditions, credit which was then mainly used for real estate development, industry and construction. The whole package was intended to absorb surplus capital and unemployed labor to compensate for the crash in export markets, thus successfully stalling the crisis, but floating easy credit for urban and infrastructural project development added to the existing problem of industrial overcapacity, as will be discussed in detail in the following section.

2.4 The Problem of Industrial Overproduction

As already predicted by classical Marxists, who argue that oversaturation is inevitable in a capitalist economy, the 2008–9 global financial crisis is generally considered the main factor for China's industrial overcapacity and surplus foreign exchange reserves. However, evidence



suggests that overproduction in Beijing's domestic policy was a matter of concern for policymakers even before 2008, as reported to the National People's Congress by the State Council in 1997, which stressed "the excess production capacity of certain industries" as a grave problem, and that a structural adjustment was needed (State Council of the PRC, 1997). According to Zhang (2017), since 2003, the NDRC, as the key office in charge of long term economic planning, has continuously highlighted overproduction as the main concern in the national economy – a problem shared by both labor intensive traditional industries and high value added emerging ones. Among the traditional industries, nine were identified as "problem creators": steel, cement, plate glass, aluminum, coal, shipbuilding, solar, wind energy and petrochemicals. All nine sectors are related to energy, infrastructure construction and real estate development, thus reflecting the nature of China's heavily investment driven economy. While the common practice in a market economy would have been closing this inflated industrial segment, in China this was not feasible given the CPC leadership's staunch commitment to high economic growth: any solution causing short term economic contraction would not be considered. Initially, the preferred strategy was to instead divert investment domestically toward underdeveloped regions. The practical manifestation of this strategy was the GWD program, which was launched by the Chinese government in 1999, which aimed to mitigate the development gap between the eastern coastal provinces and the interior western regions. Furthermore, the GWD initiative sought to develop China's western provinces by encouraging them to invest in infrastructure and establish trade ties with other regions, which would subsequently boost demand for domestic goods and commodities. Although fiscal subsidies were provided to the region, the entire program was a failure.

While the limits of China's export driven growth model were further exposed by the global financial crisis, massive domestic construction through debt financing by sub-national governments further aggravated industrial overproduction – Jones and Zeng (2019) claim that this situation "reflect[s] the dominance of state linked heavy industry and construction firms". Industrial overproduction is evident from the fact that China's annual steel production in 2008 was 512 million tons, which increased to 803 million tons in 2015: this additional 300 million tons outstripped the combined production of the US and the European Union (Cai P., 2017). In addition, Jones and Zeng (2019) note a 30 percent overproduction in other industries such as iron, glass, cement, aluminum and power generation, while Harvey (2017) notes that from 2007 to 2015, 12,000 miles of high speed railways were laid from scratch. For Beijing, excess capacity became a proverbial sword of Damocles hanging over the Chinese economy, where firms with excess capacity also exerted pressure on the Chinese government and wanted a market for economic engagement. In the same vein, Assel Bitabarova (personal communication, 2020), a doctoral candidate at the Graduate School of Letters of Hokkaido University, observes that:

China wants to utilize the BRI to move whole production facilities out of China. Moving excess capacity to the recipient or partner countries helps China reduce the supply surplus at home while helping less developed countries to develop their industrial bases ... Beijing wants to use the BRI to

upgrade the country's industry by exporting Chinese technological standards. The building-up of a China-centered value chain will help Chinese producers to move higher up in the value chain.

Another factor leading to economic pressure and excess capacity was the dynamics of China's political regime. To increase local growth rates, local governments compete to attract subsidized funds from the central government, which are then channeled into already oversaturated sectors. As reported by *Reuters* (2018), the "hidden" (off-balance-sheet) borrowings of local governments could be as high as 40 trillion yuan (US\$5.78 trillion), which has been labeled a 'debt iceberg with titanic credit risks'. While the stimulus package proved helpful in protecting the economy from sliding into a recession, by 2010, local governments were in debt – ironically this was because of the cash injected and spent under this package. In addition, Davis (2011) posits that investments under the stimulus package in urban and infrastructural projects further inflated the existing property bubble. As stated earlier, local governments floated state owned bank credit into real estate development, which saturated the housing market. In this regard, Dr Li Mingjiang (personal communication, 2020) highlights how several new towns (colloquially known as "Ghost Cities" in Western discourse) still remain empty even after their construction. In 2014, the China Investment Network published the "Ghost Town Index", noting that there were nearly 50 new, virtually unoccupied towns (Sum, 2018).

This building boom was financed by a rapid increase in debt, which then created repayment concerns. In this regard, Jones and Hameiri (2020) note that "[f]rom 2008 to 2016, local government debt rose from RMB 5.6 trillion (US\$864 billion) to RMB 16.2 trillion (US\$2.5 trillion), while corporate debt – 60 per cent of which is held by state-owned enterprises (SOEs) – grew from US\$3.4 trillion to US\$12.5 trillion between 2007 and 2014". In addition, due to heavy investments in infrastructure construction and real estate development, the Chinese economy witnessed a significant decline in rate of returns. In this regard, Zhang (2017) posits that:

Despite strong overall growth performance, the capital return rate of the Chinese economy has started to be on a sharp decline recently. Although the results vary by different estimation methods, research in and outside China points out a recent downward trend. For example, two economists show that all through the 1980s and the first half of the 1990s, the capital return rate of the Chinese economy had been relatively stable at about 0.22, much higher than the US counterpart. However, since the mid-1990s, the capital return rate experienced more ups and downs, until the dramatic drop to about 0.14 in 2013. Since then, the return to capital within [the] Chinese economy has decreased even further, creating the phenomenon of a "capital glut".

This evidence above suggests that it became difficult for China to sustain its economic growth by pursuing the existing model.

Given the abovementioned scenario, overproduction and the decline of profits in the Chinese economy is indeed a reality that the central government has to grapple with. Furthermore, according to Peter Cai (2017), overproduction caused declining prices and many SOEs faced negative ROIs, which increased the number of non-performing assets held by the banks. In other words, many SOEs borrowed heavily during the global financial crisis, resulting in over-lending and over-borrowing in every sector. However, the economic slowdown, low international demand and excess supply saw the reduction of SOE profits, subsequently making it difficult for them to repay their loans. Consequently, the Chinese banking system came under a tremendous stress due to the accumulation of these bad loans, leading China to adopt a policy that was expressly designed to deleverage the financial system. Banks tightened their credit lending policies, and this policy intervention temporarily delayed the need to confront this underlying issue. However, the structural limitations of the capital accumulation model remained due to China's overreliance on global value chains (a system which it cannot influence). After decades of remarkable export oriented economic growth, the structural limitations of this model resulted in progressive economic slowdown since 2010, partly because of the global financial crisis: a 10.6 percent GDP growth in 2010 decreased to 6.1 percent in 2019.

Table No 3: China's Annual Gross Domestic Product Growth, 2007–2019

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Percentage	14.2	9.6	9.4	10.6	9.5	7.8	7.7	7.4	7.0	6.8	6.9	6.7	6.1

Source: (World Bank, 2022).

However, the most important factors at play here remained the problems associated with structural issues in the export driven growth model. Therefore, it can be argued that the BRI is an attempt by China to fix the problem of surplus capital, labor and commodities, as per Harvey's explanation.

2.5 The Fear of the Middle-Income Trap

As a result of Deng's "Reform and Opening-up Policy", China developed the world's largest GDP share, becoming the world's top exporter and second largest importer (Glawe & Wagner, 2019). However, according to the World Bank's national data, economic growth started declining – from 9.5 percent in 2011 to 6.1 percent in 2019 (World Bank, 2022). Given this speedy decline, there is increasing concern that China's economic model is unsustainable and therefore needs to be rebalanced (Aziz, 2006; Blanchard & Giavazzi, 2006; Kawai & Lee, 2015; Wagner, 2015; Wagner, 2017). It has also been projected that in the long run, China will face a severe growth decline or may even enter the "middle income trap" (World Bank, 2013), a term which began to emerge among scholars working on China's economic growth model. It has also entered political parlance, as seen when Premier Li Keqiang, in his speech at the 2015 World Economic Forum, remarked that China must undertake reforms to "successfully overcome the middle-income trap" (World Economic Forum, 2015).

At this point, it is pertinent to further define the meaning of this term: it is a situation where a country grows rapidly in a short span of time, rising from a lower to middle income status; however, it still struggles to catch up with high income economies (Glawe & Wagner, 2019). Scholars define the middle-income trap as being either absolute or relative, and both interpretations will be studied below. Following the absolute approach, 124 countries were analyzed by Felipe, Abdon and Kumar (2012) using the Maddison database, and they defined the trap using a set of two ranges: the lower middle income range (Lower MIR, US\$2,000–7,250) and the upper MIR (US\$7,250–11,750). A country would fall into the trap if it remains in either: (1) the lower MIR for more than 28 years; or (2) in the upper MIR for more than 14 years. Based on this definition, within 17 years, China moved from the lower to upper MIR range, where it stayed for two years until 2010. Hence, Felipe, Abdon and Kumar predicted that by 2023, China would move into the Upper MIR category. Seen in this context, it can be inferred that China is still a middle-income country and more likely than not, it will struggle to achieve a high-income status in the long run. Similarly, Eichengreen, Park and Shin (2014), in analysing the growth slowdowns in rapidly growing middle income countries, deduced that:

A country experiences a growth slowdown if the following three conditions are fulfilled: (1) the seven-year average GDP per capita (p.c.) growth rate was at least 3.5% prior to the slowdown; (2) the difference between the seven-year average growth rate before and after the growth slowdown is greater than two percentage points; (3) the GDP p.c. in the year of the growth slowdown in the specific country is greater than \$10,000.

To test the above definition in China's case, using the Penn World Table version 7.1, Glawe and Wagner (2019) deduced that between 2009 and 2014, China had not experienced a growth slowdown because the third condition suggested by Eichengreen et al. (i.e., GDP per capita greater than US\$10,000) was not satisfied, in contrast to their prior belief in 2015 that it was fulfilled. What this meant was that China's GDP per capita in 2015 was US\$160. This was considered to be above the critical threshold and therefore, one could argue that China fell into the middle income trap.

In terms of the relative approach, using the Maddison 2010 database, the World Bank (2013) defined MIR as approximately 4.5 to 45 percent of the US per capita income, with the middle income trap countries defined as those which remained within this range between 1960 and 2008. Based on the parameters above, China can again be regarded as falling into the trap. Reexamining the above definitions using different GDP forecasts, such as a 2012 economic policy paper published by the Organization for Economic Co-operation and Development (OECD), the World Economic Outlook findings from 2017 and World Bank data, Glawe and Wagner (2019) once again tried to define whether or not China fell into the trap. The OECD projected that China's annual GDP per capita would grow by approximately 6.4 percent, compared to 1.5 percent in the US between 2011 and 2030, thus expecting it to leave the MIR by 2022. Based on the World

Economic Outlook and World Bank projections, China was estimated to leave the MIR in 2021 and sometime between 2020–23 respectively.

Based on these projections above, China is currently still in the MIR and is delayed from achieving a high-income status. However, it is pertinent to mention that in 2022 China is just on the threshold of being classified as a "high income economy" (World Bank's high-income country threshold is US\$12,536), which it might achieve in 2023. Most middle-income economies operate neither labor intensive forms of production (due to their high labor costs), nor are they primarily based on higher value-added activities (due to their low labor productivity and technological limits). In China, domestic consumption rates are low, and in order to transform the economy from one which is labor intensive (albeit with ample capital) to a higher productivity one, structural reforms and newer export markets are both needed. Rafiullah (personal communication, 2020) also sees China as falling into the middle-income trap and remarks that in order to overcome this problem, China is seeking newer markets by developing economic corridors under the BRI outside its borders, but more importantly the focus is on its western frontier, where lagging economic growth is a concern. By developing economic corridors abroad and connecting them to its underdeveloped western provinces, China aims to address their uneven economic growth – an enduring problem which, as mentioned earlier, the GWD had failed to resolve.

3. Addressing the Underperforming Western Provinces

Despite China's export oriented economic success, uneven development has created enormous economic disparities between the prosperous, eastern coastal regions and their underdeveloped, western interior counterparts – a major challenge for the Chinese government (Christian Ploberger, personal communication, 2020). The huge socioeconomic growth gap and subsequent disparities can be witnessed by comparing, for example, the city of Shanghai (note that at a municipal level, Shanghai is one of China's direct administrated municipalities, besides Beijing, Chongqing and Tianjin) and the inland province of Gansu. According to Cai (2017), the former is five times wealthier than the latter. Efforts have been made by Beijing to bridge the gap between these localities. In this regard, Aris (2017) postulates that China has been pursuing the GWD strategy since the 2000s to connect the western underperforming provinces (including the majority Muslim semi-autonomous Xinjiang) to the "economic miracle" on the eastern seaboard.

Regardless of Beijing's special preferences in terms of policies, large scale monetary injections and state directed investments, the share of total GDP of the western provinces only witnessed a marginal increase from 17.1 percent in 2000 to 18.7 percent in 2010 (Goodman, 2015, p. 198), indicating that in ten years, the western provinces only contributed 1 percent growth to China's total GDP. Therefore, it is believed that on the domestic front, the BRI is an extension of the GWD, meant to formally address unequal development. According to Julie Yu-Wen Chen (personal communication, 2020), securing overland linkages between Xinjiang and neighboring countries under the BRI would help the economic development of the western provinces. In a similar vein, Akhlaq Rasool Khan (personal communication, 2020), lecturer at the Department of International Relations, Preston University, Islamabad, and an expert on China, stresses that the BRI intends to

achieve national cohesion and integration by bridging the development gap between its eastern and western provinces.

Chinese policymakers believe that economic corridors under the BRI will assist in developing and stabilizing the western provinces. According to Assel Bitabarova (personal communication, 2020), one of the major factors for the launch of the BRI was China's deepening regional gap. The Chinese leadership hoped (and continues to hope) that its transcontinental initiative will boost the economies of the underdeveloped western provinces. Therefore, Bitabarova highlights that it is not surprising how Xinjiang and Yunnan were designated as major gateways of the BRI, and that the NDRC's coordination clearly indicates the connection between the BRI and the need for domestic development, especially in the less developed provinces.

According to Dr Yu Hong (personal communication, 2020), senior research fellow at the East Asian Institute of the National University of Singapore, the landlocked nature of the western regions is also an impediment to their economic development. This geographical hindrance can be mitigated by connecting the southwestern region of China through the BRI's economic corridors. Yu's perspective of the BRI stresses the value of connectivity in China's strategic calculations of national interest, emphasizing that CPEC and Gwadar Port are some of its key aspects – their completion allows for a much shorter maritime trading route which serves as a vital link connecting landlocked Xinjiang to the outside world.

Besides economic inequality, Islamist radicalism and Uighur Muslim separatist sentiments in Xinjiang are a matter of concern for China. Xinjiang, rich in oil, coal and natural gas deposits, is the only Muslim majority province, covering more than a sixth of Chinese territory and bordering Kyrgyzstan, Tajikistan, Kazakhstan, Russia, Mongolia, Afghanistan, India and Pakistan (with which it shares a 520-kilometer [km] border). Given its geographical location, Uighur Muslim separatist sentiments and external support for their movement, China faces a major security threat from within and outside the region. Discontent among the Uighur Muslims has risen primarily because of economic inequality and massive ethnic Han migration into the region. While the Tajiks, Turkmens, Kazakh, Kyrgyz and Uzbeks established independent homelands after the disintegration of the Soviet Union, Xinjiang (which shares cultural ties with Central Asia) remained a part of China. Beijing fears that the creation of these independent states has the potential to strengthen domestic separatist movements. Andrew Small (2015, pp. 69-71) observes that China is threatened by Xinjiang's movement toward greater autonomy or even outright independence from Beijing. Since policymakers believe that such movements are taking place due to poverty and underdevelopment in the western provinces, therefore, the panacea is developing and integrating Xinjiang with its neighboring regions to ensure regional stability (Yu Hong, personal communication, 2020). Similarly, Julie Yu-Wen Chen (personal communication, 2020) notes that improving Xinjiang's connectivity through economic corridors with neighboring countries will help stabilize the region, as does Dr Adam Saud (personal communication, 2020), professor and dean of the Faculty of Humanities and Social Sciences, Bahria University, Islamabad (as well as an international affairs expert), who highlights that the economic corridors will help to

mitigate pro-democratic voices in Xinjiang. It is against this backdrop that it can be reasonably argued that ensuring the development and stability of the underperforming western region is one of the core reasons for the BRI's establishment.

4. Conclusion

It is evident that the BRI was launched due to domestic politico-economic factors, although the factors has been consistently less studied. The export boom and high global demand were key pillars of China's economic growth, a model which also presented a new set of problems – dependency on global demand, surplus capital lacking profitable outlets, industrial overproduction and massive unemployment due to the crash in consumer markets – resulting in an economic slowdown and the potential for falling into the middle-income trap. Initially, China devised domestic strategies to overcome these crises, such as the GWD, but they ultimately did not prove helpful. As Harvey suggests, surpluses of capital, labor and commodities can be absorbed by exporting them to new geographical spaces through urban and infrastructural projects. Thus, it can be argued that China's concentration on economic corridors under the BRI is not just a platform for absorbing domestic surpluses and creating demand for SOEs, but also sustaining economic growth and allowing time to introduce further domestic economic reforms.

In addition to these considerations, the introduction of the Industrial Capacity Cooperation policy (which aims to export excessive industrial capacity of China to offshore territories), viewed together with the BRI, clearly implies the severity of domestic economic concerns. It becomes evident that industrial overcapacity and capital accumulation are key drivers behind Beijing's geographical expansion and thus, it can be argued that the BRI is a multi-vector spatial fix designed to achieve multiple objectives simultaneously. Put simply, this is China's plan to avert a looming economic crisis that the state considers potent enough to eventually threaten the political system as well – thus giving a lifeline to the economically significant construction industry, upon which the foundations of China's economic growth was laid over the past three decades. All this is designed to continue the growth narrative, increase global leadership and political influence.

5. References

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