The Neoliberal Globalization Link to the Belt and Road Initiative: The State and State-Owned-Enterprises in China [alternative title: Bilateral and Multilateral Dualities of the Chinese State in the Construction of the Belt and Road Initiative]

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ABSTRACT

The Chinese state has integrated its economy into the neoliberal globalization of trade and investment without neoliberalizing its own financial markets, and to ensure stability, the state applies strict controls on interest rates, capital movement and the value of RMB. The Chinese state policies have divided the domestic economy into upstream and downstream domains whereby the state extracts rents from the private businesses profits downstream and then pump them upstream to underwrite the SOEs operating as monopolies (domestically), and as strategic traders, and investors (internationally). The state is the largest owner in the economy through holdings of shares in listed companies, direct ownership of enterprises, influence over privatized SOEs, and ownership of the public utility companies. The state has thus structured the domestic market in a way that has made the appearance of the BRI a cogent outcome. The BRI is a demand creation project for two distinct zones of the state-owned internationalized businesses, firstly, the Chinese state finance sector and secondly other sectors that primarily include the construction, logistics, and utilities. The Chinese state's regulatory characteristics makes the financing and construction of the BRI possible, and reverential to the aims of the state. Further, the Chinese state has increased its weight in the Bretton Woods financial institutions, the IMF, and World Bank, while institutionalizing its reach in the formation of the Asian Infrastructure Investment Bank and the co-creation of the New Development Bank. These processes have simultaneously ensured commitments to multilateralism and bilateralism.

Keywords: Belt and Road Initiative, Chinese economy, Neoliberalism, New Keynesianism, State-Owned-Enterprises

Neoliberal globalization

From the early 1980s onward, the Anglo-Saxon neoliberal economic model, predominantly characterized by deregulation and privatization policies to enable the primacy of market-based outcomes, began to gain increasingly wider applications in the rest of the industrialized world (Stiglitz 2002). The three Bretton Woods institutions, the World Bank (WB), World Trade Organization (WTO) and the International Monetary Fund (IMF) oversaw the institutionalization of the accompanying trade and investment liberalization policy platforms (Stiglitz 2003). In the first four decades of the post-Second World War Bretton Woods system, the nations had much latitude in fiscal, welfare, labor, trade, and investment policies but under the neoliberal globalization, these policies became subject to market discipline. The Bretton Woods financial institutions successfully inculcated this discipline into the global trade and investment framework agreements which morphed into the neoliberal globalization, i.e. the continuous process of the adaptation of neoliberalizing policies by individual nations to link with the neoliberalized trade and investment structures, institutions, and organizations of the world economy.

Neoliberalization policies spread throughout in Asia in the 1990s and 2000s, with the major examples of Japan, South Korea, and Indonesia (Bayari 2020, Hamilton-Hart and Yeung 2019). In the 1990s, the application of the neoliberal globalization to the economic geographies of Latin America, East Asia and Sub-Saharan Africa came to be known as the Washington Consensus which eventuated in diverse outcomes across these geographies (Lee 2006, Rodrik 2006, Woo 2004). From the early 2000s forward, several seminal frameworks to study the institutional determinants of economic development and growth began to characterize the present post-Washington Consensus period (Acemoglu and Johnson, 2003; Acemoglu et al. 2002 and 2001, Rodrik et al. 2002).

The China connection
Until the late 1970s, China's participation in the world trade was marginal (Imbruno 2016). In 1979, the Chinese state initiated the policy of opening the economy to trade and foreign investment to connect with the world economy and produce domestic growth (Stoltenberg 1984). From the early 1980s onward, China, lacking its own capital markets, began to use Hong Kong Stock Exchange to raise foreign capital (Zhang 2003). In 1980-1984, the state created the first special economic zones in Guangdong (in the cities of Shantou, Shenzhen, and Zhuhai) and Fujian (city of Xiamen) provinces and opened them to foreign investment (Asian Development Bank 2015, World Bank 2019b). Thereon followed the creation of more 'zone' cities, and then a vast geographic expansion of the 'zones' into entire coastal regions. In January 1992, Chinese Spring Festival, Deng Xiaoping made the now-anecdotal 'Shenzhen tour' and delivered several speeches on the special economic zones policy. In the early 1990s and 2000s, further expansion waves followed and as economic growth took hold in the coastal regions, the geographical focus of new zones shifted inland and to the west, reaching 552 state-level zones and 1,991 provincial zones, accounting for over half of all special economic zones in the world (UNCTAD 2019).

China gained membership of the WTO in December 2001, which was a feat that it was seeking since its 1986 application to join the GATT (Cling 2014, Rhodes and Jackson 1999). The most significant neoliberal reform in the Chinese economy, was the relaxation of the foreign investment rules in the Shanghai Stock Exchange (which opened in 1990) and the Shenzhen Stock Exchange (which opened in 1991) from the 2000s forward (He et al. 2014). The Chinese economic model and the global expansion of its SOEs owe their success to connecting with the neoliberal globalization (Dirlik 2017, Subramaniam and Kessler 2013). China's entry into the WTO has substantially reduced the low skill and low tech manufacturing employment in the US, the EU, Japan, South Korea and Taiwan (Autor et al. 2013, Ngai 2004). As an outcome, China has increased its economic sovereignty, benefited from tariff reduction on its exports, acquired manufacturing jobs from other nations while most nations and trading blocs have suffered from the ill effects of increased trade, investment and manufacturing shifts under neoliberal globalization (Brandt and Morrow 2017, Taylor 2011). The Chinese SOEs especially have developed a great power in the world economy and entered multiple industries to pursue strategies that focus on long-term gains as they do not face the pressures of profitability which is the chief dynamic of market economy.

The process of China's state-led integration of its economy into the world system is not identifiable as a homegrown form of neoliberal globalization (Martin et al 2018). This is the most fascinating facet of the Chinese state economic policies that began with the Deng modernizations. China's bilateral trade and investment deals owe their existence to the neoliberalized globalization, however China itself has not gone through the phases of neoliberal deregulations at levels that characterized the rest of the world in the past five-decades. This has led to opinions such as that 'a new settlement between advanced countries and large emerging markets in which the latter no longer see themselves as free riders on the policies of the former' is necessary (Rodrik 2014).

China has used, the neoliberal globalization to enhance its existing state-driven economic model (Lim and Niv 2016). By doing so, it has been able to build institutions such as the AIIB (Asian Infrastructure Investment Bank) and projects like the BRI. From the 2010s onward, major trading partners began to accuse China of non-compliance with the WTO liberal principles of fair competition and non-discrimination between foreign and domestic firms due to the world trade and investment impact of the Chinese state ownership levels in the domestic economy (Weinhardt and Brink 2020). To be concise, China has not lived up to its side of the agreements that allowed it into the neoliberal globalization (McNally 2020). And now, the BRI, which is the embodiment of the gained advantages, is progressing.

The state as an owner: The difference between the state and private enterprises in China is identifiable in classification, but not in clear terms. In terms of the totality of the economic system, there is no politically independent Chinese private capital (Xing and Shaw 2013). The total state ownership in the entire national economy is approximately one-third of all the shares in the listed companies (Huang et al. 2018, Khan et al. 2019, Leung and Cheng 2013, Ronga et al. 2017). This is not, however, the extent of the state ownership. The Chinese state also owns unlisted enterprises and all the public utilities (see Conceptual Model 2). The total value of all the Chinese SOEs [statutory corporations, quasi corporations, majority state-owned listed enterprises, majority state-owned non-listed enterprises] is 29.2 trillion US$ [over 12 times the total value of the all SOEs in all other nations] and the 60 percent of which are in the finance sector (OECD 2017). The Chinese SOEs represent 50% of the total Chinese foreign investment stocks in the world (Garcia-Herrero et al. 2015). The 2019 Fortune 500 list has 119 Chinese mainland companies (representing 25.5% of the total revenue of the Fortune 500) 80 percent of these are Chinese SOEs (Fortune 2019). In the top 100, there are 23 Chinese SOEs and a single private Chinese MNE (Huawei) which has had a long relationship with the Chinese state, which has had extensive coverage in daily press for the past several years. In China, capital serves the state which creates and maintains the conditions for accumulation. Conceptual Models 2 and 3 portray private enterprises' dependence on the state.

The state and policy

Emerging economies are beneficiaries of the history of experimentation with economic models in the mature capitalist economies. The Chinese state has created and nurtured the notion of economic growth as a national mindset (Upton-McLaughlin 2014). It has been using a wide range of tools that other nations have previously utilized. Relevant in this instance is the New Keynesian macroeconomics that focuses, broadly, on economic and labor market stabilization via state fiscal programs and central bank monetary policies, which rest on the assumption that markets are imperfect (Gordon 1990, Mankiw 1991, 2006).

The applications of New Keynesian macroeconomics in China has allowed the state to utilize demand management policies based on fiscal and monetary instruments (Zhang and Murasawa 2011). These policies have also brought in foreign investment via long term tax postponement and tariff adjustments (Wang 2013). In particular, the New Keynesian analyses of the People's Bank of China focus on this institution's setting and regularly fine tuning of the money supply and credit growth to address the impediments of the transitional economy and the underdevelopment of financial markets (Liu and Zhang 2010, Narayan et al. 2009, Zhang and Clovis 2010, Zhang and Murasawa 2011). Since the start of the Deng modernizations, the Chinese state has utilized macroeconomic control of investment, instituted deficit spending, invested in national infrastructure and used the state-owned banks to lend with low interest credit (Ross 2010, Trescott 2012). The state has also used the Chinese foreign reserves as a tool of foreign exchange intervention against currency appreciation to enhance the nation's export performance (Gupta et al. 2014). These reserves and the New Keynesian policies have enabled the state to provide extensive support for the domestic economy and the Chinese MNEs and SOEs. The start of the Deng modernizations is the origin of the intensification of this process. The Chinese state maintains capital controls so that the domestic financial markets are not in full integration with the global markets, which affords the state control over domestic financial policy and financial stability (Obstfeld 2015). What is also important is that the Chinese state has been using the monopolistic SOEs to extract rents from the liberalized downstream industries that have been driving industrialisation as the Chinese economy has become embedded in the neoliberal trade and investment environment (Xi et al. 2015).

Political structure: The Chinese Communist Party is an all-powerful institution that has long acted as a substitute for many institutions that are emergent in China. The Party is, allegorically, described as the 'quasi central bank' in a reference to its mediating role between the society and the economy (Nitsch and Diebel 2007). The State-owned Assets Supervision and Administration Commission (SASAC), established in 2003, is the regulator of all the central state-owned-enterprises (SOEs). Regional authorities also have similar statutory authorities for their own enterprises. With the creation of the SASAC, all central state ownership took the form of 'state institutional shares' that a single agency holds, that in turn creates a stabilizing effect (Junmin et al. 2015). The SASAC is an essential New Keynesian style market regulator and has highly strategic value for the Chinese economic model. It has the task of maintaining the state ownership of the industries of defense, aviation, aerospace, telecommunication, petroleum, petrochemicals, energy, and transportation (Lin 2017). In terms of power ranking, the place of the SASAC cadres are right beneath the SOE elites whose place is right below the elites of the party and the state (Department of State 2015). The primacy of the state apparatus over market institutions such as the SOEs and the SASAC and the market are discernible. The significance of this equation is visible in the amount of weight that the Chinese SOEs have in the world economy.

After the WTO

China's entry into the neoliberal globalization of trade and investment, via the WTO membership and its effects have created diverse predictions. Most of the positive views considered China as an augmenter of the globalization process (Das 2007, Vickers 2014) and others entertained the notion that the WTO entry would eventually move China toward a series of neoliberalizations that had characterized all the other major economies (Li et al. 2012). After its entry into the WTO, China has not moved toward the spectrum of neoliberal liberalization models in the world, and despite some deregulatory moves such as the privatization of the state-owned-enterprises, it has selectively introduced new regulatory measures to effectively increase its market protections (Dorn 2016, Garcia Herrero et al. 2018, Gruin 2019, Hsueh 2011). Overall, the Chinese state has begun to more stringently regulate: 1) the value of RMB, 2) capital flows and 3) finance and banking system (McNally 2015), which are the economic domains that the Anglo-Saxon economies had deregulated in the 1980s, and Germany, Japan and South Korea followed suit a decade later.

So, the Chine state has moved in the opposite direction. It has effectively proven itself to be a highly regulatory state, which evokes memories of the economic history of the industrialized nations of the 1960s. Privatization of most of the state enterprises shifted state employees to either the private sector, the informal labor market or underemployment, which was arguably a neoliberal deregulation of the labor market (Bayari 2018). This, however, was exceptional in the sense that, in other nations that deregulated their labor markets, under neoliberal liberalization, the state had never been the sole industrial and professional work provider. This inherently makes it difficult to quantify the Chinese labor market reform on comparative terms, especially, due to the levels of labor market expansion after the Deng modernizations. In one example, in the US, the largest economy, neoliberal deregulation of the labor market accompanied the progressive deindustrialization, unequal geographical distribution of new types of growth and growing inequality in income distribution (Peck 2002). In China, by contrast, labor market deregulation accompanied new waves of industrialization but a chronic wage injustice also became established, as based on the difference of gender, age, and residential status (Bayari 2018). The Chinese state has shifted the burden of 'excess' labor to the private sector, massively reducing its welfare costs, and has greatly benefited from the new labor regime, which created the phenomenally low-priced labor input into the export sectors, and these sectors created the contemporary Chinese economy (Bayari 2018).

In 2016, the IMF began to include RMB in the elite currency basket of the Special Drawing Right (SDR), an international reserve asset that it issues, along with the US dollar, the euro, the Japanese yen and the pound sterling (Chey 2019, Chey et al. 2019, Katada 2017). Since then, however the progress of RMB internationalization has stalled (Helleiner and Wang 2019). The lack of process in RMB internationalization implicates China's state and economic elites (Germain and Schwartz 2017). The state control over the value of RMB, especially, supports China's export industries. Earlier predictions of the Chinese renminbi to replace the US-dollar as the reserve currency, by the end of 2010s, have not eventuated. Both the BRI and the AIIB operate in the US dollar-denominated trade and investment environment. For China to have its own currency to replace the US dollar, it would need to replace its export surplus dependency, which is based on suppression of domestic demand, and open its financial and product markets to competition (Katada 2017, Schwartz 2019).

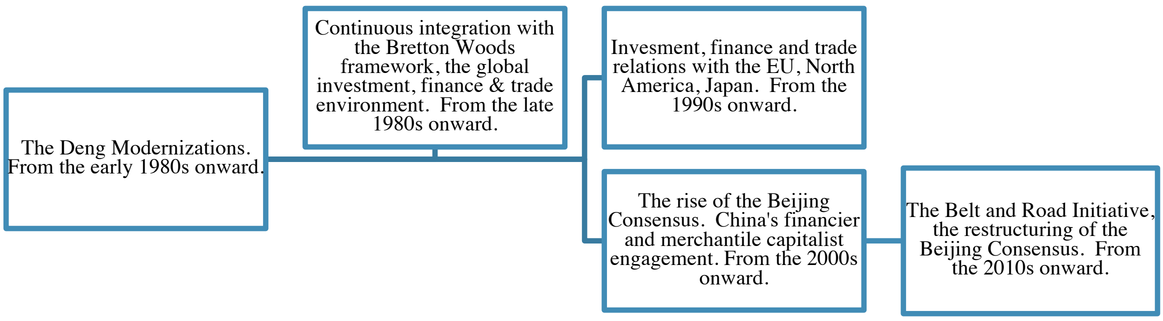
A globalization with bilateralism and multilateralism

In the 21st century, the neoliberal globalization has progressed to a stage whereby it has enabled the states to be major actors and the state-owned-enterprises to be transnational investors among which the Chinese state is the biggest (Babic et al. 2020).

There are arguments that propose China's bilateral deals across the world and the formation of the BRI, with its incorporation of bilateralisms, form an 'inclusive' and 'equitable' globalization whereby there is a fair distribution of the fruits of the growth (Li and Taube 2018, Liu and Dunford 2016, Zhou and Esteban 2018). This is the paradigm of the Beijing Consensus, more commonly referred as the 'Chinese globalization' which Conceptual Model 1 displays. The BRI is not a purely economic enterprise and is politically-centred. In terms of funding, it is well illustrated that the Chinese bilateralisms with autocratic governments, to its west and south, secure a level of stability in the nation's peripheries (Rolland 2017, Smith 2019). Thus, there is a dimension in bilateralism which serves China's interests that a multilateral framework cannot replicate. Further, bilateralisms have the innate quality that may morph into hegemonies (Park 2015). This is because China explicitly seeks the maintenance of status quo and extra-territorial stability in its peripheral regions (Hwang 2019).

China has swathed much of its bilateralism within the framework of the BRI, since 2013, and while this economic diplomatic framework contains some elements of multilateralism (via the role of the AIIB, New Development Bank (NDB), and the two meetings of the 'Belt and Road Forum for International Cooperation') as well as rhetorical support for an open multilateral economy, it is largely comprised of a network of arrangements whose content and reach depend very heavily on China's bilateral relationships with the countries involved and in which bilateral lending mechanisms dominate (Helleiner 2019). The Chinese state inserted and integrated its economy into the world trade and investment system and created the Chinese 'globalization' without its own neoliberalization (Martin et al. 2018).

Conceptual Model 1: The origins of the Beijing Consensus



The Chinese globalization is a dual-track paradigm. When addressing multilateral audiences, President Xi emphasizes vague ideals, openness, inclusiveness, and cooperation but in bilateral summits, President Xi's messaging on the BRI is more concrete and contained strong economic components (Ye 2019). Precisely, the AIIB has played a role in creating a multilateralist image for China in its lending but the BRI funded projects strictly enforce China's own interests (Chen 2019). China, has been able to fund this duality with its massive trade surplus creating its foreign exchange reserves which are reliant upon the lack of a neoliberal wave of deregulation in its economy.

Mercantilism: The Chinese globalization emerged quickly as the end result of China's rapid surge in bilateral trade and investment engagements in Asia, Africa and Latin America from the 2000s onward, is named thus, to create a contrast with the perceived limitations of the Washington Consensus policies (Dirlik 2004, Chan et al. 2008, Ramo 2004, Rebol 2010, Sautman and Yan 2007). This 'globalization' essentially represents the growth in the Chinese economy and the rapid rise in the Chinese state's international business; foreign investment, trade, and credit supply. This is a new mercantilist economic system (Lind and Press 2018, Prasad and Wei 2005, Schroder 2017).

The critiques of the Chinese model of mercantilism focus on the institutions and practices of the state-dominated economy, export-driven economic growth, foreign investment attracting policies with clearly set domestic market benefits such as technology transfer and loose intellectual property regulation, underpaid labor market segments, state-owned and directed financial system, undervalued currency to cheapen exports, massive foreign reserves accumulation, continuous and targeted strategic acquisition of foreign assets and natural resources (Aizenman et al. 2018, Dooley et al. 2004a, 2004b, Jiang 2015, Nölke 2012, Overbeek 2012, Rodrik 2010, Schroder 2017, Witt and Redding 2013, Ziegler and Menon 2014, Xiaotong and Keith 2017).

The BRI is viewed, in this context, as the extension of the Chinese mercantilism as it is a demand creation operation for two distinct zones of the state-owned or dominated internationalized businesses: 1) the Chinese state finance (that has access to the Chinese state's vast foreign reserves) and 2) the construction, logistics and utilities (Djankov and Miner 2016, Dollar 2015, Jones and Liu 2017, Holslag 2017). The BRI's prime creditor is the Chinese state. The BRI is built on several layers, 1) it relies on the neoliberal globalization of trade and investment that emerged from the Bretton Woods system, 2) it seeks to strengthen China's bilateral ties that emerged out of the Beijing Consensus and Chinese state loans, and 3) it precludes the possibility of an Anglo-Saxon model of neoliberalization in the Chinese economy. The significance of the BRI does not primarily lie on the Asia-Pacific but on the fact that it will serve as an economic extension of the region into Africa (the Westernmost boundary of the BRI) and Europe via bilateral deals. The Chinese investment has already altered the pre-existing relationship between Africa and its traditional partners (Donou-Adonsou and Lim 2018, Yao and Wang 2014).

Chinese SOEs

The Chinese state, in the 1990s, began to prescribe the establishment of large internationally competitive SOEs to compensate for the lack of institutional frameworks (Yang et al. 2009a, 2009b). The SOE construction process is a form of rapid 'learning by doing type' of institution building that has defined the present form of the Chinese variety of capitalism (Carney et al 2009). The Chinese SOEs emerged primarily because of the lack of the required managerial and other capacities in national industries and underdevelopment of national markets and market institutions in the 1990s (OECD 2000).

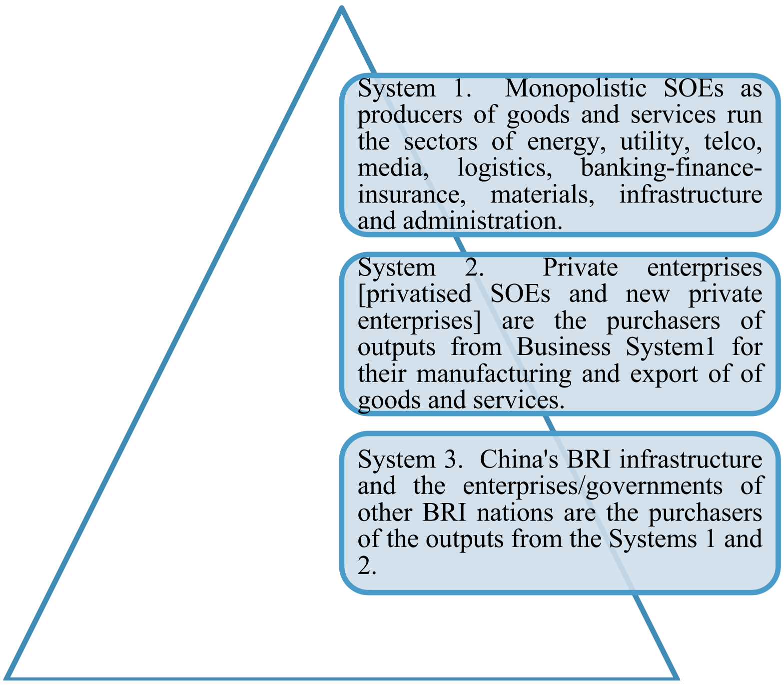
With the state having the controlling interest, the SOEs have been fulfilling strategic rather than solely profit seeking goals in their foreign investments (Meunier 2012). The capitalist variety in China is, thus, characterized by formal and informal institutions (derived from culture, interests, opinions, and political ideology) that have shaped political, social, and economic interactions (Xia 2012). The fact that the existing SOEs' foreign holdings are strategic assets can imply that the state is not likely to privatize them.

Since the late 1990s, the Chinese state-owned-enterprises have pursued infrastructure projects in Asia, Africa, South America, Central America, and Oceania that have all become integrated into the platform of the Belt and Road Initiative (Wuthnow 2017). Asia particularly is home to large scale investments in interregional connectivity projects that the Chinese SOEs do finance and build (Yu 2017). Energy production and distribution sectors especially are the largest recipient of the Chinese interests (Shi and Yao 2019). There are several emergent critiques of the BRI and its visions (Gong 2018). The Chinese state, SOEs and MNEs are greatly increasing their power in in the BRI geographies. The BRI is a structured extension of the existing Chinese business systems, domestic and international, with several facets: market creation, financial system creation, infrastructure construction, land and maritime trade route building, power generation and distribution.

Hierarchy of three business systems: The SOEs have defined the Chinese economy in the timeline from the Mao's rule throughout the maturation of the Deng modernizations, the 1990s' privatization of the SOEs and thereafter (Chan and Norlung 1998, Deng et al. 2005, Silver and Zhang 2009, Zhang and Sun 2012). This is 'System 1 (the 1950s - 1990s)' in the Conceptual Model 2, as presented herein. The Chinese state has been using the monopolistic SOEs to extract rents from the liberalized downstream industries that have been driving the industrialisation since the Chinese economy has become embedded in the world trade and investment environment (Xi et al. 2015).

At the end of the major privatization phase of many SOEs in the 1990s and with the emergence of private MNEs, the Chinese state gained a clearer *rentier* characteristic. The economy became divided into upstream and downstream domains. The rents that are extracted from the private businesses profits downstream (privately owned corporations and some of the privatized SOEs) are being used to finance the upstream which is the domain of the SOEs operating domestically as monopolies and internationally as strategic traders and investors (Chai and Song 2013, Harrison et al. 2019, Meng 2012, Qi 2014, Milhaupt and Zheng 2015, Yu 2013, Zhang and Liu 2013). This is 'System 2 (the 1990s - Present)' in the Conceptual Model 2.

Conceptual Model 2: Chinese Business Systems



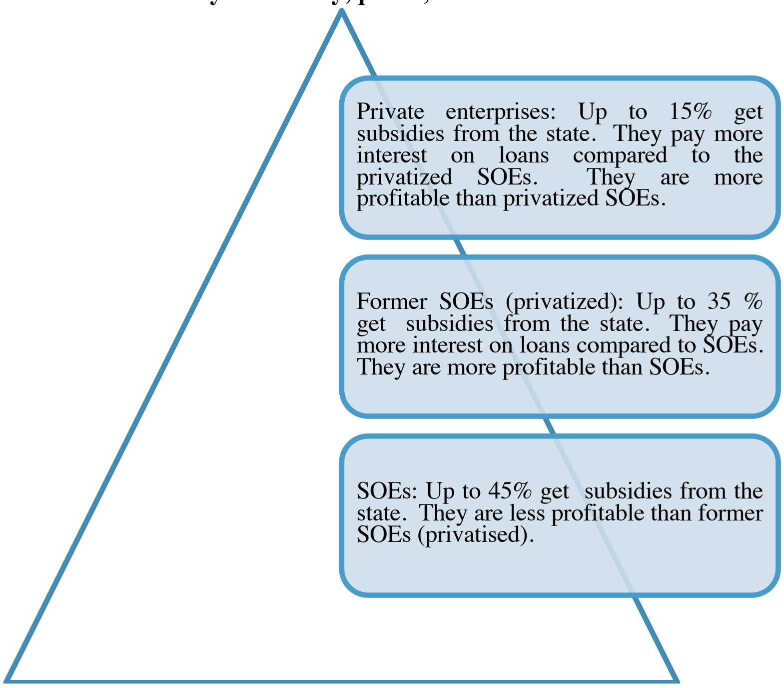
The 'System 2' represents the present snapshot of the Chinese international business and the origins of its competitive advantages. Chinese international business activities have a co-dependence with the Chinese *rentier* state finances. The 'System 3' embodies this status as it includes the Chinese-owned BRI infrastructure (transport, housing, communication, services, utilities, logistics, and technology) as the purchaser, with the enterprises/governments from the BRI members, of the output from the Business Systems 1 and 2.

Hierarchy of subsidy, profit, and credit: Finance credit is far more easily available to the SOEs and some of the privatized SOEs (Chen 2014, Jiang 2015, Khan et al. 2019, Li et al. 2015, Liou 2017, Liu 2019, Overbeek 2012, Rodrik 2014, Yamakawa et al. 2008, Zhu 2012). The primary context of the Chinese lending is the state-owned and controlled financial sector where private enterprises face tough lending conditions but SOEs and public utilities can borrow easily (Canuto 2019, Chen and Kang 2018, Molnar and Lu 2019). This is a directed lending system whereby the SOEs receive subsidized loans and profitable private enterprises pay higher interest rates, and thus it is a financial distortion in the form of 'financial suppression' (Liu et al. 2020). This financial suppression is inherently related to the maintenance of the nature of the China's market governance and thus the rule of the Chinese state in its present form (Xu and Gui 2019).

Conceptual Model 3 presents the well-structured hierarchy in which the SOEs and former SOEs are subsidized via credit on conditions that are very lenient and permissive in comparison to the ones that apply to the private enterprises which, via profits, supply cashflow to the *rentier* environment (Cheng et al. 2015, Daying et al. 2010, Cheng and Ma 2010, Leung and Cheng 2013, Li and Brodsgaard 2013, Ning and Sutherland 2012, Shaomin et al. 2014).

As of mid-2018, roughly 82% of total corporate debt belonged to the SOEs in an environment of implicit government loan guarantees to SOEs and other public entities and the tough lending conditions for private enterprises, while the state is largest shareholder in the economy (Canuto 2019, Harrison et al. 2019, Khan et al. 2019, Lam et al. 2018, Molnar and Lu 2019). As the SOEs represent the bulk of the debt, the state itself has three separate but *ipso facto* connected identities as a debtor, creditor, and *rentier*.

Conceptual Model 3: The hierarchy of subsidy, profit, and credit in China



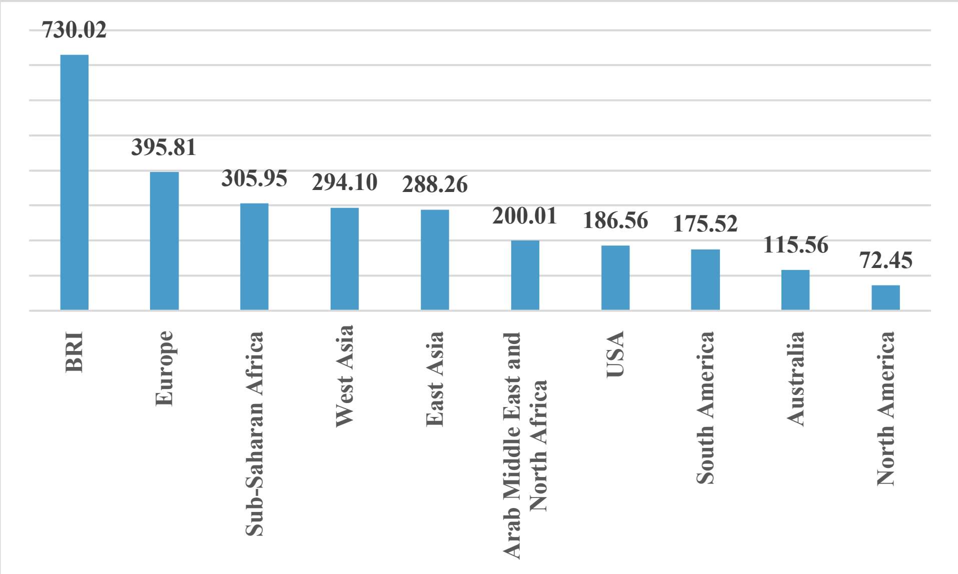
The BRI in a financial framework

China's post-WTO economic growth has contributed to the rise of the BRI as a platform of a chain of bilateral trade and investment agreements which China has established across the world (Liu and Dunford 2016, Thu 2019, Tkacik 2019, Ye 2019). The combined value of China's overseas investment and construction in 2005-2019 is US$2 trillion and the BRI share is US$730 billion (American Enterprise Institute and the Heritage Foundation 2020), as per Chart 1.

The BRI membership is continually increasing with a projected Chinese-state investment of $8 trillion and further there are over one hundred collaborating nations on the periphery of the initiative's 'corridors' and 'links' (World Bank 2019c). The BRI can substantially reduce 'shipment times' and 'trade costs' for its members (up to 3.2 and 2.8 percent, respectively) and for the world (up to 2.5 and 2.2 percent, respectively) (Soyres et al. 2018). The BRI financing has been driven predominantly by China's SOEs and state-owned-banks; China Development Bank (world's largest development finance bank and a joint stock company largely owned by the state funds), the Export-Import Bank of China, the Agricultural Development Bank of China, and the Asian Infrastructure Investment Bank [the AIIB] (Hurley et al. 2018, World Bank 2019c).

China has reached a stage of being a multilateral and bilateral lender (Helleiner and Wang 2019). The Chinese state has been cooperating with the Bretton Woods institutions of the WTO, WB and the IMF as these have allowed China to take over foreign companies (patents, technology, know-how) without forcing it liberalize its own markets, which would create disruptive imports and capital flow volatility (Rodrik 2018).

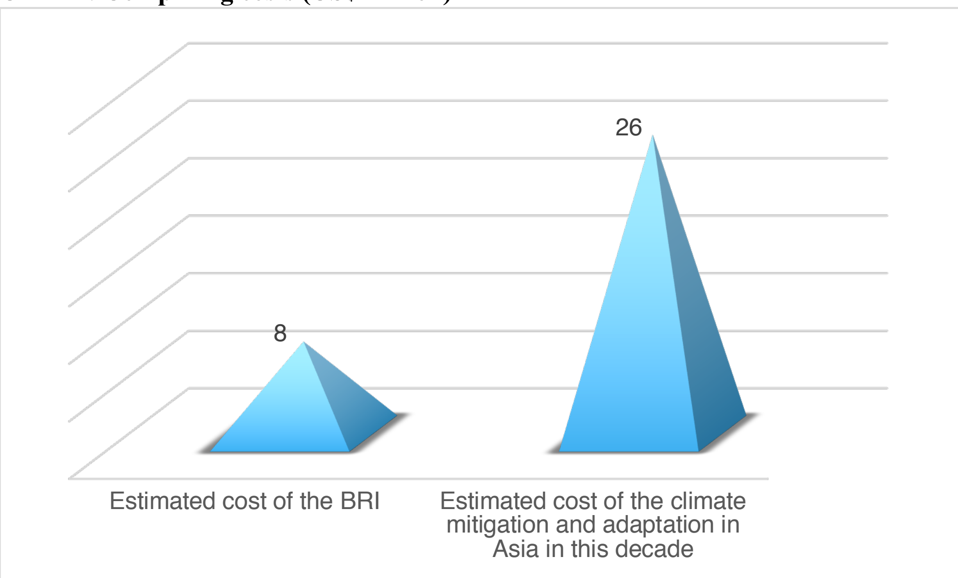
Chart 1: Worldwide Chinese investments and construction (2005-2019) (billion US$)



Source: American Enterprise Institute and The Heritage Foundation (2020)

The World Bank (as repayable loan supplier for capital intensive projects) and the IMF (as creditor for balance of payments-troubled economies), have had their peak in the early 1990s, and China has increased its influence in these institutions from the 2000s onwards (Fioretos and Heldt 2019). China, after setting up of the AIIB [with 30.8 percent Chinese state-subscription] in cooperation with Brazil, India, and South Africa, has also set up the Shanghai-based New Development Bank (NDB) [20 percent Chinese state-subscription], which began lending in 2016. Subsequently, the cooperation, rather than competition, with the World Bank and the IMF, has been a Chinese hallmark, along with the other BRICS nations (Heldt and Schmidtle 2019, Katada et al. 2017, Nuruzzaman 2019).

Chart 2: Comparing costs (US$ trillion)



Source: Asian Development Bank (2017), World Bank (2019c).

As a final note, there is a need to build new infrastructure across the world to adapt to climate change and mitigate its effects, and the cost may well be as high as $500 billion every year, by the year 2050 (UNEP 2018). The BRI's center of gravity is the Asian continent. To meet the cost of climate mitigation and adaptation, Asia needs $26 trillion worth of investment (Chart 2) from the 2020 onward (Asian Development Bank 2017). This sum is necessary for the continued economic viability. Without action to alleviate the effects of the climate change, the total GDP of Asia Pacific could decrease by as much as 3.3 per cent by 2050 and 10 per cent by 2100 (ESCAP 2016). The nations that borrow to pay for the costs of integration with the BRI may also need to borrow adapt to the effects of the climate change. The BRI will need to deal with the environmental change costs in geographies in which it will expand.

There are debates as to the level of impact that the global COVID-19 has made on the BRI (Asia News Monitor 2020) and whether the epidemic, however, will force China to evaluate the finances of the Initiative (Buckley 2020). The epidemic has slowed the progress of the BRI and exposed certain frailties, but the hiatus can provide China with new opportunities, depending on the members' requirements and needs (Ji 2020, Lancaster et al. 2020). China is in a post-COVID 19 pandemic foreign investment spree in Asia, the Mediterranean and Africa to strengthen the BRI, and in April 2020, Xi Jinping called several leaders in Asia, North and Central Americas, Central Asia, Africa, Middle East and the EU to pronounce a need for a new international solidarity and cooperation (Bagshaw and Massola). China has also begun, in April, to reschedule the loan repayments of the developing nations that have already signed up to the BRI (Shalal 2020). The post-COVID 19 world will pose two related challenges to the BRI, whether the financing levels will need to change and how viable will different parts of the Initiative remain.

Conclusion

The Chinese state has integrated its economy into the neoliberal globalization of trade and investment, without neoliberalizing its own financial markets, and to ensure stability, the state applies strict controls on interest rates, capital movement and the value of RMB. The Chinese state is not likely to create its own neoliberalizing model with a free floating RMB, deregulated capital controls, large scale privatization of strategic SOEs. Nor it is likely to move from the export-based GDP growth to a domestic consumption-led model.

The state is the largest owner in the economy through holdings of shares in listed companies, direct ownership of enterprises, influence over former SOEs, and ownership of the public utility companies. The state has thus structured the domestic market in a way that made the appearance of the BRI a cogent outcome. The BRI is the extension of the Chinese mercantilism as it is a demand creation project for two distinct zones of the state-owned internationalized businesses, firstly, the Chinese state finance sector and secondly, all the other sectors, including, primarily the construction, logistics, and utilities.

The Chinese state policies have divided the economy into upstream and downstream domains whereby the state extracts rents from the private businesses profits downstream and then pump them upstream to underwrite the SOEs operating as monopolies (domestically), and as strategic traders, and investors (internationally). This is parallel to the state's structuring of labor market that has forced migrant and marginalized labor into a subordinate position, in an era of prolonged high rate growth, to subsize the rest, rather than establishing effective institutions for an equitable market.

The state regulatory characteristics makes the financing and construction of the BRI possible, and wholly deferential to the aims of the state. The Chinese state has increased its weight in the Bretton Woods financial institutions, the IMF, and World Bank, while institutionalizing its reach in the formation of the AIIB and the co-creation of the NDB. These processes have simultaneously ensured commitments to multilateralism (China's position alongside the creators of the Bretton Woods system and the BRICS) and bilateralism (China's one-on-one economic relationships). The future of this dual track paradigm is debatable as there is a need to inbuild the costs of climate mitigation and adaptation into the BRI.

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