DECENTRALIZATION OF FOREIGN POLICY-MAKING PROCESS IN THE PRC AND ITS IMPLICATION FOR CHINA'S CENTRAL ASIA POLICY

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Abstract: *China's increased presence in Central Asia has become the popular subject of scientific inquiry. However, in most of such research China is treated as a unitary actor and its presence in Central Asia is perceived to be a rationally-calculated strategy and to reflect a combination of national interests. The Chinese elites also support this discourse and present China as a centralized Westphalian state and Chinese engagement in Central Asia as guided by coherent centrally-controlled Belt and Road Initiative (BRI). However, decentralization, fragmentation and internationalization of Chinese state have had a significant impact on its foreign policy, which actually consists of activities of different foreign policy actors with different interests and motivations. This paper aims to explore how different decentralized forces participate in Chinese foreign policy-making and to discuss implications for China's Central Asia policy.*

Keywords: *China's foreign policy, Central Asia, foreign policy actors, Belt and Road Initiative, decentralization, China's state-owned enterprises, China's state-owned banks*

Introduction

China's increased presence in Central Asia has become the popular subject of scientific inquiry [Bossuyt 2019; Mariani 2013; Ibraimov 2009; Pantucci 2019; Swanström 2005]. While many aspects of this presence have been covered extensively, little attention has been paid to the role of different Chinese foreign policy actors in China's policy in the region. China is often treated as a unitary actor and its presence abroad, including its relations with Central Asia, is perceived to be a rationally-calculated strategy and to reflect its national interests and goals of domestic economic development, such as finding new markets for trade and excess capacities, getting better connections to natural resources [Mariani 2013: 16]. Chinese elites support such "centring discourse" and present China as a centralized Westphalian state and Chinese engagement in Central Asia as guided by coherent centrally-controlled BRI [Heathershaw, Owen, and Cooley 2019]. Although, state-centric approach has generated many useful insights into China-Central Asia relations, focus on the actors might provide new perspective for the analysis of China's presence in Central Asia. Scholars have demonstrated that "the widespread perception of China as a centralized autocracy" does not capture all the complexity of China's domestic politics and foreign policy [Heilmann 2016]. Although China is a unitary authoritarian state, since the beginning of the reform and opening up policy (1978) state power has become fragmented and decentralized. As the result of state transformation, some Chinese state actors not only have acquired relative independence from the centre, but also have developed international portfolio.

Academic literature has explored the role of the following foreign policy actors in China's external relations: ministries and commissions [Corkin 2011], provincial governments [Summers 2021; Liu and Song 2020; Wong 2018; Chen and Jian 2009], state-owned enterprises [Gill and Reilly 2007; Jones and Zou 2017] and state-owned banks [Corkin 2011]. It has been demonstrated that these multiple actors involved in crafting and implementing China's foreign policy often have different motivations, their actions sometimes deviate from central agencies' intentions and overall national interests. Different aspects of China's foreign policy have been explained through such actor-focus, for example China's participation in global governance in particular global nuclear order [Hameiri and Zeng 2020] and BRI [Ye 2019; Jones and Zou 2017]. Geographically, such framework has been applied to China's relations with European [Zhang 2019] and African states [Gill and Reilly 2007; Corkin 2011], while Central Asia has been so far overlooked. Heathershaw, Owen, and Cooley [2019] have argued against seeing Chinese presence in the region as the result of centrally-planned policy. However, their major focus was not on Chinese foreign policy actors, their motivations and relations with the center, but on their ability to adopt to local conditions as the result of interactions with local actors.

This paper aims to fill in the gap and to explore how different decentralized forces participate in foreign-policy making process in the PRC and discuss implications for China's Central Asia policy. First, the paper discusses how decentralization and fragmentation of state power have influenced the processes of foreign-policy making in the PRC. Second, the author discusses major foreign policy actors involved in China's Central Asia policy and evaluates implications of their involvement.

Decentralization of power in China and foreign-policy making

As the result of reform and opening up policy introduced by Deng Xiaoping, "a clear hierarchical chain of command has been dissolved" [Corkin 2011: 64]. Since the late 1980, the researchers have accounted for decentralization and fragmentation of state power in China [Lieberthal and Oksenberg 1988]. As for foreign policy making, the final approval to key decisions is given by the Politburo Standing Committee of the Communist Party of China (CPC), but the group of powerful leaders is no longer able control all aspects of China's foreign relations. Ministry of Foreign Affairs (MFA) does not monopolize foreign policy, state authority has fragmented and is dispersed between the CPC institutions, ministries, state banks and state-owned enterprises (SOEs). Geographically, the power is also decentralized and provincial governments have increased their authority. Finally, due to globalization all these fragmented and decentralized institutions have developed international roles [Jones 2018].

These new decentralized foreign policy actors have an impact on China's foreign policy in several ways. First, they do so by influencing decision-making process in Beijing and drafting the national policy guidelines. SOEs in strategic sectors are considered to have a moderate effect of decision-making due their embeddedness in Chinese political elite: their executives are appointed by the CPC Organization Department and hold ministerial rank or vice-ministerial rank [Christensen 2012: 28; Jones 2018: 11; Jung-seung 2012: 76]. For instance, in case of the China Development Bank (CDB), all its projects have to be approved by the central authorities – the State Council, but many of the projects are the result of bottom-up lobbying and the CDB has been actively engaged in developing and suggesting new projects. Downs [2011: 80] shows that the CDB has often acted as the bridge and primary coordinator between national interests promoted by the Chinese government and the business interests of Chinese enterprises. Thus, she challenges the idea that the common idea China's energy deals are the result of "monolithic China" trying "to secure oil and gas supplies" [Downs 2011: 60].

Second, activities of the new foreign policy actors abroad also have significant foreign policy ramifications – both positive, e.g. strengthening China's role in the region [Hofman 2016], and negative [Christensen 2012]. Although, state transformation has been crucial for China's economic success, it has also had side effects both for China's domestic politics and its external relations. First, officials at different levels often have different motivations, as well as "the opportunities and incentives to violate rules and cover up their transgressions" [Lieberthal 2004: 188]. The situation is complicated by the fact that these new foreign policy actors have little knowledge of diplomatic landscape. Second, the negative effects of such system also include "lack of accurate information" -

while information travels through the multiple layers of bureaucracy it is often distorted [Lieberthal 2004: 188].

China's New Foreign Policy Actors and Central Asia Policy

Provincial Governments

As the result of state transformation, power has been decentralized and provincial governors not only have become more powerful in domestic politics, but also have developed international portfolio and their own regional strategies (e.g. towards Africa) [Chen and Jian 2009: 11]. The search for revenue has pushed Chinese provinces to engage in external cooperation "with the aim of promoting their exports, attracting FDI and enhancing their international profiles" [Chen and Jian 2009]. Some border provinces participate in the cross-border transnational regional blocks, such as Greater Mekong Subregion [Su 2012: 1344]. Southern provinces have focused their external relations on Southeast Asia, while northern province Heilongjiang has been included in the 2009 Chinese Russian plan for regional integration [Jakobson and Knox 2010]. According to Chen and Jian [2009: 15], the less developed inland provinces are more interested in cooperation with non-Western countries, as they expect to have less competition there.

The local governments operate the international economic and technological cooperation corporations, which make money by undertaking contracts overseas that often financed by Chinese concessional loans [Jakobson and Knox 2010: 32]. These companies are smaller the national state-owned enterprises, which dominate in energy and infrastructure construction sectors, but still occupy an important position in trade and investment both for China and its counterparts [Chen and Jian 2009: 16]. Recently, the provincial governments have also become engaged in China's export of industrial overcapacity, as they are the principle state actors in international capacity cooperation (ICC) [Kenderdine and Ling 2018: 5]. Within the ICC, local governments coordinate investments and are paired with "external geographies by sector – petrochemicals in Luoyang with Bukhara in Uzbekistan, and Hebei aluminum with Pavlodar in Kazakhstan" [Kenderdine 2018].

As the result of devolution of authority, competitiveness and weakened financial autonomy, "local governments tend to make short-term local policies for short-term economic reasons" [Liu and Xu 2018: 4]. The decentralization and regional special interests have generated many domestic political conflicts [Heilmann 2016: 90] and have also complicated some of China bilateral relationships [Chen and Jian 2009]. The performance of provincial governors is assessed based on their domestic indicators, which includes different economic, environmental, social and other local targets. Therefore, they have little concern about sustainability of their overseas operations of the Chinese companies under their supervision.

Ministries

As the result of China's internalization, the power of MFA has declined [Jakobson and Knox 2010; Corkin 2011], while other ministries and commissions with less knowledge about diplomacy have gained more leverage, in particular, Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC). For example, when in the early 2000s China officially adopted going-out strategy, a series regulations were adopted, which required the MOFCOM to review all plans of Chinese enterprises to open overseas operations and set investment limits, which also require approval of the NDRC [Shambaugh 2013: 139]. In general, the MOFCOM has jurisdiction over foreign trade and overseas activities of Chinese companies abroad [Jakobson and Knox 2010: 10]. Up until the establishment of the China International Development Cooperation Agency under the State Council of the People's Republic of China in 2018, the MOFCOM had also controlled China's foreign aid through its Department of Foreign Aid.

Apart from approving overseas investments, the MFA has had to accept its secondary role to the NDRC in questions related to climate change and access to critical recourses [Jakobson and Knox 2010: 18]. The NDRC, which is in charge of China's economic development and ranks higher than MFA, is also responsible for structural changes and solving the problem of industrial overcapacity. According to Kenderdine and Ling [2018: 5], "[t]he central plan for ICC [international capacity cooperation] is to bring together key provinces, state-owned enterprises (SOEs) and industry associations to coordinate moving industrial plants abroad". The cement factories of Chinese companies in Tajikistan that have attracted criticism of NGOs over their environmental impact are the example of excess capacities that China tries to move abroad.

State-owned enterprises

In the early 2000s China adopted going out strategy, which encouraged China's state-owned enterprises to explore overseas markets [Shambaugh 2013: 139]. The state policy together with economic motivations, such as increased competition inside China, has resulted in Chinese companies looking for foreign contracts and investing abroad in significant numbers. Despite this push from the government, Hofman [2016] shows that presence of Chinese companies in Central Asia is not the result of Chinese grand strategy, but rather is determined by their profit-oriented goals and specifics of the local market. As the SOEs and private enterprises have to make profit, they tend to "define China's interests narrowly in contrast to the more extensive agenda that foreign policy officials must consider" [Jakobson and Knox 2010: 25]. In the developing countries, competition with other companies often leads to "race to the bottom" in term of costs, while social and environmental aspects of projects are often ignored by Chinese companies. This is facilitated by the lack of regulations and efficient implementation system in the host countries [Wang and Zadek 2016, 57; Moldashev 2019].

In China, different SOEs are responsible to different bureaucracies - city, province, and national levels. The bureaucratic and often geographic distance between SOEs at the lower levels and government regulatory and implementing agencies is bigger, therefore the latter ones "are likely to have difficulty in accessing timely information sufficient for oversight." The SOEs at the national level are managed by the State-Owned Asset Supervision and Administrative Commission (SASAC) under the State Council, which is responsible for appointment of the top managers, drafting regulations related to SOEs and auditing their performance [McDonald, Bosshard, and Brewer 2009].

While the SOEs at the national level are under the more scrupulous attention, they have more bargaining power and weight vis-à-vis regulating bodies [Gill and Reilly 2007: 44]. As foreign policy actors, national energy companies aim at increasing their international portfolio, reserves and production, and making profits. Among state-owned enterprises, national oil companies are those that have often ignored national foreign policy concerns. This can be explained by the status of their top leadership in the CPC hierarchy and importance of energy security for China. In Sudan, the state-owned energy companies purchased Sudanese assets, even after the NDRC removed Sudan a list of preferred countries for oil investments following major international criticism [Jakobson and Knox 2010: 29–30]. Sinopec and CNPC, together with China Road and Bridge Corporation, TBEA, etc are the globally successful Chinese companies operating in Central Asia. However, in the region there are also Chinese companies with limited international experience, which are primarily motivated by the cheap financing provided with the BRI and low competition in Central Asia [van der Kley 2018].

State-owned banks

The Chinese government has used the Chinese state-owned banks to promote cooperation abroad and Chinese companies to get preferential loans [Brautigam 2011: 82]. The two major banks supporting China's going out strategy are the CDB and the Export-Import Bank (Exim Bank). The Exim Bank is a policy bank of the State Council "dedicated to supporting China's foreign trade, investment and international economic cooperation." It offers concessional loans to foreign governments and plays a significant role in allocation of Chinese foreign aid, offering credits to

Chinese companies involved in delivery of the aid and to foreign recipients of this aid [Jakobson and Knox 2010: 28; Shambaugh 2013: 161]. Often as the part of the deal, the foreign governments have to employ Chinese companies to implements the projects. The budget of the loans is decided by the MOFCOM, while the Exim Bank is the implementation body.

The CDB was restructured as commercial bank in 2008, but has played a hybrid role since then. The CDB focuses on "medium and long-term lending and investment to support the implementation of major strategies for medium and long-term development of China's national economy". In 2018 the CDB opened branch in Astana (the seventh overseas representative office established by China Development Bank after Cairo, Moscow, Rio de Janeiro, Caracas, London, and Vientiane). The CDB has financed the development of infrastructure to deliver energy and mineral supplies to China, such as the construction of the Kazakhstan-China oil pipeline and Central Asian Natural Gas Pipeline, connecting Turkmenistan with China [Downs 2011]. In 2017, it pledged to provide a $1.2 billion USD loan to Uzbekneftegaz for the Oltin Yo'l gas-to-liquid (GTL) processing plant at the Shurtan petrochemical complex [Aiddata n.d.]. Apart from the CDB, Bank of China, ICBC, and CITIC have all opened branches in Kazakhstan providing credits directly to Kazakh businesses outside of the government-to-government loan scheme [Kenderdine and Yau 2020].

There are different views on the purposes of lending by Chinese banks. Kenderdine and Yau [2020] argue that although even in the case of commercial banks, operations are still policy-driven and "targeted toward developing China's offshore production system." At the same time, the CDB is described "one of the most dynamic and successful Chinese financial institutions" [Downs 2011: 2], which aims to raise revenues. Although Exim Bank is a policy bank, it has also engaged in commercially oriented financing, while enjoying the privileges of the policy bank and ignoring the pressures of the MFA to limit its activities to policy lending [Corkin 2011]. As put by Corkin [2011], "[a]n alliance with the MOFCOM has allowed the bank to retain its commercial focus while purporting to further a policy mandate in conjunction with like-minded government ministry". Therefore, despite their close connection to Chinese central authorities, focus on making-profit and low status of the MFA in their regulation might explain their involvement in diplomatically-sensitive projects.

Conclusion

This paper argues that the idea of multiple foreign policy actors involved in China's foreign policy is valuable for a better understanding of China's Central Asia policy. As the result of decentralization and fragmentation of state power in China, some Chinese state actors not only have acquired relative independence from the centre, but also have developed international portfolio. Such foreign policy actors include ministries, provincial governments, state-owned enterprises and state-owned banks. These new decentralized actors have an impact on China's foreign policy in several ways. First, they do so by influencing decision-making process in Beijing and drafting the national policy guidelines. Second, their own activities abroad also have significant foreign policy ramifications – both positive, e.g. strengthening China's role in the region, and negative. Despite close connection to central authorities, other foreign policy actors have different motivations and their actions sometimes deviate from national interests as articulated by central authorities. For instance, the goals of MOFCOM and NDRC that finance projects of Chinese companies are China's economic development and expansion of Chinese companies to other countries, not China's image abroad. They have less knowledge about regional diplomatic landscape, tend to be less concerned about making a favourable impression and maintaining good diplomatic relations, thus could pay not enough attention to environmental and labour issues in partner-states. As for SOEs and state-owned enterprises, one of their major goals is to make profit. Such goals together with low status of the MFA in their regulation might explain involvement of Chinese state-owned banks and enterprises in diplomatically-sensitive projects. Overall, in order to understand China's foreign policy in Central Asia, one needs not only to focus on top leadership and national interests as formulated in official documents, but also to have understanding of different actors that are involved in foreign policy making and implementation, their motivations and position within the power structure of Chinese state.

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