As China forges ahead with its Belt and Road Initiative (BRI), it not only exports its excess industrial capacity, technical know-how, and economic diplomacy to countries around the world, but also exports the structures and processes of its domestic institutions that manage its investment projects abroad. Andrew Mertha, Professor and Director of China Studies at the School of Advanced International Studies (SAIS), Johns Hopkins University, argued that the effectiveness of foreign aid and direct investments, as well as the influences that come with them, are only as good as the institutions that manage these projects.

To illustrate this, Mertha focused on a particular period of history of the Chinese Communist Party (CCP) when it had close relations with the Communist Party of Kampuchea (CPK) during the Khmer Rouge regime in 1975-1979. This is a critical case that demonstrates substantial challenges to Beijing’s ability to reach its goals despite an environment of overall cooperation and China’s superior position of asymmetric power.

The results are sobering. The conventional wisdom that the Chinese state is a unitary top-down authoritarian system does not hold up under scrutiny. In reality, its bureaucratic apparatus is filled with internal bargaining, competition, and consensus building at best, and is often inundated by dragged-out infighting over functionary turf wars. According to Mertha, a web of centralized and decentralized authority relations, localism, and functional considerations add up to a fragmented institutional context that deeply affects the substance and the implementation of policy at home and increasingly abroad.

During 1975-79, Cambodia was a client state and strategic ally of China. It was internationally isolated and economically backward. It had no industrial capacity and only some antiquated agricultural technology. By contrast, China was a nuclear power, just a few years away from a reform trajectory which would make it a great power. Within such an asymmetric relationship, it is reasonable to expect that China would get its way in influencing domestic policy in the recipient country, but that is not what occurred with Democratic Kampuchea. Using a two-by-two matrix as a conceptual framework, Mertha examined a set of projects that illustrated this point.
Mertha identified three possible outcomes when Chinese institutions interact with those of a recipient country. Firstly, when institutions on both sides are weak, project failure is a likely outcome, such as the oil refinery project in Kompong Som. China’s decentralized agencies were unable to overcome the logistical coordination problems inherent in managing such a complex project abroad, while at the same time, many of the top leaders at Kompong Som were being killed, leaving a leadership vacuum on the Cambodian side. As a result, inaction and inertia prevailed. The project was nowhere near its schedule to meet the planned completion date in 1980. Secondly, when Chinese institutions are strong and the host country’s institutions are weak, China can exert more influence, as when China took advantage of Cambodia’s lack of trade institutions to influence its trade and commercial infrastructure. And lastly, when institutions on both sides are strong, China will have less influence and will likely have to compromise, as was the case with the military airfield at Krang Leav, in which China acceded to Cambodian preferences about its location.

Would this pattern persist today? Mertha argued that China’s institutional structure, involving the Ministry of Commerce, the Ministry of Foreign Affairs, multiple layers of lending agencies and banks, the National Development and Research Commission, the State-owned Assets Supervision and Administration Commission, and various levels of local governments, provides the same type of fragmentation that existed in the Democratic Kampuchea case. All of these organizations play a role in directing more than 110,000 state-owned enterprises (SOEs), of which less than 100 are at the national level (while the rest are at the decentralized local government level). Chinese SOEs are driving China’s global ambitions, both to increase their market shares worldwide and to secure their access to strategic assets. Along the way, they externalize Chinese domestic institutions and dynamics, and all the organizational pathologies they engender.

While Xi Jinping has sought to give some cohesion to this massive and tangled array of organizations with cross-cutting interests by setting up a wide array of leading groups, this centralization of power has intruded into territories traditionally managed by the government instead of the Party. This may, in turn, lead to more, rather than less, bureaucratic infighting and ambiguous lines of authority and responsibility.

Having further examined several Chinese construction projects in Angola, Nicaragua and Myanmar, Mertha concluded that numerous organizational obstacles impede effective administrative oversight from Beijing, which inadvertently allows local Chinese actors to engage in risky and unprofitable investments overseas; and that the BRI is plagued by myriad domestic as well as international constraints. Mertha advised analysts to take these organizational complexities into account when evaluating the potential impact of the BRI. He urged the
audience to adjust its expectations accordingly: not to be awed by the sheer scope of the BRI but to consider China’s domestic institutional nexus as a potential Achilles’ heel.