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## China's Great Game: Road to a new empire

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By Charles Clover and Lucy Hornby  
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“The granaries in all the towns are brimming with reserves, and the coffers are full with treasures and gold, worth trillions,” wrote Sima Qian, a Chinese historian living in the 1st century BC. “There is so much money that the ropes used to string coins together rot and break, an innumerable amount. The granaries in the capital overflow and the grain goes bad and cannot be eaten.”

He was describing the legendary surpluses of the Han dynasty, an age characterised by the first Chinese expansion to the west and south, and the establishment of trade routes later known as the Silk Road, which stretched from the old capital Xi'an as far as ancient Rome.

Fast forward a millennia or two, and the same talk of expansion comes as China's surpluses grow again. There are no ropes to hold its \$4tn in foreign currency reserves — the world's largest — and in addition to overflowing granaries China has massive surpluses of real estate, cement and steel.

After two decades of rapid growth, Beijing is again looking beyond its borders for investment opportunities and trade, and to do that it is reaching back to its former imperial greatness for the familiar “Silk Road” metaphor. Creating a modern version of the ancient trade route has emerged as China's signature foreign policy initiative under President Xi Jinping.

“It is one of the few terms that people remember from history classes that does not involve hard power . . . and it’s precisely those positive associations that the Chinese want to emphasise,” says Valerie Hansen, professor of Chinese history at Yale University.

### Xi’s big idea

If the sum total of China’s commitments are taken at face value, the new Silk Road is set to become the largest programme of economic diplomacy since the US-led Marshall Plan for postwar reconstruction in Europe, covering dozens of countries with a total population of over 3bn people. The scale demonstrates huge ambition. But against the backdrop of a faltering economy and the rising strength of its military, the project has taken on huge significance as a way of defining China’s place in the world and its relations — sometimes tense — with its neighbours.

Economically, diplomatically and militarily Beijing will use the project to assert regional leadership in Asia, say experts. For some, it spells out a desire to establish a new sphere of influence, a modern-day version of the 19th century Great Game, where Britain and Russia battled for control in central Asia.

“The Silk Road has been part of Chinese history, dating back to the Han and Tang dynasties, two of the greatest Chinese empires,” says Friedrich Wu, a professor at the S Rajaratnam School of International Studies in Singapore. “The initiative is a timely reminder that China under the Communist party is building a new empire.”

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As China seeks to expand its sphere of influence, it is likely to encounter significant resistance.  
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### New frontier, old foes

Attempts to tame the energy-rich Xinjiang region may be stoking unrest from the Uighurs. [Read more](#)

According to former officials, the grand vision for a new Silk Road began life modestly in the bowels of China’s commerce ministry. Seeking a way to deal with serious overcapacity in the steel and manufacturing sectors, commerce officials began to hatch a plan to export more. In 2013, the programme received its first top-level endorsement when Mr Xi announced the “New Silk Road” during a visit to Kazakhstan.

Since the president devoted a second major speech to the plan in March — as concerns over the economic slowdown mounted — it has snowballed into a significant policy and acquired a clunkier name: “One Belt, One Road”. The belt refers to the land trade route linking central Asia, Russia and Europe. The road, oddly, is a reference to a maritime route via the western Pacific and Indian Ocean.

In some countries Beijing is pushing at an open door. Trade between China and the five central Asian states — Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan — has grown dramatically since 2000, hitting \$50bn in 2013, according to the International Monetary Fund. China now wants to build the roads and pipelines needed to smooth access to the resources it needs to continue its development.

Mr Xi started to offer more details about the scheme earlier this year with an announcement of \$46bn in investments and credit lines in a planned China-Pakistan economic corridor, ending at the Arabian Sea port of Gwadar. In April, Beijing announced plans to inject \$62bn of its foreign exchange reserves into the three state-owned policy banks that will finance the expansion of the new Silk Road. Some projects, already on the drawing board, seem to have been co-opted into the new scheme by bureaucrats and businesspeople scrambling to peg their plans to Mr Xi's policy.

“They are just putting a new slogan on stuff they've wanted to do for a long time,” says one western diplomat.

“It's like a Christmas tree,” says Scott Kennedy, deputy director at the Center for Strategic and International Studies in Washington. “You can hang a lot of policy goals on it, but no one has done a proper economic analysis. The government money they are putting in is not enough; they hope to bring in private capital, but would private capital want to invest? Will it make money?”

As well as offering a glimpse of China's ambition, the new Silk Road presents a window into how macroeconomic policy is made in Beijing — often on the hoof, with bureaucrats scurrying to flesh out vague and sometimes contradictory statements from on high. “Part of this is top down, part of this is bottom up, but there is nothing in the middle so far,” says a former Chinese official.

“The rest of the bureaucracy is trying to catch up to where Xi has planted the flag,” says Paul Haenle, director of the Carnegie-Tsinghua Center in Beijing. “This is something that Xi announces and then the bureaucracy has to make something of it. They have to put meat on the bones.”

Some clues emerged in March when the powerful National Development and Reform Commission, China's central planning body, published a clunky document, “Visions and Actions on Jointly Building Silk Road Economic Belt and 21st-century Maritime Silk Road”. It provides a great deal of detail in some places — such as which book fairs will be held — but is patchy in others, like which countries are included. Peru, Sri Lanka and even the UK are included in some versions of semi-official maps but left out of others.

China's Silk Road: New frontiers, old foes

Tom Mitchell reports from Xinjiang, a remote and resource-rich region three times the size of France that is key to President Xi Jinping's Silk Road project. But Beijing's policies seem only to fan the flames of ethnic unrest in the region.

A complete list appears to exist, however. On April 28 the commerce ministry announced that Silk Road countries account for 26 per cent of China's foreign trade, a remarkably precise statistic. However, a request from the Financial Times for more specific details on the list of nations went unanswered.

There is also no indication yet of how it will be run — through its own bureaucracy, or as separate departments in different ministries and policy banks. With foreign governments and multinational banks eagerly following the Delphic utterances from Beijing to understand what it means, the vagueness and confusion has not gone unnoticed.

“If we want to talk to the Silk Road,” says a diplomat from a neighbouring state, “we don't know who to call.”

As the country's economic interests expand abroad, its massive security apparatus and military will probably be pulled into a greater regional role. China has no foreign military bases and steadfastly insists that it does not interfere in the domestic politics of any country. But a draft antiterrorism law for the first time legalises the posting of Chinese soldiers on foreign soil, with the consent of the host nation.

China's military is also eager to get its share of the political and fiscal largesse that accompanies the new Silk Road push. One former US official says he was told by senior generals in the People's Liberation Army that the One Belt, One Road strategy would have a “security component”.

Projects in unstable areas will inevitably test China's policy of avoiding security entanglements abroad. Pakistan has assigned 10,000 troops to protect Chinese investment projects, while in Afghanistan, US troops have so far protected a Chinese-invested copper mine.

Port construction in countries like Sri Lanka, Bangladesh and Pakistan has led some analysts to question whether China's ultimate aim is dual-use naval logistics facilities that could be put into service controlling sea lanes, a strategy dubbed the “String of Pearls”.

Achieving the trust of wary neighbours including Vietnam, Russia and India is not a given, and is consistently being undermined by sustained muscle flexing by China elsewhere. In the South China Sea, for example, naval confrontations have increased in the face of aggressive maritime claims by Beijing.

#### Exporting overcapacity

Lenin's theory that imperialism is driven by capitalist surpluses seems to hold true, oddly, in one of the last (ostensibly) Leninist countries in the world. It is no coincidence that the Silk Road strategy coincides with the aftermath of an investment boom that has left vast overcapacity and a need to find new markets abroad.

“Construction growth is slowing and China doesn't need to build many new expressways,

railways and ports, so they have to find other countries that do,” says Tom Miller of Beijing consultancy Gavekal Dragonomics. “One of the clear objectives is to get more contracts for Chinese construction companies overseas.”

Like the Marshall Plan, the new Silk Road initiative looks designed to use economic treats as a way to address other vulnerabilities. China’s western frontiers and its central Asian neighbours are home to vast reserves of oil and gas. The Xinjiang region, sitting on some of China’s largest energy reserves and crucial to the Silk Road project, is also home to a restive Muslim Uighur population that is culturally Turkish, far poorer than the citizens of coastal China and seeking a break with Beijing. The region has been the scene of serious outbreaks of violence in recent years.

A push into central Asia will partly fill the vacuum left by the retreat of Moscow after the cold war, followed by Washington’s military pullback from Afghanistan next year. With Beijing saying it is facing a rising terrorist threat, stabilising the wider region is a priority.

But, in doing so, China will inherit the same chicken and egg problem that has plagued the US in its “nation building” attempts — having to ask whether security and stability is a pre-requisite for economic development, or whether, as Beijing appears to believe, it can pacify local conflicts with a sea of investment and infrastructure spending.

#### Combating radical Islam

If this approach does not work, China will be faced with some grim alternatives — either turn tail and leave, or risk getting bogged down in security commitments and local politics. It has made clear that it does not want to replace the US in Afghanistan nor does it see itself as a regional policeman. “China will not fall into the same mistakes,” says Jia Jinjing, a specialist on south Asia at Beijing’s Renmin University.

Economic development, strategists in Beijing argue, will remove the appeal of radical Islam in China and Pakistan, Afghanistan and central Asia. But critics note that culturally insensitive policies, an enormous security presence and economic strategies that benefit Chinese communities at the expense of locals have so far only escalated tensions in Xinjiang, the desert region that has 22 per cent of China’s domestic oil reserves and 40 per cent of its coal deposits.

Roads and pipelines across Pakistan and Myanmar will ultimately allow China to avoid another strategic vulnerability — the chokepoint of the Strait of Malacca, through which about 75 per cent of its oil imports pass. Already, half of China’s natural gas arrives overland from central Asia, thanks to an expensive strategy by Mr Xi’s predecessors to cut dependence on seaborne imports.

Podcast

#### Scale of China’s Silk Road ambition emerges

The FT’s series China’s Great Game explores the signature foreign policy of President Xi Jinping. James Kynge, emerging markets editor, asks Tom Mitchell, Beijing correspondent, just

how big the initiative is and what its aims are.

While some neighbours will welcome the investment, it is less clear they will want China's overcapacity. Many have unemployment and underperforming steel mills of their own, or ambitions to develop their own industry rather than import someone else's.

Large-scale investment could also trigger concerns about opening the floodgates to Chinese economic dominance — as it has done in Myanmar and Sri Lanka — and, by extension, political influence. But China is hoping the lure of massive spending will prove too great an incentive for its neighbours to resist.

“They [Beijing] don't have much soft power, because few countries trust them,” says Mr Miller. “They either can't or don't want to use military power. What they have is huge amounts of money.”

## **China's Great Game: In Russia's backyard**

Jack Farchy

The handful of shiny new buildings sprouting out of a barren landscape of dusty steppe and rusting shipping containers is an incongruous sight. One of them, a sparkling tower of marble and glass, is empty aside from a duty-free shop on the ground floor. Next door, a shop sells Russian honey and Chinese ladies' shoes, displayed side by side.

This is Khorgos, the dividing line between China and Kazakhstan. And while it may not look like much now, China has ambitions to transform this border point at what was once the edge of the Russian empire into a new gateway to the west.

“East meets west. It's here. This is the linking point,” says Hicham Belmaachi, commercial director of a newly-built dry port at the border, designed to speed up the transit of Chinese goods via Xinjiang on their way to central Asia, Europe or the Middle East.

Series: China's Great Game

As China seeks to expand its sphere of influence, it is likely to encounter significant resistance.  
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Road to a new empire

A modern-day Silk Road is President Xi Jinping's signature foreign policy

New frontier, old foes

Attempts to tame the energy-rich Xinjiang region may be stoking unrest from the Uighurs.

Khorgos is just one of a ribbon of projects across the region designed to help realise China's dreams of a new Silk Road — a plan backed by President Xi Jinping that would firmly stamp his country's authority and influence from Xi'an to Europe.

With promises of tens of billions of dollars in investment, the Chinese strategy, if realised, could reshape the former Soviet economies of central Asia, which have been battered by falling commodity prices and recession in Russia.

But increasing economic dependence on China at a time of uncertainty over the health of its economy is not universally popular in the central Asian states. And the launch of a regional integration drive has put Beijing on a collision course with Moscow, which has been lobbying countries to join its Eurasian Economic Union. It also raises the stakes for Beijing: as China invests more in this fragile region bordering Afghanistan, it is finding it harder to resist being drawn into political and military affairs.

“This is China’s inadvertent empire. It’s a part of the world where they are clearly becoming the most significant geopolitical player,” says Raffaello Pantucci, a specialist on the region at the Royal United Services Institute. “I don’t think they’ve given consideration to what that means in the longer term.”

Echoes of ancient camel bells

Two years ago, Mr Xi stood in Kazakhstan’s futuristic capital of Astana and invoked the memory of Zhang Qian, the diplomat who helped open China’s trade with the world in the 2nd century BC.

“As I stand here and look back at that episode of history, I could almost hear the camel bells echoing in the mountains and see the wisp of smoke rising from the desert,” the Chinese leader said. Describing Kazakhstan as a “magic land”, he called for the creation of a new “economic belt” along the old trade routes.

“The ancient Silk Road has gained fresh vitality,” he said.

Others see parallels with a more recent period in history: the tussle for influence between the Russian and British empires in the 19th century. As China expands its influence in parts of the former Soviet Union, central Asia could become the focus of a new “Great Game” between Beijing, Moscow and possibly Iran, Turkey and western countries.

Scale of China’s Silk Road ambition emerges

But as western interest in the region recedes with the military drawdown from Afghanistan, and Russia’s ability to invest is curtailed by its own economic recession, the Great Game in the region may turn out to be one-sided. Over the past two decades China has quietly become the pre-eminent economic power in the region; now many central Asian governments greet the prospect of Chinese investment as their last chance to stave off a downturn that could threaten political stability.

Trade between China and the five post-Soviet central Asian states — Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan — has risen from \$1.8bn in 2000 to \$50bn in 2013, according to IMF data, before dropping slightly amid the decline in commodity prices. That

means China has surpassed Russia in recent years to become the region's single largest trade partner.

“If you look at investment needs in the region, then Chinese participation is very important to say the least,” says Agris Preimanis, central Asia economist at the European Bank for Reconstruction and Development, a major western investor in the region. “They are increasingly active in all sectors and you just cannot see western capital or Russian capital taking their place.”

In Kazakhstan, Chinese companies own somewhere between one-fifth and one-quarter of the country's oil production — about the same proportion as the national oil company. In Turkmenistan, holder of the world's fourth-largest gas reserves, China has replaced Russia's Gazprom as the dominant buyer of Turkmen gas, accounting for 61 per cent of exports last year. Much of that shift is thanks the Central Asia-China gas pipeline, opened in 2009, which provides the region's energy-rich economies with a major export route not controlled by Moscow. In the region's poorer countries, China has also become an economic power. Chinese companies have invested in oil refineries and cement plants in Kyrgyzstan and Tajikistan, and in roads and tunnels across the region.

Data on the scale of Chinese investment are sketchy, as much is done at a bilateral level between Chinese state banks, such as China Development Bank or China Eximbank, and central Asian governments or state companies.

But in one example, the Tajik deputy finance minister last year told the FT that Beijing would invest \$6bn in Tajikistan over the next three years — a figure equivalent to two-thirds of the country's annual gross domestic product.

This economic dominance means that often it seems that China, not Russia, is now the most important patron of central Asian governments. After Kazakhstan allowed its currency to float freely in August, triggering an immediate devaluation of more than a fifth, its first priority was to reassure Beijing.

“Where is the first visit of the Kazakh president after this decision? Where was the first commitment that all the investments are in place? China,” says Kairat Kelimbetov, the central bank governor.

When Tajikistan, the region's poorest country, was running low on central bank reserves this summer, it signed a swap agreement with the People's Bank of China worth Rmb3.2bn (\$500m).

It is not always smooth travelling on the new Silk Road. In a region that has traditionally felt greater cultural affinities with Russia and Turkey, politicians are frequently suspicious of China. A proposal for China to lease a large area of land for agriculture triggered rare public protests in Kazakhstan in 2010.

Dosym Satpayev, a Kazakh political scientist who heads the Almaty-based Risk Assessment Group, warns: “Any attempt by China to increase influence in Kazakhstan will awake more anti-China sentiment.”

## Moscow's compromise

While many see the new Silk Road as more of a formalisation of China's presence in the region than a specific plan, the fanfare surrounding it has raised hackles among those who see central Asia as part of Russia's "sphere of influence". Zhao Huasheng, director of the Centre for Russia and Central Asia studies at Fudan University, says that when the Silk Road strategy was announced, Russian officials saw it as a challenge to Moscow's own regional integration project, the Eurasian Economic Union.

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"China provided a lot of explanation," he says. "China sees the projects developing in parallel, in a co-operative way."

In the past, Russia blocked attempts to increase the reach of another Chinese-led regional group, the Shanghai Cooperation Organisation, which includes all the central Asian states apart from Turkmenistan.

Yet when Mr Xi visited Moscow in May, the two countries signed a declaration on co-operation between the Eurasian Economic Union and the Silk Road project. Alexander Gabuev, senior associate at the Carnegie Moscow Center, a think-tank, says the deal was the result of "painful internal discussions" in Moscow. Analysts say the unspoken agreement between Moscow and Beijing appears to be that Russia will cede economic dominance in central Asia to China, but maintain its military and security heft in the region.

"What the Kremlin is hoping for is a division of labour between Moscow and Beijing in central Asia," says Mr Gabuev. "In this grand scheme, China will be the major driver for economic development, while Moscow will remain the dominant hard security provider."

Liu Yazhou, a general in the People's Liberation Army, called central Asia "a rich piece of cake given to today's Chinese people by heaven" in a 2010 essay that became a kind of manifesto for China's expansionist policy in the region.

Analysts see two broad motivations behind the dramatic increase in Chinese investment in the region that started in the 1990s.

First, as China's commodity consumption skyrocketed, central Asia was a nearby source of oil, gas, uranium, copper and gold supplies. Second, Beijing wanted co-operation from the newly-independent states to keep its restive Xinjiang region in check. Xinjiang's native Uighurs have much in common with the cultures, languages and religion of central Asia, and there is a large Uighur minority in the region.

But China may find it hard to stay out of security matters as its economic interests in the region

increase. It has already started providing some military aid to Kyrgyzstan and Tajikistan. “Even though this is an economic project it could create political impact or influence,” says Prof Zhao. “I think China will get more involved in security in the region. But it doesn’t mean China will be involved in that region militarily.”

General Liu writes of the cultural affinities between Xinjiang and the peoples of central Asia, noting: “The advantageous factor is that they all derive great benefits from economic co-operation with China.”

#### A new route to market

With the launch of the new Silk Road, analysts see a shift in investments towards infrastructure and other sectors. “If before Chinese investment was directed at the oil and gas sector, now it will be in infrastructure, industry, agriculture, tourism and other areas,” says Ding Xiaoxing, director of central Asia studies at the China Institute for Contemporary International Relations, a government-linked think-tank.

At Khorgos, the Kazakh-Chinese border crossing, this shift is becoming reality. Rows of gleaming new railway tracks stretch into the distance, ready to handle ever-increasing volumes of Chinese cargo. Mr Belmaachi boasts that his team can shift a trainload of cargo from a Chinese to a Kazakh train — the two countries’ railways have different-sized gauges — in just 47 minutes.

The state railway company, Kazakhstan Temir Zholy (KTZ), has invested 245bn tenge (\$900m) to build the dry port, which started operations in August and launches officially next Monday. China’s Jiangsu province in September announced an agreement to invest \$600m over five years in logistics and industrial zones around Khorgos.

Darryl Hadaway, a former regional head of Deloitte who is starting a logistics business focused on Kazakhstan, says Khorgos can become a hub for regional and international trade, serving the role that Atlanta does in the US.

Already, the number of containers travelling by train between China and Europe via Kazakhstan has increased 18 times between 2011 and 2014, and is on track to double again this year, according to KTZ. The route is attractive to electronics companies such as HP — which has helped to pioneer it — for whom the shorter transit time compared to shipping by sea is worth paying for. The journey from China to Europe takes 14-16 days, compared with a month or more by sea, although the cost of shipping one container is some \$9,000 compared with \$3,000 by sea.

KTZ is hoping to capture 6 per cent of the trade between China and Europe by 2020; currently 98 per cent goes by sea.

“Companies in Europe and China have never studied this option in detail. People were really busy shipping by sea and not focusing on this route,” says Mr Belmaachi. “I really think this is the next big thing for the supply chain.”

Increasing the number of trains plying the route may also help to open up new trade routes for perishable products, like fruit and vegetables, says Mr Hadaway. “There is a whole range of products coming out of Asia that have never been able to access this market.”