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**CENTER ON INTERNATIONAL COOPERATION**



**The New Silk Roads: China, the U.S., and the  
Future of Central Asia**

**October 2015**

**Thomas Zimmerman**

NEW YORK UNIVERSITY

## CENTER ON INTERNATIONAL COOPERATION

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# Table of Contents

## The New Silk Roads: China, the U.S., and the Future of Central Asia

Thomas Zimmerman

<b>Acknowledgments</b>	<b>2</b>
<b>Foreword</b>	<b>3</b>
<b>Introduction</b>	<b>6</b>
<b>The China-Pakistan Economic Corridor</b>	<b>9</b>
<b>Chinese Engagement with Afghanistan</b>	<b>11</b>
<b>Conclusion</b>	<b>18</b>
<b>About the Author</b>	<b>19</b>
<b>Endnotes</b>	<b>20</b>

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## The New Silk Roads: China, the U.S., and the Future of Central Asia

### Foreword

#### Dr. Wang Shida

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From January to June 2015, I had the honor of being a visiting scholar at the Center on International Cooperation (CIC) at New York University. I conducted my research under the supervision of Professor Barnett Rubin, a distinguished and renowned scholar on Afghanistan and Pakistan. As Senior Adviser to the Special Representative for Afghanistan and Pakistan in the U.S. Department of State (2009-2013), as well as Special Adviser to the UN Special Representative of the Secretary-General for Afghanistan (2001-2003), Barnett has been extensively involved in policy advising and research on those two countries and the region. While I was at CIC, Thomas Zimmerman went to China as a visiting scholar at the Shanghai Academy of Social Science, thus linking the two think tanks through this exchange.

During his time in China, Thomas focused on the Chinese government initiative of “One Belt, One Road” (OBOR). The project incorporates the “Silk Road Economic Belt” through Central Asia, as well as the “21st Century Maritime Silk Road” in the Indian Ocean. Thomas was able to meet Chinese scholars and government officials involved in OBOR in order to base his research on valuable primary sources of information. The conclusions in his paper are based on conversations with Chinese and U.S. government officials, policy experts, and extensive literature review. Thomas carves out Beijing’s perspective on the opportunities and challenges it faces in implementing OBOR, its potential impact on Afghanistan, and the prospects for cooperation with the United States. Reading the first draft of the paper, I was deeply impressed with how Thomas — as an American — was able to acquire such comprehensive access to information within China, and with his deep understanding of China’s position on such a new and specific issue.

In my view, OBOR is an attempt by the Chinese government to revive the Silk Road of ancient times, which connected China to Central Asia, West Asia, and Europe by land transportation and to Southeast Asia, South Asia, and East Africa by ship. OBOR similarly intends to provide a platform that will facilitate more economic interaction among countries along the modern Silk Road, enabling them to benefit from increased trade. Compared to the ancient Silk Road, however, the nature of goods that will be traded – as well as the way countries along the route interact – has obviously changed.

In ancient times, thousands of foreign businessmen frequently visited China, bought silk and chinaware, and sold spices and agricultural products from other countries. By contrast, the China of today is keen to sell bullet trains, passenger planes, and other manufactured products. Accordingly, it is more than willing to help enhance the infrastructure of the OBOR by way of its considerable construction capacity and expertise skills. At the same time, China is also keen to sustain its rapid economic growth by securing energy supplies and natural resources from other countries.

As Thomas highlights in the paper, transportation bottlenecks are one of the biggest barriers to regional economic integration. In its initial stages, the “Silk Road Economic Belt” is framed as a series of transportation, energy, and telecommunication infrastructure projects. Take the China Pakistan Economic Corridor (CPEC) as an example. Karakoram Road (KKH), the key road linking the Xinjiang Autonomous Region of China to the northern part of Pakistan, was severely damaged during several natural disasters in recent years. On January 4th, 2010, a massive landslide 15 kilometers upstream from Hunza’s capital of Karimabad created Attabad Lake, causing the displacement of thousands and inundating over 20 kilometers

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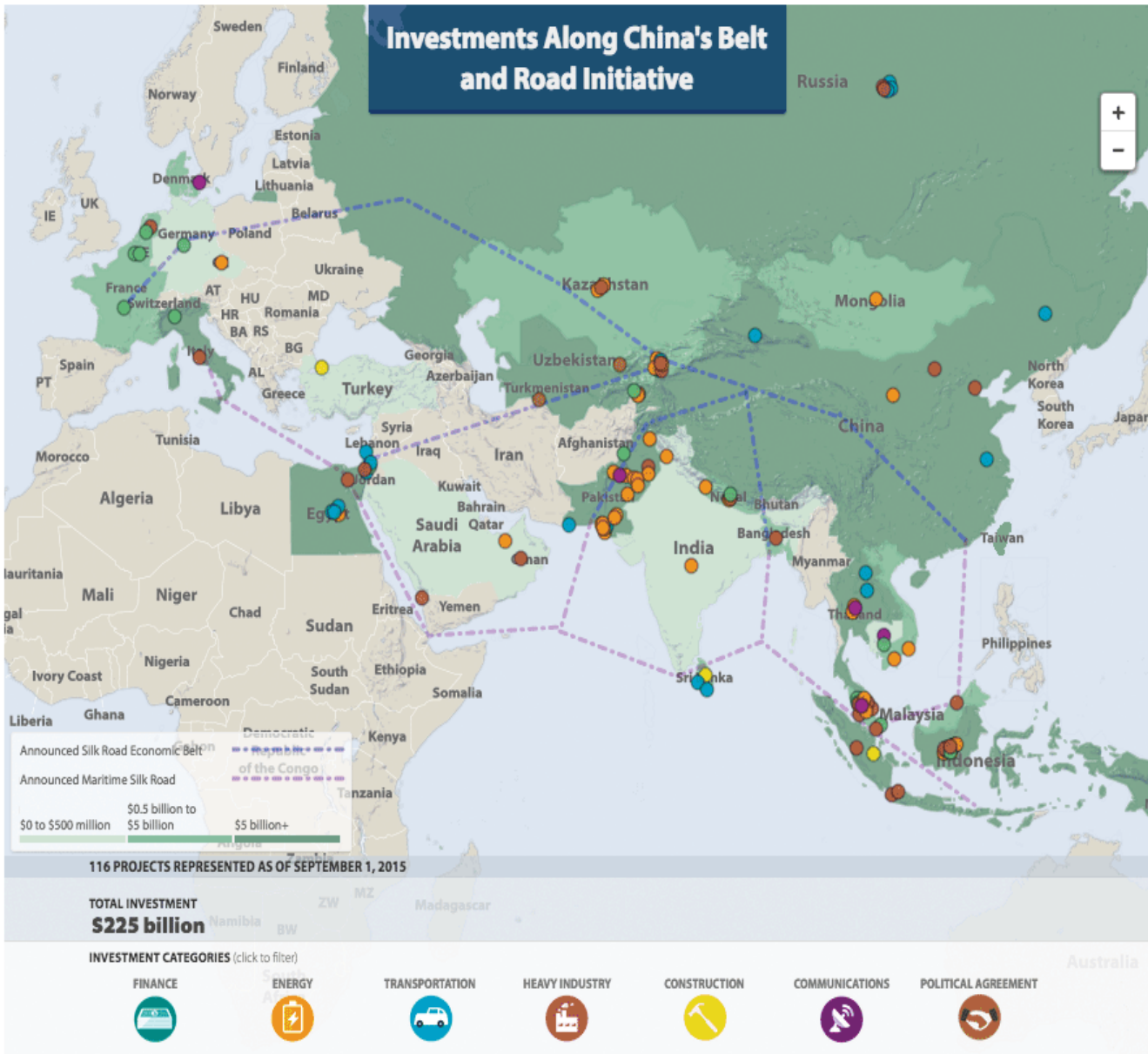
of the KKH, including the 310-meter-long KKH bridge. Given the Sino-Pakistan “all-weather friendship,” as well Pakistan’s strategic location, China was eager to restore and upgrade the KKH under the framework of CPEC. The work was contracted by the China Road & Bridge Corporation and was completed in September 2015.

Thomas emphasizes that CPEC faces considerable challenges. First and foremost, the security question is crucial. Most of the infrastructure investment under the CPEC framework is slated to run through Khyber Pakhtunkhwa and Balochistan, two of Pakistan’s most insecure and politically fraught provinces. Balochistan, where the Gwadar Port is located, poses particularly significant challenges, as it has seen popular resentment and local opposition to Chinese investments from separatist movements. For instance, six armed militants stormed Pakistan’s Jiwani Airport in Gwadar killing one engineer and kidnapping another. It is clear both Pakistan and China will need to be aware of, and find sustainable solutions for, unexpected security challenges that will occur in the process of implementing CPEC.

Second, different political parties must reach an agreement on CPEC’s planned route. Political parties in Khyber Pakhtunkhwa and Balochistan initially were unhappy with the plan and criticized the Pakistani federal government’s attempts to distribute the majority of CPEC’s resources in Punjab instead of other provinces. During an All Parties Conference in Islamabad in late May, participants appeared to reach a consensus on the CPEC route. Prime Minister Sharif announced that the western route of the project, for which funds will soon be released, would be constructed first. He also pledged to take full political ownership over the project. The western route will undoubtedly face more security threats than the eastern route. However, the major part of the project under the CPEC framework is based along the eastern route. How to distribute more resources to the western route remains a big problem.

Regarding China’s attitude toward Afghanistan, Thomas also provides enlightening analysis and perspectives that are valuable in understanding the situation. As he rightly points out, Beijing’s interest in Afghanistan is directly tied to its concerns about Xinjiang, because that province is geographically critical to China’s efforts of expanding economic ties to Central Asia. In my opinion, the stability of Xinjiang is the foremost concern for China’s Afghanistan policy. As we all know, hundreds of ETIM terrorists found shelter in Afghanistan, especially under the protection of Al-Qaeda in the 1990s. Some terrorists were killed, some were captured by the U.S., while some fled into tribal areas with other international terrorist groups. Thus there remains a severe threat to the national security of China. Frankly, there isn’t much economic interest in Afghanistan, but China is ready to increase its contributions to the reconstruction of Afghanistan by making Afghanistan a partner in the “Silk Road Economic Belt”.

OBOR will contribute to overall regional economic integration, as well as fostering regional peace and stability. The Chinese have always believed that economic development will wipe out the roots of terrorism. It is hoped the U.S. and China will find some way of overcoming their long-standing trust deficit and turn the potential of cooperation in Afghanistan into a reality. Such cooperation would also bode well for possible future joint efforts in other areas.



All projects were identified by three criteria: 1) Publicly announced as a "Belt and Road" project; 2) host country had accepted the project; and 3) financing and/or an agreement was completed with the Chinese government or Chinese company. Projects that did not meet all three criteria were not included.

Map provided by the Center for American Progress - <https://www.americanprogress.org/issues/security/news/2015/09/22/121689/investments-along-chinas-belt-and-road-initiative/>

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## Introduction

President Xi Jinping first presented China's vision for a "Silk Road Economic Belt" during a 2013 speech in Kazakhstan. The idea was to "forge closer economic ties, deepen cooperation, and expand development in the Euro-Asia region".<sup>1</sup> In early 2015, the contours of Beijing's strategy began to emerge as China's leadership laid out plans for this "Silk Road Economic Belt" through Central Asia, and a "21st Century Maritime Silk Road" through Southeast and South Asia. China referred to both collectively as "One Belt, One Road" (OBOR). Both have been portrayed as an opportunity to reshape the economic and political order in Central Asia and the Asian Pacific region by promoting a network of trade routes, political cooperation, and cultural exchange. By so doing, China intends to place its sometimes-restive western and interior provinces at the heart of its engagement with Central and South Asia in an effort to accelerate development and promote stability.

If implemented as planned, China's Silk Road initiatives have the potential to alleviate a number of the most pressing challenges facing Beijing. Most frequently discussed is the need to find new markets to absorb the products of China's excess industrial capacity and to improve access to energy supplies as domestic demand continues to grow. Beijing remains concerned that economic indicators in China's interior and western provinces have persistently lagged behind those of China's more affluent eastern coastal cities. China has made significant investments as part of its "Go West" strategy, and in recent years many of the targeted provinces have seen significant GDP growth. Still they have yet to catch up with the national average. Beijing also hopes that greater economic integration with its neighbors will encourage the use of the renminbi in global trade.

Beijing sees accelerated development as the most promising cure for the persistent instability in Xinjiang Province, where it voices concerns about growing threats from terrorism, extremism, and separatism (the "Three Evil Forces"). By establishing the province as a gateway to a "Eurasian Land Bridge" through Central Asia to Europe, China hopes to alleviate one of the greatest threats to its internal security. The March 2015 blueprint for OBOR states that China intends to "make good use of Xinjiang's geographical advantages" and "make it a key transportation, trade, logistics, culture, science, and education center."<sup>2</sup>

While China has gone to great lengths to frame its initiatives in cooperative non-exclusionary terms and to emphasize its openness to a wide range of stakeholders, it also clearly intends to further establish itself as a central actor in regional affairs. Both initiatives are discussed within China's policy circles as an effort to counterbalance the U.S. "pivot to Asia" and American attempts to "dominate" the region. (China views the Russia-led Eurasian Economic Union or EEU as far less of a threat.) Chinese government officials and scholars publically contrast their plans with the post-World War II American Marshall Plan, claiming that OBOR lacks the latter's "hegemonic" characteristics. Beijing characterizes its initiatives as an effort to encourage integration and economic growth in Eurasia, rather than an attempt to expand its own political influence in the region.

Chinese policy makers describe OBOR as a mechanism to promote peace and stability in the region (what President Xi has referred to as the "Community of Common Destiny"<sup>4</sup>) by strengthening China's bilateral relations with its neighbors and developing international organizations that are not dominated by Western powers. This pattern should extend to security issues according to some Chinese scholars who, echoing President Xi, have called for "security problems in Asia [to] be solved by Asians themselves."<sup>5</sup>

While Beijing stresses that the Silk Road framework will be built on an "inclusive and balanced regional economic cooperation architecture that benefits all";<sup>6</sup> it is part of a broader push to ensure that China has a say that is commensurate to the size of its economy and military in setting the strategic and economic agenda of the region.<sup>3</sup> The Silk Road initiatives



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and the recently launched Asian Infrastructure Investment Bank (AIIB) are part of a broader push by Beijing to develop the infrastructure necessary to connect China to trading partners in Europe, the Middle East, and Africa.

This paper will focus on China's Silk Road Economic Belt framework and the country's efforts to increase its economic integration with Central Asia. There are clearly significant hurdles to Sino-U.S. cooperation within this framework, but both countries understand the risk of continued instability in Afghanistan and Pakistan and are under pressure to demonstrate success following their sacrifices and investments in the region. It is in the interests of all parties for China and the U.S. to identify issues on which cooperation could benefit both countries and the region.

### Structure of "One Belt, One Road"

In March 2015, China used the Boao Forum for Asia (BFA, an Asian forum aiming "to promote and strengthen economic exchanges, interaction and cooperation within the region")<sup>7</sup> to clarify its vision for OBOR. Following a keynote address by President Xi, the National Development and Reform Commission (the government entity with primary responsibility for overseeing the initiative's implementation), together with the Ministry of Foreign Affairs and the Ministry of Commerce, unveiled a "blueprint" providing the clearest picture to-date of China's strategy. While ambiguity remains on the specifics of projects that will be included in this framework, the ambitious proposal was presented as a strategic priority of the Chinese leadership.

The "One Belt, One Road" initiative hangs on four interrelated objectives: Improving regional infrastructure, increasing regional economic policy coordination, removing barriers to trade, and encouraging cultural ties to build support for the broader project. The blueprint lays out a set of transportation, energy, and telecommunication infrastructure projects, coupled with plans for increased regional diplomatic coordination, financial integration, and cultural exchange. President Xi stated that China hopes its annual trade with countries involved will exceed \$2.5 trillion in roughly a decade. China's trade with the Central Asian region has grown dramatically in recent years, from roughly \$1 billion in 2000 to over \$50 billion in 2013.<sup>8</sup> In July 2015, The Chinese Ministry of Commerce announced that in the first half of the year Chinese companies signed 1,401 contracts for projects in countries included in the OBOR framework. These contracts were said to be worth \$37.6 billion (an increase of 16.7% year on year) and equal to 43.3% of all overseas contracts signed during that period.<sup>9</sup>

China identifies transportation bottlenecks as a primary barrier to regional economic integration. In its initial stages, the Silk Road Economic Belt is being framed as a series of transportation, energy, and telecommunication infrastructure projects. The blueprint describes the development of a "Eurasian Land Bridge" as well as "China-Central Asia-West Asia and China-Indochina Peninsula Economic Corridors" that will be constructed by connecting a series of "core cities" from China to Europe.<sup>10</sup> In June 2015, Hungary became the first European country to sign a cooperative agreement with China to participate in the Silk Road Economic Belt, something Beijing hopes will become a model for greater European participation. Financing for Silk Road projects will come from Chinese state-owned banks and a series of government and multilateral funds, including a Silk Road Fund, the AIIB, and the BRICS New Development Bank.

China's state-owned policy banks will play a critical role in financing OBOR-affiliated projects. In April 2015, reports indicated that Beijing intended to draw on its sizable foreign exchange reserves to inject at least \$62 billion dollars in capital into two of its policy banks to support OBOR. These capital investments included \$32 billion to the China Development Bank (CDB) and \$30 billion to the Export-Import Bank of China.<sup>11</sup> In July 2015, Bloomberg News reported that the actual amount allotted to the China Development Bank might be as much as \$48 billion.<sup>12</sup> Simultaneously, the Chinese State Council is taking steps to reform the country's policy banks in an effort to tighten controls and to "reverse an increasingly commercialized strategy...[and stress] the banks' role in supporting government policies and strategic goals."<sup>13</sup>

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Additionally, China's CITIC, a state-owned investment conglomerate, and its subsidiaries announced plans to provide over \$700 billion RMB (approximately \$113 billion) in debt and equity to support roughly 300 OBOR-related projects.<sup>14</sup> Bank of China has also made statements that it intends to significantly increase its support with a goal of extending \$20 billion in credit this year and \$100 billion over the next three years.<sup>15</sup>

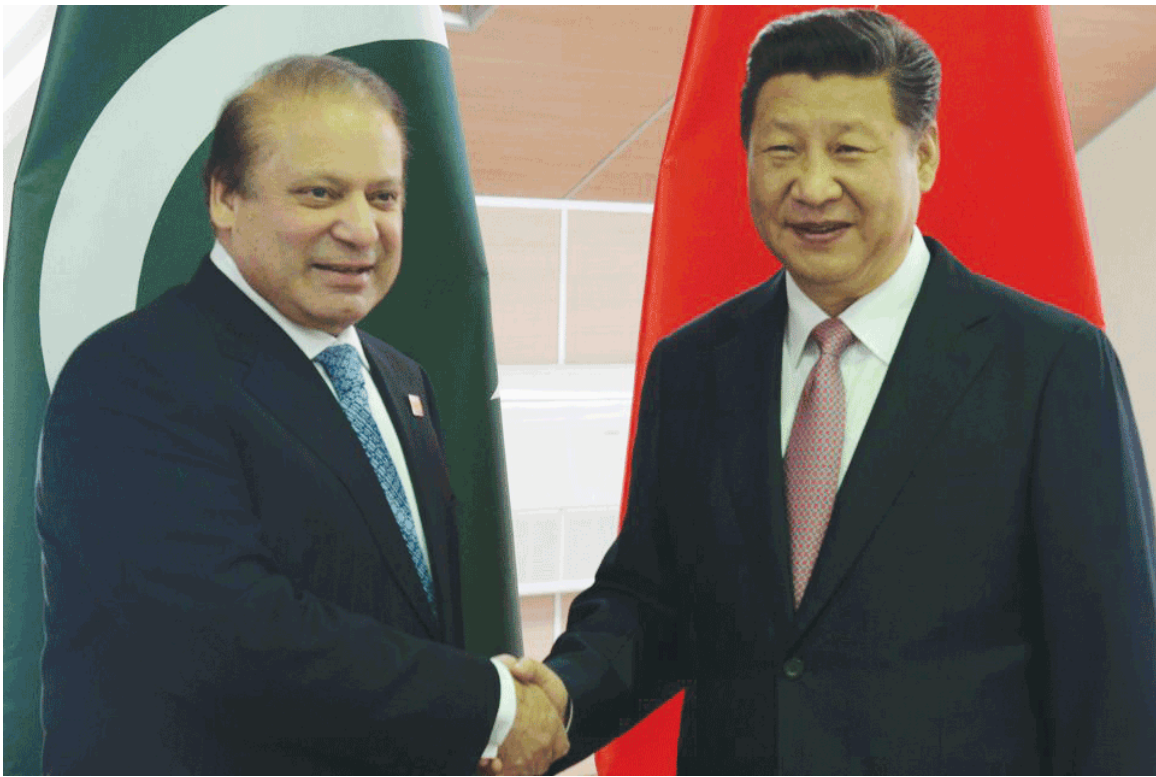
China's planned \$40 billion Silk Road Fund, officially established in December 2014, is viewed as the primary bilateral investment vehicle for projects under OBOR. At least \$16 billion will be dedicated to funding projects in Central Asia. The fund was initially capitalized with \$10 billion in contributions from China's foreign exchange reserves, the China Investment Corporation, the Export-Import Bank of China, and the China Development Bank. Chinese experts have said that this fund will more closely resemble a private equity fund than a sovereign wealth fund, comparing it to the World Bank's International Finance Corporation.<sup>16</sup> The fund is to be profit-driven with a focus on delivering "reasonable mid- and long-term investment returns."<sup>17</sup> In mid-April, The People's Bank of China announced the first investment from this fund would be \$1.65 billion for the construction of a hydroelectric dam across the Jhelum River in northern Pakistan.

Beijing intends the recently established Asian Infrastructure Investment Bank (AIIB) to act as another important financing instrument for OBOR projects. The AIIB will have a \$100 billion capital base and be a multilateral institution with up to 57 countries registered as "Founding Members" (50 countries signed the Articles of Agreement, the other seven had not yet obtained approval from their legislatures). China has proposed the AIIB as a way to bring additional resources to close the widely recognized infrastructure investment gap in Asia (projected to be as large as \$8 trillion<sup>18</sup>), but it is also widely viewed as a response to stalled efforts to give developing states a greater say in the management of Bretton Woods institutions.

While China announced it would not have formal veto power, Beijing will hold an approximately 30% stake in the AIIB, and the articles of agreement require that 75% support is required to "take decisions on major operational and financial policies."<sup>19</sup> The AIIB also has a clear regional emphasis, requiring "regional members" to hold a minimum 75% stake in the bank.<sup>20</sup> Regional Governors will elect nine out of 12 members of the Board of Directors.

The under-representation of developing states in Bretton Woods institutions that spurred the creation of the AIIB also contributed to the announcement of the New Development Bank (NDB) at a BRICS summit in July 2014. The NDB incorporates \$50 billion in initial capital (with each country initially contributing an equal share) with the goal of expanding to \$100 billion. The Bank was officially launched in July 2015 with the goal of selecting possible projects for study by the end of the year.<sup>21</sup> It has also been reported that the NDB's first investment will be issued in Chinese renminbi.<sup>22</sup> Beijing clearly views the NDB as an important financing mechanism for Silk Road-related projects. However, Chinese academics highlight the bank's broader mandate to finance "sustainable development"<sup>23</sup> in states facing financial hardship and the fact that NDB will be led by five equal partners as reasons China will have greater difficulty guiding its investments toward OBOR infrastructure projects.

Finally, China has pushed for the Shanghai Cooperation Organization (SCO) to establish a financial institution that would provide an additional funding stream for OBOR projects. Russia has historically been concerned over the potential of an SCO development bank increasing China's leverage in Central Asia, but this dynamic appears to be shifting. In March 2015, SCO General Secretary Dmitry Mezentsev said that the organization would "combine its development strategies" with China's Silk Road strategy and that all members would be invited to participate in the initiative.<sup>24</sup> Four months later, President Xi and Russian President Vladimir Putin agreed to take steps to integrate the Silk Road Economic Belt with the EEU, using the SCO as a coordinating platform. Beijing appears to view the SCO as a primary mechanism to rally regional support for its initiatives as the organization increasingly looks to play a greater role in global affairs. Chinese policy experts have described plans for the SCO to play a "driving role" in OBOR. The SCO granted Afghanistan observer status in the SCO in 2012 and, in July 2015, voted to grant full membership to India and Pakistan.



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## The China-Pakistan Economic Corridor

During his April 2015 visit to Islamabad, President Xi Jinping oversaw the signing of an agreement with Pakistan to invest \$46 billion in infrastructure and energy projects, China's largest economic investment in another country to date,<sup>25</sup> to support the development of a China-Pakistan Economic Corridor (CPEC). The CPEC, initially announced in May 2013, has been called a "flagship project"<sup>26</sup> of OBOR. The \$46 billion commitment will be split into \$12 billion for infrastructure and \$34 billion for energy projects (including the previously mentioned Jhelum dam). Chinese experts characterize CPEC as an effort to increase Pakistan's economic resilience and encourage stability, as well as a way to reduce China's dependence on petroleum passing through the Malacca Straits from the Middle East to China.

CPEC initiatives will largely be financed through loans from Chinese policy and state-owned banks (particularly the China Development Bank, The Industrial and Commercial Bank of China [ICBC], and the Export-Import Bank of China) to Chinese companies, which will then invest in the projects as commercial ventures. Chinese policy experts assert that China's near-term focus will be on the development of Pakistan's electrical infrastructure and the establishment of industrial parks.

If implemented as planned, the agreement between China and Pakistan has the potential to double Pakistan's electrical output over the next six years. The plan calls for the investment of \$15.5 billion in coal, hydro, solar, and wind energy projects to deliver 10,400 megawatts to the national grid by 2018, with a goal of adding an additional 6,120 megawatts (costing an additional \$18.3 billion) by 2021. Pakistan has said it believes solar and wind projects will be completed within six to 12 months, while coal projects will be completed over the course of the next three years.<sup>27</sup> In July 2015, reports indicated that the Sharif government intended to propose 29 industrial parks and 21 mineral economic processing zones spread across Pakistan's four provinces.<sup>28</sup>

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While international observers initially took a skeptical view of China's plans to build roughly 3,000 km of roads, rails, oil pipelines, and energy projects connecting Xinjiang and Gwadar over the next 15 years, the specificity of recently announced plans appears to have shifted that perspective for many. There remain significant doubts about Pakistan's capacity to handle investments on the scale that China has proposed, along with concerns that Pakistan's political system could easily become overwhelmed. The CPEC announcement has already generated conflict, with the provinces of Khyber-Pakhtunkhwa and Balochistan claiming that the Punjab-dominated government of Prime Minister Nawaz Sharif is attempting to prioritize routes through Punjab. However, there is a broadly held view that even if China only delivers on a small portion of what it is proposing, the potential benefit to Pakistan could be great. There is also a growing consensus that despite significant hurdles, Beijing appears prepared to commit serious economic and political capital to the effort.

Chinese scholars have repeatedly asserted that their development efforts will prove more successful than American efforts have over the past decade, because China's relationship with Pakistan is based on development while the U.S./Pakistan relationship is based on security. They also suggest the scale of China's investments make them more likely to have the needed transformative effect on Pakistan's economy, in contrast to the roughly \$5 billion in civilian assistance provided by the U.S. through the Kerry-Lugar-Berman Act.

Some international observers have argued that China underestimates the hurdles it will face in in Pakistan. Much of the infrastructure investment is slated to run through Khyber Pakhtunkhwa and Balochistan, two of Pakistan's most insecure and politically fraught provinces. Balochistan, where the Gwadar Port is located, poses particularly significant challenges. The province has seen local opposition to Chinese investments from separatist movements and popular resentment, including the targeting of Chinese workers. In fact, China has reportedly already withdrawn support for six energy projects in Pakistan over the past year.<sup>29</sup> Chinese experts acknowledge the challenges Beijing will face in implementing their agenda in Pakistan, but also describe CPEC as an important tool to encourage stability in Pakistan.

To a great extent, the success of CPEC is contingent on Pakistan's ability to ensure security and stability along the planned route. Speaking about CPEC, Pakistan's Chief of Army Staff General Rhaeel Sharif has pledged "the armed forces are ready to pay any price to turn this long cherished dream into a reality."<sup>30</sup> To address these concerns, Pakistan has announced it will deploy a 12,000-strong security force specifically to protect Chinese workers and technicians. Multiple Chinese experts and international observers have suggested that Beijing is implicitly tying its promise of investments to the expectation that Pakistan will play a constructive role in promoting political reconciliation and stability in Afghanistan. China has reportedly been making these expectations increasingly explicit in discussions with the Pakistani government over the past year. During his April visit to Pakistan, President Xi said publicly that "China supports Pakistan playing a constructive role on the Afghanistan issue and will work with Pakistan to advance the reconciliation process and smooth transition in Afghanistan."<sup>31</sup>

At the same time, Beijing appears to have determined that it is insufficient to rely solely on Pakistan to ensure the security of Chinese workers and regional stability. While Pakistan has publically targeted the East Turkestan Islamic Movement (ETIM), the Uighur militant group identified as being responsible for a series of attacks on Chinese territory, China remains frustrated that more is not being done. Since at least the 1990's China has pursued lines of communication with jihadist groups based in Pakistan, initially facilitated by ISI, with the primary aim of denying support to Uighur militants in Afghanistan and Pakistan.<sup>32</sup> China has also long worked with Pakistan to isolate Uighur militant groups in the region and dissuade other extremist groups from providing them support. As China has increasingly developed an Afghanistan policy outside its relationship with Pakistan, it has also started to pursue more direct methods of applying pressure to Uighur militants in the region, such as direct engagement with Afghanistan.



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## Chinese Engagement with Afghanistan

While Afghanistan is mentioned infrequently in Chinese government statements on the Silk Road Economic Belt, the country is never far from the surface. As Beijing looks to increase its economic integration with Central and South Asia to support development and stability in Xinjiang, it views a deteriorating security situation in the region as one of the greatest potential threats to its plans. Discussions with Chinese scholars suggest that while there is general agreement over the importance of stability in Afghanistan to the success of Beijing's regional economic ambitions, there is lack of consensus over the role Afghanistan should play in its plans. At the same time, Beijing has clearly made the decision that it intends to play a greater role in Afghanistan – not only economically, but also in a political and security capacity.

Since the 2001 U.S. intervention in Afghanistan, China has tried to avoid being drawn into the conflict. While Beijing was not invested in the continuation of a Taliban-led government (after all, the Taliban had allowed the establishment of Uighur militant training camps on its territory), it saw little to gain from being associated with efforts to combat the group. Part of this stemmed from a view held by many in Beijing: being regarded as a partner of the U.S. in Afghanistan would make China a greater target for extremists. Throughout the conflict, China worked to maintain the channels it had developed with the Taliban leadership in Pakistan (which had been established while the group was still in power), while also developing a bilateral relationship with the new Afghan government in Kabul.

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Some in the Chinese leadership reportedly believe that if the United States were not embroiled in Afghanistan it would commit far greater resources to containing China. Chinese analysts interpret U.S. government statements about a rebalancing (or “pivot”) toward Asia as a thinly coded message about plans to restrain China’s rise. While Beijing is concerned about the threat of growing instability in Central Asia, many Chinese officials consider the prospects of a U.S. freed to focus on China to be a greater strategic challenge. In many ways, Washington’s messaging has reinforced this perception.

Conversely, while China appreciates having U.S. focus directed away from East Asia, there are also concerns that Washington has longer-term regional designs for the military infrastructure it has been putting in place in Central Asia. Several Chinese officials voiced suspicions that the CIA intends to use its foothold in the region to stir up tensions in Xinjiang. One result of these conflicting anxieties is that the U.S. has felt pressured by Beijing to remove its troops from the region – but at the same time, China has appeared unwilling to take steps Washington feels would contribute to a security environment that would make such troop drawdowns feasible.

Chinese authorities repeatedly raised frustrations over how China’s early investments in Afghanistan were portrayed in the United States. There remains a great deal of sensitivity over accusations that China is making a power play in Afghanistan or that it is coming in to “pick the fruit” after the U.S. has “done the heavy lifting.”<sup>33</sup> Chinese scholars have proposed that this sort of rhetoric aimed at Chinese activities in Afghanistan reinforces the view that the U.S. considers itself to be in zero-sum regional competition with China.

Despite China’s reputation for making high-risk investments, Beijing appears to view its recent investment history in Afghanistan with caution. In 2007, Afghanistan awarded a Chinese consortium made up of the China Metallurgical Group Corporation (MCC) and Jangxi Copper, both state-owned enterprises, a \$3 billion 30-year lease to develop copper mines at Mes Aynak, home of what is believed to be the world’s second largest copper deposit.<sup>34</sup> The agreement would provide China with access to much needed mineral resources and the Afghan government with a major source of revenue. The venture promised to far surpass any international investment in Afghanistan to date and would supply the Afghan government with \$300-500 million in royalty and tax payments, potentially increasing the GDP by an estimated \$1.2 billion.<sup>35</sup> The World Bank estimated that the project would create at least 4,500 direct jobs and 7,600 indirect jobs.<sup>36</sup> On top of this, China agreed to construct a rail line that would allow minerals extracted at the site to be transported to Pakistan and Uzbekistan, as well as a 400 MW power plant, a smelter to refine copper ore, a coal mine, and even roads and schools.

Almost from the start, the project proved disappointing to both the Afghan government and Chinese investors. International observers accused MCC of over-promising in its bid while MCC pointed to a range of unanticipated hurdles, including global interest in preserving archeological discoveries at the site and political wrangling in Kabul over a mining law. Falling global copper prices, a slowing Chinese economy, and a deteriorating security situation in Afghanistan further compounded these issues. The Mes Aynak site and surrounding areas have also been the target of attacks. In 2014, MCC temporarily withdrew its Chinese workers from the site over security concerns.

In ensuing years, Beijing has sought to renegotiate the terms of the contract. MCC has reportedly attempted to get out of its commitments to build a power plant, rail line, and copper smelter, citing a lack of local phosphate.<sup>37</sup> This has called into question the viability of an Indian proposal to mine iron ore in Bamiyan, which relied on planned Chinese infrastructure investments.<sup>38</sup> MCC also has requested a reduction in royalty payments from the agreed 19.5% to about 10%, which could result in an estimated \$114 million in lost annual revenue to the Afghan Government.<sup>39</sup> In June 2015, Afghanistan’s Minister of Mines, Dauad Shah Saba suggested that he intended to re-evaluate the Mes Aynak contract and might consider renewing the tender.<sup>40</sup>

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The Afghan Government continues to have a great deal riding on the success of the project and is eager to see it start as soon as possible. Meanwhile, MCC is reportedly looking to delay additional investments until the post-NATO drawdown environment becomes clearer. Afghan President Ghani has made a number of commitments to increase security support around the Mes Aynak facilities and has continued to make appeals to the Chinese government and business community to consider increasing their investments in Afghanistan's mineral resources.<sup>41</sup> In 2012, another Chinese state-owned enterprise, the China National Petroleum Company, secured oil field development rights in Amu Darya Basin, in the north of Afghanistan.

President Ghani has intensified his predecessor's outreach to Beijing and has made closer economic, security and political relations with China a top priority. In addition to making his first official Presidential visit to China, Ghani has made a number of overtures to Beijing since taking office. He has supported the "One China Policy" (regarding Tibet, Xinjiang, and Taiwan). The Afghan National Directorate of Security has also taken steps to ensure Beijing is notified of Uighur militants captured by Afghan forces, "painstakingly preparing dossiers for Chinese officials, laying out evidence tracing the militants back to Islamist training camps inside Pakistan."<sup>42</sup> Afghanistan has also transferred a number of captured Uighur militants into Chinese custody.

President Ghani has tried to convince China to use its influence to pressure Pakistan into bringing the Taliban to the negotiating table with the Afghan government. Beijing has increasingly played a more direct role in facilitating a peace process between Kabul and the Afghan Taliban. In 2014, China appointed a Special Representative on Afghanistan and China, and hosted the 4th Ministerial Meeting of the Istanbul (Heart of Asia) Process. China has also facilitated trilateral dialogues with Afghanistan and Pakistan, and Afghanistan and the U.S. Foreign Minister Wang Yi has said that China "is ready to play its constructive role and will provide necessary facilitation at any time if it is required by the various parties in Afghanistan."<sup>43</sup> China has so far hosted two Taliban delegations in 2015, including a meeting in Urumqi that included an Afghan government delegation and representatives from Pakistan's ISI. Chinese and U.S. officials also participated as observers at the July 2015 talks between the Afghan government and the Taliban in Murree, Pakistan.<sup>44</sup>

During President Ghani's 2014 visit, Beijing pledged \$327 million (2 billion RMB) in assistance through 2017, as well as a promise of new commercial investments and the training of 3,000 Afghan officials and police over the next five years. More recently, President Xi pledged to increase security cooperation with Kabul and provide Afghanistan with "security supplies, technology, equipment, and training assistance."<sup>45</sup> Chinese experts also emphasize that while there is concern over the current security situation, China remains interested in Afghanistan as a longer-term investment opportunity.

### China's Western Frontier

Beijing's interest in Afghanistan is directly tied to its concerns about Xinjiang and the province is geographically critical to China's efforts to expand economic ties to Central Asia. In addition to being the sole province that shares a border with Pakistan (or with Pakistan-held Kashmir), Xinjiang also borders Tajikistan, Kyrgyzstan, Kazakhstan, Russia, Mongolia, Indian-held Kashmir, and Afghanistan. Ensuring stability in Xinjiang is both a goal of and prerequisite for China's Silk Road Economic Belt ambitions. In recent years there have been a growing number of attacks on civilians in Xinjiang, as well as a string of high-profile terrorist attacks in other major cities, including an attack on the railway station in Kunming in 2014. This issue has been a source of significant friction in the U.S.-China bilateral relationship, with China accusing the U.S. of maintaining a "double standard" on terrorism and the U.S. raising concerns over Chinese government actions in Uighur-majority areas.

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China has sought to counter the rise of extremism. As part of a yearlong “Strike-Hard Campaign” targeting extremists and separatists, its prosecutors increased criminal arrests in Xinjiang by 95 per cent in 2014.<sup>46</sup> The Central Government has also sought to encourage Uighur integration into Chinese national culture. Under President Xi, Beijing has pursued policies that aim to expand economic opportunities for Uighurs. At the same time, it has provided incentives to encourage increased Han migration to Xinjiang, and Uighur migration to Han-dominated provinces in order to “enhance mutual understanding among different ethnic groups and boost ties between them.”<sup>47</sup> Numerous Chinese scholars articulated the view that by discouraging – and sometimes banning – expressions of Islamic faith, China hopes to reduce overall levels of extremism. This has included restrictions on religious education, policies that forbid segments of the population from fasting during Ramadan,<sup>48</sup> and banning burqas in Xinjiang’s capital.<sup>49</sup>

Chinese scholars and policy makers remain extremely concerned about the influence of externally-based Uighur extremist groups. While the Chinese government voices worries about extremists who have received training abroad carrying out attacks in China, the actual number of Uighur militants in Afghanistan and Pakistan is believed to be quite low (with some estimates as low as forty to eighty individuals in Pakistan).<sup>50</sup> Many Chinese policy experts suggest the greatest threat posed by outside groups is ideological, largely disseminated through online platforms. Another possible threat comes from the financial support these outside groups might provide to those currently residing in Xinjiang who are susceptible to such messages.

Concerns about Afghanistan’s potentially destabilizing influences on Xinjiang, coupled with a gradual reassessment of U.S. military planning, have altered Beijing’s approach to both the U.S. and Afghanistan. As China’s Foreign Minister Wang Yi articulated during his visit to Kabul in 2014, China believes that “the peace and stability of [Afghanistan] has an impact on the security of western China, and more importantly, it affects the tranquility and development of the entire region.”<sup>51</sup> Hence Chinese officials no longer seek a rapid U.S. exit from Afghanistan and are more likely to express concern that it may leave too quickly.

### **The New Silk Road and Engagement with the U.S. in Central Asia**

In 2011, the United States announced its own New Silk Road Initiative (NSRI) that aimed to connect Central Asia to India and Pakistan via Afghanistan. The ultimate goal was to support the integration of Afghanistan into the broader region and to provide a boost to the Afghan economy. The NSRI shares a focus on energy and transportation infrastructure with China’s New Silk Road Economic Belt.

Almost from the start, this initiative was received with significant skepticism in both China and the broader region. Chinese experts routinely dismiss the project as an attempt to maintain America’s influence in the region as the U.S. draws down forces in Afghanistan. At the same time, Beijing questions whether Washington is willing to commit the political and economic capital required to support a major effort. This view is reinforced by the fact that a number of major NSRI initiatives appear to be stalled, including the perennial Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI). Turkmenistan announced that construction of its portion of the pipeline would begin in December 2015.<sup>52</sup>

Beijing seems to see little to no gain from coordinating its efforts in Central Asia with the United States. It suspects that the U.S. is interested in engagement only when it wants to influence China (a common refrain is that “to coordinate is to be coordinated”). It also is concerned that any resources freed in Afghanistan could be redirected toward containing China. The U.S. and China, however, share a number of aligned interests in the region. The preliminary work done by the U.S. in its efforts to connect Afghanistan to its neighbors, as well as the institutional knowledge gained, may prove valuable to China’s own planning.



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It is also in the U.S. interest to engage China in its planning around the NSRI. China has laid out plans for significant investment in Central Asia. As the U.S. has voiced concerns about entrenching corruption, bad governance, and weakened environmental standards, it must ensure open lines of communication with Beijing to discourage policies that undermine standards. The U.S. has encouraged China's growing role in Afghanistan, and cooperation there between both countries has been one of the highlights of their bilateral relationship in recent years. It is of mutual benefit to connect Afghanistan to Beijing's broader regional efforts.

One of the most advanced U.S.-supported NSRI initiatives is the Central Asia South Asia Electricity Transmission and Trade Project, or CASA-1000, a \$1.2 billion electricity transmission grid that will allow Kyrgyzstan and Tajikistan to sell hydropower to Afghanistan and Pakistan. This project presents a potentially interesting area for U.S. engagement with China. The World Bank and the Islamic Development Bank are leading the project, with significant funding from USAID. An Inter-Government Council (IGC) is coordinating planning with representatives from the four participating countries. After years of political wrangling, in April 2015, Afghanistan, Pakistan, Kyrgyzstan, and Tajikistan signed general and power purchase agreements at an IGC meeting in Istanbul.

The agreement outlines plans for a transmission line that would originate in Kyrgyzstan, run through Tajikistan and Afghanistan, and terminate in Pakistan. The line would be capable of transmitting 1,000 MW to Pakistan and 300 MW to Afghanistan. If fully implemented, the project would contribute to addressing Pakistan's persistent energy shortages, providing power during the summer months when Pakistan's power demand surges. Afghanistan is expected to receive roughly \$45 million per year in transit revenues. The project is currently scheduled to be completed in 2018.

CASA-1000 potentially complements China's own plans to invest significantly in Pakistan's electrical infrastructure. China has already made initial inquiries into playing a role in the development of CASA-1000. In 2011, China participated in the Intergovernmental Council meeting in Bishkek on the project. Additionally, the State Grid Corporation of China, China's largest state-owned electric utility company, expressed early interest in participation and sent a representative to the 2013 Bidders Conference in Almaty.<sup>53</sup>

If CASA-1000 continues to advance, the U.S. State Department will be understandably eager to tout the initiative, which is currently the highest profile NSRI project in progress. The multilateral nature of the project and the World Bank's leading role may make China more amenable to collaboration. The President of the World Bank has voiced his enthusiasm for cooperation with the AIIB, a fact that was publicized by China's state media.<sup>54</sup> The project is very much in line with the AIIB's core mission and would provide an opportunity for the kind of collaborative engagement both sides profess to seek.

Beijing remains sensitive about the Obama Administration's efforts to discourage its allies from joining the Chinese-led development bank. President Obama denied that the U.S. opposed the establishment of the AIIB,<sup>55</sup> instead framing U.S. concerns as being about transparency and environmental protection. Chinese experts, however, believe the episode illustrates Washington's reflexive opposition to expanding China's role in multilateral institutions. While there is certainly a degree of *schadenfreude* in Beijing over the U.S. being rebuffed by allies who did join the new bank, there is also a desire to see the U.S. engage with the AIIB. Pursuing opportunities for the AIIB and World Bank to co-finance projects would be in the interest of both governments.

While the NSRI's capital-intensive infrastructure projects may get more attention, the initiative is at least as focused on addressing regulatory and technical challenges facing the region. A top priority is working to simplify and harmonize national customs systems to lower the cost of trade. USAID's Trade and Accession Facilitation for Afghanistan (TAFA) and TAFA II programs supported a reorganization of the Afghan Customs Department that helped streamline customs procedures at

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seven border crossings in Afghanistan, reducing average processing times from eight days in 2009 to approximately three and a half hours in 2013.<sup>56</sup> In 2011, Afghanistan also joined the Cross-Border Transport Agreement (CBTA) between Kyrgyzstan and Tajikistan (signed under the Central Asia Regional Economic Cooperation framework), designed to streamline border customs and inspection requirements. China's OBOR blueprint identified enhancing customs cooperation and improving customs clearance capabilities as a priority. China has already pursued customs agreements with Kazakhstan, Russia, and the European Union, which has allowed for significant reductions in rail transit times between China and Europe. It is vital that the U.S. and China ensure they are promoting complementary – not competing – customs standards.

There is also potential for U.S.-China engagement over railway development in Afghanistan. The development of transportation infrastructure plays a central role in both the Chinese and U.S. Silk Road visions, with the two countries viewing rail development as key to accomplishing mineral extraction in Afghanistan. In 2011, Afghanistan's first new train line since the 1920s, a 75 km route from Mazar-e-Sharif to Hairatan on the border with Uzbekistan, was completed. This project was funded by the Asian Development Bank (ADB) and operated by Uzbekistan's railway authority. Since that time, the U.S. has worked with the Government of Afghanistan to develop and train the country's railroad authority under the Ministry of Public Works.<sup>57</sup> The World Bank, ADB, and United States Central Command (USCENTCOM) have released a series of feasibility studies on a number of proposed rail lines within Afghanistan and connecting Afghanistan to its neighbors.

In December 2014, China, Kyrgyzstan, Tajikistan, Iran, and Afghanistan signed an agreement to develop a railway connecting Kashgar in China's Xinjiang Province to Herat, from where it will connect to Iran. The route will traverse six Afghan provinces: Kunduz, Balkh, Jawzjan, Faryab, Badghis, and Herat. This project, largely financed by the Export-Import Bank of China and the ADB, follows on a feasibility study by an Iranian consulting company.<sup>58</sup>

While aspects of the proposed line remain unclear, it appears to resemble the northern route discussed in a series of U.S.-supported reports, including one produced by a USCENTCOM planning team made up of experts from the U.S. government, academia, and the U.S. rail industry.<sup>59</sup> The World Bank also funded a feasibility study of similar routes in 2012.<sup>60</sup> The World Bank Report found a line between Kunduz and the Iranian border to be the most promising option under consideration, saying it had the potential to "foster economic development along [Afghanistan's] northern border."<sup>61</sup> The U.S. government and its allies have put years of research into the opportunities, challenges, and potential pitfalls of rail development in Afghanistan, and it is an issue where both the U.S. and China stand to benefit from cooperation and information exchange.

The Obama administration has repeatedly highlighted the positive role it sees China playing in Afghanistan and the region. In a March 2015 address at the Brookings Institute, U.S. Deputy Secretary of State Tony Blinken said that the Administration does not "see China's involvement in Central Asia in zero-sum terms" and that it viewed China's infrastructure investments as complementary to those of the U.S. Blinken added that the U.S. sees "an important role for China in supporting the transition in Afghanistan and advancing its own integration into the broader Asia region."<sup>62</sup> China remains understandably skeptical of the seriousness of U.S. investments, but Afghanistan remains an area where both countries stand to advance their common interests.

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## Potential Hurdles Facing China's "One Belt, One Road"

While there is real enthusiasm in the Chinese policy community about OBOR's potential, there are also concerns that too little attention is being paid to how domestic and regional politics in Central and South Asia might affect China's plans. While Beijing has repeatedly emphasized that the Silk Road initiatives are designed to be "win-win" and are not about expanding China's sphere of influence, many of China's neighbors remain skeptical. Diplomats of countries whose governments have publicly asserted support for the framework have reportedly voiced private concerns about China's intentions. In Chinese policy circles, the United States and Japan continue to be framed as the most likely spoilers, with far less attention given to the internal dynamics of the countries with which China intends to partner.

In Central Asia, Beijing knows that it is engaging rapidly aging heads of state ruling societies that might be prone to instability in the short-to-medium term. China surpassed Russia in 2009 to become the single greatest source of investment in the region, and its political influence has grown in parallel. Central Asia continues to face high levels of corruption and capital flight, and there are real concerns over whether the region has the capacity to absorb the proposed levels of investment. Moody's found, however, that "while [China] will increase its exposure to unrated or sub-investment-grade emerging markets, this risk appears manageable given China's large external buffers,"<sup>63</sup> a view shared by many Chinese academics. In some ways, China has positioned itself – intentionally or otherwise – to play a mediating role in Central Asia through the structuring of some of its economic investments. One example is the China-Central Asia pipeline, which is structured as a series of 50/50 joint ownership ventures between the China National Petroleum Corporation (CNPC) and the state-owned gas companies of Kazakhstan, Turkmenistan, and Uzbekistan. China's stake may place Beijing at the center of disputes that arise within the network.

Chinese policy circles believe that while cooperation with Russia has historically been quite difficult, Moscow is currently too dependent on China to object to Beijing's economic initiatives in Central Asia. In the context of EU sanctions and Russia's declining access to international capital markets, Russia has increasingly looked to China to bolster its economy. Last year's \$400 billion deal, under which Russian natural gas conglomerate Gazprom will provide CNPC with 30 years of natural gas, further cemented that tie. While China's economic clout in the region has continued to grow, Beijing has made a point of emphasizing that its initiative will not be in competition with Russia's Eurasian Economic Union. The open question has been the degree to which Russia will ultimately push back against China's efforts to play a larger role in what Moscow has long considered its backyard.

By and large, Russia has been publically welcoming of the initiative and has called for "cooperation in the China-EEU format."<sup>64</sup> Recent announcements regarding plans to integrate the Silk Road Economic Belt with the EEU, and apparent support for the SCO playing a greater role in coordinating economic development in Central Asia, indicate that Russia sees the benefit of China's investments in the region. At the same time, Russia has made it clear that it expects to have a role in discussions with Central Asian states, which would stand in contrast to Beijing's historical preference for bilateral engagement. Russia has also taken steps to increase its political influence and ensure its central role in regional security through organizations like the Collective Security Treaty Organization (CSTO). While Russia appears to view Chinese economic investments in Central Asia as beneficial, Moscow will almost certainly be watching carefully for political realignment.

India, too, is quite wary of China's regional ambitions. Many in Delhi fear that the development of OBOR, and especially CPEC, will come at their expense. While India is both the second largest shareholder in the AIIB and a partner with China in the BRICS New Development Bank, India has made strong statements that it does not view OBOR as a truly multilateral effort. India's Foreign Secretary called OBOR "a national Chinese initiative," saying that if the initiative is "something on which they want larger buy in, then they need to have larger discussions ... [which] have not happened."<sup>65</sup>

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To the north, Delhi looks to gain from the U.S. NSRI, which would establish north-south economic corridors and increase Indian access to Central Asian resources and markets. Prime Minister Modi has made an effort to improve ties with regional states that have been the recipients of major Chinese investments. India has also announced plans to establish its own fund with the goal of developing infrastructure and increasing trade in South Asia. While potentially significant, this fund is expected to be less than a quarter of the size of the Silk Road Fund.<sup>66</sup> In response to China's Maritime Silk Road initiative, India unveiled "Project Mausam", which aims to revive historical routes and strengthen cultural ties to countries across the Indian Ocean.

India's concerns are compounded by the fact that China's proposed Silk Road Economic Belt would run through Pakistan's Gilgit-Baltistan Province, land ruled by the Maharaja of Kashmir before 1947 that India considers disputed territory. China's Ministry of Foreign Affairs has reached out to India and proposed to coordinate the two countries' economic initiatives.<sup>67</sup> China's Ambassador to Delhi has publicly emphasized that Beijing views India to be "China's natural and significant partner in promoting the 'Belt and Road' initiatives."<sup>68</sup> President Xi also raised the issue of greater cooperation with India within the OBOR framework during his meeting with Prime Minister Modi in advance of the 2015 SCO Summit. India is unlikely to welcome particularly close cooperation, however, out of fear that its own initiative will be subsumed into Beijing's broader framework.

Chinese experts and policy makers widely acknowledge that as the country has emerged to play an increasingly influential role in a growing number of regions, its foreign policy apparatus has struggled to keep pace. The Chinese government is working to develop a deeper bench of policy experts on many of the regions where Chinese diplomats and business interests operate, including Afghanistan. Several Chinese scholars have called for a more thorough assessment of the security and political challenges China will face as it tries to implement OBOR, portraying U.S. experiences in the region as a cautionary tale.

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## Conclusion

China's push to invest in economic integration with its neighbors to the west and southwest comes as the U.S. is winding down its military involvement in Afghanistan. The OBOR initiative has the potential to integrate Afghanistan into the regional economy in ways the U.S. has sought to do for years, and, in that regard, the U.S. should be supportive of China's efforts in Central Asia. It would be a missed opportunity if the two countries let their mutual suspicion get in the way of cooperation that could advance their common interests.

It is important for the United States to engage with China on OBOR, but if it is to be effective, Washington needs to be conscious that Beijing still perceives its activities in the region as intended to contain China. U.S. initiatives in Central Asia, which are frequently conceived with little consideration given to the Sino-U.S. bilateral relationship, are often perceived in Beijing as part of a broader U.S. strategy aimed at hindering China's economic and military rise.

Beijing believes that the U.S. and its allies have worked to prevent China from playing a role in the region commensurate with its size and economic clout. The U.S. has reinforced this perspective in recent months through its failure to pass IMF reform and subsequent opposition to the AIIB. While the Silk Road initiatives have been envisioned as inclusive and adaptive frameworks, they were also conceived, in part, as a way to address this perceived imbalance. Thus, it is unlikely that Beijing will see a significant role for the U.S.

China has an interest in building stronger relations with its neighbors. The scale of investment Beijing is currently discussing could have an immensely positive impact in a number of underdeveloped economies. At the same time, Beijing should resist the impulse to dismiss U.S. actions and commentary as an attempt to subvert Chinese influence. Beijing will face real challenges in implementing many of its Silk Road proposals, but a number of those challenges can be mitigated through early transparency and engagement. Similarly, the U.S. government's experiences over the past two decades make it a potentially productive partner in areas where the two countries' interests align.

This is particularly true in Afghanistan. While Beijing has historically been content to watch the U.S. ensnare itself in conflicts that kept Washington's focus away from the Asia-Pacific region, instability resulting from the draw down of U.S. forces over the next two years poses a direct threat to a number of China's core interests. The U.S. continues to pursue opportunities to connect Afghanistan to its neighbors in ways that closely align with China's stated objectives.

China's recent attempts to play a greater role in Afghanistan, particularly in promoting a political settlement, have been positive and should be expanded. The U.S. should welcome this development and encourage engagement between China and American allies in the region that may be suspicious of Chinese intentions. Through cooperation and transparency, the U.S. and China have the potential to be meaningful partners in promoting growth and stability across Central Asia.

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