China and the Middle East

The Quest for Influence

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Sage Publications
New Delhi/Thousand Oaks/London

First published in 1999 by

Sage Publications India Pvt Ltd
M–32 Market, Greater Kailash–I
New Delhi-110 048

Sage Publications Inc
2455 Teller Road
Thousand Oaks, California 91320

Sage Publications Ltd
6 Bonhill Street
London EC2A 4PU

Published by Tejeshwar Singh for Sage Publications India Pvt Ltd, typeset by Siva Math Setters, Chennai and printed at Print Perfect, Mayapuri-II, Delhi.

Library of Congress Cataloging-in-Publication Data

China and the Middle East: the quest for influence/edited by P R Kumaraswamy.
p. cm. (cl.)
Includes bibliographical references and index.
1. China—Relations—Middle East. 2. Middle East—Relations—China.
3. China—Foreign relations—1976–I. Kumaraswamy, P R
DS779.27.C4872 303.48'251056—dc21 1999 99–37977

ISBN : 0–7619–9361–4 (US-HB)
81–7036–847–2 (India-HB)

Sage Production Team: Payal Mehta and Santosh Rawat

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Over the past two decades, China has transformed itself from a dormant, introspective giant into a dynamic powerhouse of major significance to the world economy. Its economy is the only major, rapidly growing one in an otherwise recession-hit world. Western exporters, multinationals and emerging market investors are looking at China as if it were a new El Dorado. Largely due to the slowpace of the liberalisation process, with economic policy oscillating between socialist conservatism and capitalist half measures, China has so far been spared the direct consequences of the Asian monetary and financial crisis. The strategic centre of gravity is also shifting toward China and other dynamic Asia–Pacific nations, bringing about fundamental changes in the traditional balance of power equations. In next twenty years, Asia, currently home to more than half the world's populace, will most likely have five of the world's six largest national economies, the US being the other. China has emerged as the rising star of the entire region, economically and politically. In ancient times, China was so powerful that its people became accustomed to thinking of their country as the Middle Kingdom, the centre around which all else revolved. Of late, similar thinking seems to be in vogue.

Turkey and China, both situated at the opposite ends of Asia, but linked by the vast Eurasian space, strive for the creation of a twentieth century version of the ancient Silk Road that linked China to the Middle East and Europe by way of Central Asia. Both are great powers, setting out ambitious goals for their regions in the next century. The Turco–Sino relationship has been based on a strategic assessment of their respective positions in the modern world. To better assess the future prospects of the Turco–Sino relations to move forward beyond 2000, one must first comprehend the enormous changes that are taking place in East Asia and particularly in China, with profound impact on the world economy and the geopolitical landscape. This paper traces the roots of the long history of relations between the two countries and examines the prospects for energy diplomacy initiatives in the Middle East and Central Asia upon which both countries are becoming increasingly dependent for their future energy supplies. The final section proposes a number of future policy options aimed at ensuring a greater Turkish engagement with China in the early years of the twenty-first century.

A POWERHOUSE FOR GLOBAL ECONOMY

China would certainly qualify as a super power if for no other reason than its population: one out of six persons in the world lives in China. With foreign funds flowing into China at the rate of nearly $44 billion (1997) per annum, China ranks second only to the US as a destination for capital. A large part of foreign direct investment comes from overseas Chinese located mainly in Hong Kong and Southeast Asia. The most tangible economic manifestation of China's 'open door' policy can be observed in its trade performance. In 1997 China's foreign trade totalled $325 billion, with exports increasing to $182.7 billion and imports to $142.3 billion, representing 21 per cent and 3 per cent growth respectively over 1996. This gives a trade surplus of $40.4 billion, an increase of $28.2 billion over the previous year. China has become a major force in the world economy, with its total trade exceeding 40 per cent of its GDP, higher than that of the US and Japan.

Yet, the other side of the coin tells a different story. A sizeable proportion of China's 1.2 billion population is currently living below the poverty line—a situation that is causing concern in the rest of the world that, with the very rapid growth of recent years and the reform of the state-owned enterprises, the gap in living standards will increase and may lead to potentially dangerous social consequences. While China's economy is performing well with inflation continuing to be moderate, economic growth on target, and foreign exchange reserves rising sharply, the economic performance varies widely among China's disparate regions with the northeast industrial heartland severely depressed and unemployment on the rise as economic reforms take hold.

China is already divided economically between the prosperous southern provinces and the relatively poor northern and western provinces. Per capita incomes are only about half the level of those in Brazil, for example, with large, unfulfilled needs and serious inequalities. The World Bank estimates that 350 million people still live below the poverty line ($1 per day). Labour productivity is among the lowest in the world, only slightly ahead of India's and only 10 per cent of that of the US. This tendency to confuse performance with prosperity, or total size with individual incomes, is evident in the debate over whether or not China should be classified as a developing nation for purposes of membership in the World Trade Organisation (WTO). How can it be 'developing', one might ask, when it is expected to be the biggest economy in the world in the initial years of the next century? But in reality, how can it be classified as 'developed' when the average income is around $600 a year.

The Chinese economy is likely to become one of the most important locomotives for the world's economic growth; but, China would equally be a potentially de-stabilising factor, should its economic growth falter. It is, therefore, considered important to involve China in all important international and regional issues so that it can learn to play by global rules and will have a vested interest in the maintenance of the international order. The World Bank has also cited evidence which explains why China will emerge as the world's largest economy by the year 2010 or, if one includes the Greater Chinese Economic Area (comprising China, Taiwan and Hong Kong), by the year 2002. China's present reform plan, building what it calls a socialist market economy, depends heavily on the expansion of the market economy and private investment, but gives government planners a pre-eminent role in orchestrating overall development and one party political rule.

China's increasing presence as a powerful competitor both as a buyer and as a supplier of goods and services affects the global market. China's population accounts for one-fifth of the world's total population and is still growing strongly in absolute terms. China has the world's third largest territory, and it is already the second largest consumer in the world energy economy. China is also the world's third largest energy producer after the US and Russia. It is the world's second largest coal producer and consumer, sixth in terms of world production of oil, and the world's largest producer of electricity power. Its rapid development has been possible at a heavy environmental cost, domestically and globally as China is the world's second largest producer of carbon dioxide emissions and is projected to be the largest over the next few decades.

Economic historians estimate that China's economy was the largest in the world until the late nineteenth century. By 1949, it had been overtaken by the US, the UK and the USSR. However, it was not fully integrated in the world economy—even though it then accounted for 35 per cent of the world's population, compared with about 20 per cent today. China is now a major trading power and a strong competitor in the global economy and as it grows, so will its influence in the global system. But it will also become increasingly dependent on the rest of the world. Because of its huge population, nearly five times that of the US, China does not have to be a rich country to have the world's largest economy. By 2030, China's economy is expected to be the largest in the world, according to the China Academy of Social Sciences. World Bank economists, using the purchasing power parity measure, believe that the real value of the *yuan* is closer to four times the official value.

In spite of the many problems in opening up its economy, there is a demonstrable commitment on the part of the Chinese government to continue the reform process. This reform process appears irrevocable and is expected to continue irrespective of changes in the political leadership. The Five-Year Plan for 1996–2000 reaffirmed the importance of China's economic expansion by calling for 8 to 9 per cent annual GDP growth through 2000 and a further doubling of GDP during 2000–10. Evaluation of the implications of China's rapid development depends largely on whether or not the current scale and pace of economic transformation is sustainable. A series of determining parameters include the effectiveness of continued regulatory reform, trends in infrastructure development, rates of industry restructuring and reform of state-owned enterprises. Alternative approaches to addressing these challenges are likely to generate different long run outcomes, both for China's growth path and for global product and commodity markets.

Since 1979, foreign investment has played a critical role in internationalising China's economy and trade, introducing capital, technology and management and marketing skills, and instigating microeconomic reform. In addition to large investors, thousands of small and medium sized companies, particularly involving overseas Chinese have invested in China over the last decades, making a major contribution to output, employment and export growth. Hong Kong alone provided 60 per cent of the $167 billion in foreign direct investment accumulated till the end of 1995, although between $25 billion and 30 billion of this should be deducted to account for 'round-tripping', that is, Chinese capital going offshore and re-entering as foreign investment to benefit from incentives. Foreign direct investment is growing most rapidly along China's eastern seaboard. However, companies are increasingly looking inland for lower costs, less intense competition, proximity to raw material inputs and attractive incentives. As infrastructure improves, foreign direct investment in regional China could expand rapidly. The rate of growth of investment is likely to slow down but still remain at relatively high levels. China's success in the long term in continuing to attract and retain foreign funds will depend largely on its ability to address major issues related to the business operating environment and to its response to investment liberalisation moves throughout the Asian region.

The low level of market capitalisation (equivalent to 15 per cent of GDP in 1996) and the manner in which the Chinese financial markets operate have severely reduced the impact of the Asian crisis and stock market upheavals on China. While the Chinese economy may have been spared the direct effects of the Asian crisis, the devaluation of its neighbours' currencies are bound to have an impact on its external trade, in which price competitiveness is its principal advantage. For decades following the Second World War, China's economy remained isolated and essentially dormant, at least as far as trade was concerned, while the region around it developed rapidly—first Japan, then Hong Kong, Korea, Singapore and Taiwan, and finally, the relative late boomers like Thailand, Malaysia, Indonesia and the Philippines. Today, China is engaged in a similar process of rapid development, but on an unprecedented scale that dwarfs its neighbours. In the process, China is acquiring a new and powerful leverage over most of its Asian neighbours. Even Asian governments, critical of China's authoritarianism and human rights record or fearful of its ambitions, see their future economic performance tied to that of China and its 1.2 billion consumers. So, while East Asian governments may wish for the containment of China's regional influence, they wish equally for the robust economic growth that is fuelling China's rising power.

If China's economy were to crash, every economy in Asia would feel the shock waves at least initially. It is the Asian countries, in large part, that have invested in China's growth. Over the past four years, foreign companies have poured more than $340 billion into China to build factories, buy properties and start business ventures. Over 70 per cent of these funds have come from Asian companies. Exports from other Asian countries to China and Hong Kong, where many goods pass through on their way to China, have jumped from $18 billion in 1984 to $120 billion in 1994. However, Beijing has become vulnerable to declining foreign investment and increased competition for its exports. Asian investors, in particular, are expected to shy away from investing additional money into China. Foreign investment, after reaching $44 billion in 1997 as a number of contracts signed in previous years came to fruition, is expected to decline. Exports are expected to continue to grow, but at a slower rate. It is almost as is China were operating in a different hemisphere from that of its Asian neighbours who are now engulfed by a financial crisis.

While the world has been closely watching China's emergence as a major player in international trade—now among the world's top ten traders—and also as an absorber of international capital—second only to the United States, China's enterprises have been quietly increasing in importance as a source of international capital. China has foreign direct investment in virtually every country around the world and across the whole spectrum of economic activities, from merchant banking to fish processing and mining exploration. According to the International Monetary Fund, China ranks as the eighth most important supplier of capital on world markets, accounting for 2 per cent of the total global flow. Developing countries are usually perceived as being short of capital and consequently, after due allowance for political risk, being able to offer rates of return sufficient to attract inflows of foreign capital. In this scenario, as a developing country, China would be expected to be an importer of capital and not exporting capital abroad.

The Chinese economy, however, has a gritty underside: an industry left over from the old days of state planning, tens of millions of underemployed workers and insolvent banks trying to wean Chinese companies from an irrational system of 'loans' that are still effectively state handouts. All these factors make China's economic performance in 1998 somewhat unpredictable. In a sense, the Asian financial crisis could not have come at a worse time for China. Planned sell-off of the state run sector, leading to a large number of layoffs, with the aim of essentially restructuring China's system of ownership within three years. Ironically, some commentators believe that China may have sown the seeds of its own misery—following its competitive devaluation of the Yuan by about one-third in 1994, China may have set into motion the devaluation that now plagues much of East Asia. Any move to further devalue currencies in Asia in order to make local exports more competitive is likely to trigger another, even more dangerous round of capital flight. Attention is now focussed on China, which may be considering a new move to 'catch up' with its neighbouring competitors. If China devalues the Yuan again, in troubling parallel with international economic impulses of the thirties, it will lead to a collapse of the fragile Asian financial stability upon which longer term policies must be built. All Asian countries, especially China, have been cautioned by the international community not to refuel the currency fires. The Chinese leaders have deferred banking reform for years, but the Asian meltdown has startled them into action by demonstrating the dangers of loose financial supervision and crony-style business. China announced a radical overhaul of its banking sector in January 1998 to streamline the country's over-staffed commercial banks and write off billions of dollars of bad debt.

GEOPOLITICAL REALIGNMENT

After a long period of international isolation and economic poverty, China has regained self-confidence in its foreign relations particularly with the neighbouring countries. It can now openly challenge the US and strike geostrategic deals with Moscow. Japan has to be careful in its handling of China so as to maintain good terms with Beijing. The European Union has mapped out a long-term strategy, calling upon the member countries to make up the time lost in competition with the US and Japan for the Chinese market. The Chinese amply demonstrated that they can master a skilful economic/trade diplomacy to wrestle political concessions from the competing western nations in return for commercial deals.

In the post-Cold War context, Chinese foreign policy perspectives are increasingly being shaped by the demands of economic development and the shifting balance of power in Asia. China's foreign relations, whether with western countries or developing countries, are clearly directed by an economic imperative: the need to acquire expertise and experience in such areas as technology transfer, vocational training, reform of industrial management, access to international capital, foreign markets and investments. It would not be an overstatement to argue that China's foreign policy in the nineties and beyond will continue to be largely, though no exclusively, determined by the country's economic development needs.

Historically, whenever a country of China's potential emerges into great power status, a period of adjustment follows—both on the part of the emerging power and on the part of other countries, particularly those in the same region. For this reason, successful engagement is a genuine two-way process. It must be anchored in the constructive pursuit of common interests and a strong commitment to enhanced cooperation. As China adjusts increasingly to the region in which it exists, and the Asia–Pacific engages China more extensively in the region's affairs, bilateral and regional relationships based on shared interests and mutual respect will remain the only sure foundation of sustained prosperity and stability. The relatively successful Hong Kong handover and the warming of Sino–US ties have encouraged increased assertiveness. So have the recent economic problems afflicting the Asian tigers. From Beijing's post-Cold War perspective, Asia is seen as the centre of Chinese power and influence, the nucleus of ever expanding circles radiating outwards in all directions.

China's perception of international affairs is no longer dependent on political and ideological considerations. Its strategic objective in foreign and security policy is designed to serve national interests. In this regard, it may be noted that economic and social development have clearly become the most important issue on China's agenda. Under its present leadership, China has continued to make efforts to resolve conflicts with its neighbours, agreeing on reductions in troop deployment along borders and other confidence-building measures with Russia and its Central Asian neighbours. China has adopted a less confrontational and even conciliatory stand in resolving its territorial disputes with India and Japan. Its relations in the South China Sea, however, while peaceful, continue to be uneasy. China seems to have been driven by a desire to be treated as a major power commensurate with its growing economic and military clout. Yet, in many ways China appears to be a reluctant participant in the international system, unwilling or slow to accept the responsibilities that are commensurate with being a regional or global power. If China wants to influence international norms, it must participate actively and responsibly in their formulation and in their observance.

As crude imports become critically important for the Chinese economy, one thing becomes clear that China will be as robust as other oil dependent countries in securing its access to oil supplies in other regions. To meet its needs, China may look not only toward the Middle East, but also toward Central Asia, Siberia, Africa or, to a lesser degree, Southeast Asia. There are concerns that it could trade arms for oil with the Middle East or could use force to secure oil from Southeast Asia, especially from the South China Sea. This growing need for oil, according to some analysts, may explain China's assertion of its sovereignty over the Spratly Islands and other specks in the South China Sea. These islands, which are claimed in whole or in part by China, Vietnam, Taiwan, Malaysia, the Philippines and Brunei, reportedly lie atop substantial undersea oil and gas resources. The question is whether China would risk upsetting its Southeast Asian neighbours over the South China Sea disputes when it is at the same time trying to reassure its neighbours, attract investment from, and secure markets in, the region. The answer to that question may be determined in part by the continued stability of the power structure in post-Deng China and also by China's need for foreign investment and technology.

Security of shipping routes in East Asia is of paramount importance to China as almost all of the incremental Chinese oil demand will have to be imported from the Persian Gulf and other areas to the west. As is true, most of its future oil imports will be required to pass through the strategic Malacca Straits and into the South China Sea. The energy potential and geopolitical importance of the South China Sea region as a maritime route has resulted in jockeying between surrounding nations to claim the sea and its resources for themselves. Apart from their direct impact on oil and gas development rights in the region, these competing claims also have the potential to affect maritime trade in the South China Sea.

As in the case of Korea, Hong Kong, Singapore, Taiwan and Japan, China is heavily dependent on international sea and air links for trade, including fuel and industrial raw materials. Aware of China's emergence as a regional super power, the Asian states are exploring ways to deal with their big neighbour. But each country sees different opportunities and perils. Many nations in Southeast Asia are either insular, peninsular or have extended coastlines. Since land transport infrastructure is not well developed, most of the trade is carried out by the sea route. Along the crude export route out of the Gulf and toward Asia, the congestion in Southeast Asian shipping lanes has been a matter of serious concern, particularly as a result of increased oil flows to China and other Asian oil importers (Japan, Korea and Taiwan).

China must accord priority to providing its booming economy with the adequate energy it requires. Until the early nineties this was not a problem since the country was well placed to meet its energy needs from domestic production. With time, however, the situation has changed so that the country is now forced to import energy, particularly oil. In the years to come, one of the top priorities of the Chinese government will be to guarantee this supply stability of energy. In order to continue to meet its energy requirements, the Chinese government is pursuing two strategies: (*a*) promoting the development of new oil and gas reserves in the country—both within China itself and in the seas around China; and (*b*) expanding political and economic relations with regions such as the Middle East, Russia, Central Asia and Africa through trade and direct investments in the petroleum upstream sector.

To establish its long distance pipeline from the Xinjiang region to the demand areas of the eastern seaboard, China has every reason to increase the scale of Tarim's proven oil and gas reserves. So far, the limited success in exploration has not convinced the government to approve the proposed long distance pipeline development plan. In this context, China's approach to secure Central Asian and East Siberian oil and gas resources can be readily understood. Besides these projects for East Siberian and Central Asian oil and gas exports to China, there is a strong possibility of Sakhalin offshore oil and gas exports to Heilongjiang, Jilin and Liaoning Provinces in Northeast China. It is very difficult to predict exactly when the import of Russian and Central Asian oil and gas will begin, but the earliest date that can be projected is between 2005 and 2007, assuming early completion of the trans-boundary pipeline. In short, importing Russian and Central Asian oil and gas through pipeline development (and linking the Kazakh and Turkmen pipelines with those in Xinjiang) is the choice China has to make to achieve a long-term energy supply balance and security.

A closer look at these two approaches reveals that China attaches more importance to security policy considerations at times than to economic considerations when it comes to ensuring the provision of energy. First, with regard to point (*b*), China is currently in the process of consolidating economic cooperation with supplier countries. The far more interesting point in this respect, however, centres on the efforts being made by China to become self-sufficient in terms of energy provision, by developing new oil and gas reserves within its own frontiers. A settlement between China and the Southeast Asian claimants over the Spratly and Paracel Islands could move the South China Sea disputes off the geopolitical stage and with them the opportunity for involving foreign outside powers. However, for a real settlement to be stable and equitable, it must be based on multilateral arrangements for the joint development of the potential oil and gas resources in the Spratly archipelago, which satisfy most of the central concerns of the claimant states. Such arrangements must take into account the interests and the conflicting sovereignty claims as well as the need to acknowledge China's pre-eminent position as the leading regional power and also accommodate the interests of extra-regional maritime powers such as Japan and the United States.

TURKEY AND CHINA: A PARTNERSHIP FROM THE PAST TOWARDS THE FUTURE

In the light of the foregoing assessment and the ongoing standstill in Turkey's relations with the European Union, it is critically important for the Turkish strategists to follow closely the rapidly evolving China phenomenon and formulate a long-term policy vis-à-vis China. Tremendous market opportunities in China for Turkish businesses; enhanced strategic importance in the Eurasian and the world affairs; historical links and cultural affinities with Turkey; similar problems of development; advantages of networking with Asia–Pacific's powerful overseas Chinese communities; and nearly five decades of zigzag progress in its troubled relations with the west—all make a strong Turkish commitment to China imperative. In retrospect, Turkey and China share a long past, cemented by the turning of centuries, and have influenced each other throughout history. The Turkish forefathers had intense relations with the Chinese, whether in war or in peace. Numerous inter-marriages, cultural, political and economic exchanges have taken place between the Turkic and Chinese civilisations throughout the course of their common history spanning more than 3,000 years. Though the official Chinese history text books may deny it, legend has it that the famous 6,000 km long Great Wall buttressed ancient China against the advancing Turkish warriors. The Turks once lived under the Chinese rule as a minority nation because of the endless internal bickering among rival Turkic tribes. More importantly, China is the next door neighbour of Central Asian Turkic republics and home to more than 10 million Turkic minorities, mostly living in the northwestern Xinjiang-Uygur Autonomous Region.

The historic Silk Road goes all the way from Xian to Istanbul. Anatolia served as a gateway for exchanges between China, Europe and the Middle East during that period. A rich variety of porcelains and other precious ornaments gifted by the Chinese dynasties to the Ottoman Sultans (now in the Topkapi Palace Museum) bear witness to this historic relationship. It is, however, ironic that after migrating to Anatolia from the Central Asian steppes the Turks never looked back to where they originally came from. Both the Ottoman and the modern Turks have always turned their face toward Europe and, perhaps to a lesser degree, toward the Middle East. In their eyes, China never occupied a position of great importance, except for political rhetoric. According to some Turcologists, the true history of the ancient Turks is yet to be written because there are thousands of Turkish graveyards and archaeological findings which await to be excavated in the Xinjiang-Uygur Autonomous Region.

CLOSER RELATIONS IN THE OFFING

Disillusioned by its relations with the European Union (EU), particularly at the post-December 1997 Luxembourg Summit, Turkey has been seeking new horizons elsewhere. Intensified relations with Israel and the United States partly demonstrate Turkey's alternatives to the Europeans. However, what Turkish policy makers have overlooked in this scenario are relations with the Asia–Pacific region. Although Southeast Asian countries are presently in the throes of an economic crisis, Thailand, Singapore, Malaysia, Indonesia, Korea and China are seen as countries with the potential to add new dimensions to Turkey's international standing. Thus far, these countries have played only a minor role in the overall Turkish foreign policy.

Hopes are pinned on greater strategic partnership, as well as on economic and trade ties between the two countries in the early years of the next century because of the expected rapid economic expansion in both the countries and the emergent geopolitical realignment from Central Asia to the Middle East. At the current juncture, one of the most plausible policy options for Turkey seems to be launching a strategic trade and investment offensive against China in order to carve a lasting market niche for Turkish products and services. The purpose should be to bring down the Great Wall through the entrepreneurial strength of Turkish business and industry groups. The Turco–Sino economic relations currently stand far from reflecting the true potentials of both countries. Let alone exploring new avenues and approaches, the existing trade composition fails to inspire any hopes for a sustainable trade growth, unless a radical upswing is effected to reverse the current trend. Turkey's exports to China are dominated by iron/steel products—more than 80 per cent of Turkey's exports. Mutual investments are at a negligible level. However, it should be noted that trade volume has grown significantly since relations were normalised in 1971, with two-way trade reaching $648 million in 1994 and $600 million in 1997 compared to $98 million in 1985. Although this is no small achievement, the existing opportunities allow an even greater expansion of the present trade volume in a relatively short time, if the right blend of policies and promotions is put in place.

Though Turkey continues to pay lip service to the private sector, seen as the driving force in the bilateral economic relationship, its leaders do not have a larger voice in shaping the Turco–Sino agenda. During an official visit to China in May 1995, President Suleyman Demirel promoted an active 'bridge' role for Turkey in the modern-day Silk Route from China to Europe and Turkish business groups identified textiles, leather goods, telecommunications, contracting services, agro-industries and spare parts production as suitable sectors for investment or joint ventures. Any real progress is yet to be seen and it is hoped that the great enthusiasm generated in Turkey due to such high level visits will precipitate the momentum towards a strategic China (and Asia–Pacific) policy.

Turkish companies must take the time to learn about the Chinese culture and recognise the hard realities of doing business in a country that is undergoing rapid economic and social change, bearing in mind that those that stay out of China would be losing 25 per cent of the world's market. Foreign Minister Ismail Cem, the first Turkish minister to visit China in fourteen years, stressed the importance of improving Sino–Turkish political and economic ties, during his meeting with Jiang Zemin in February 1998. Speaking after the meeting, he said: 'economic ties between the two countries should boom in the next three years'. He added that the political base for the fulfilment of this ambitious objective had already been laid. During his talks with Jiang, Cem stressed that Turkey had very ambitious projects for the twenty-first century. Turkey, he said, would become the biggest terminal in the world energy corridor. To further cultivate the current fertile ground, Isin Celebi, the State Minister in charge of the economy, visited China in April 1998 to attend a meeting of the Sino–Turkish Joint Economic Council.

Besides economic cooperation, both sides also discussed the tense situation in the Middle East. They agreed that the continuing crisis between the United States and Iraq should be resolved through peaceful means. In his meeting with China's first Deputy Foreign Minister Tian Zengpei, Cem said that along with China, Russia and France had expressed full support for Turkey's efforts to prevent a military strike on Iraq and establish peace in the Middle East, and noted that China is an active member of the UN Security Council. Chinese officials said that it was unusual for the Chinese president to receive foreign ministers and explained that this was due to the great importance that China attached to its relations with Turkey. Emphasising the economic dimension of the visit, Cem added that Turkey was exploring ways to increase economic relations with China, and that this explained why a large group of businessmen had accompanied him on the visit. 'Turkey's current economic ties with a country, whose foreign trade is worth $325 billion, are almost non-existent', said Cem, noting that in 1997 Turkey's exports to China stood at $100 million while it imported $500 million worth of goods.

TURKEY AND CHINA IN ENERGY DIPLOMACY

The energy policy has always been an integral component of China's foreign and security policies. It is also becoming a variable of Turkey's multidimensional foreign policy as a result of its increasing engagement both as a consumer and transit country in the Eurasian and Middle Eastern energy scene. Historically, energy was a marginal factor in China's foreign policy because its energy policy was based on the principle of self-reliance. The link between China's foreign/security policy and energy does not emerge during the period when China became a net importer of oil in 1993. The decisive event that led to the formulation of this foreign and energy policy and that contributed to China's emphasis on achieving absolute independence was the rupture with the Soviet Union in 1960, when Soviet assistance came to an end, leaving China's energy industry in a state of absolute chaos.

From Turkey's vantage point, there are a few countries which enjoy its unique position at the cross-roads between the east and the west, overlapping Europe and Asia geographically, economically, politically, and even spiritually, as a Muslim country that aspires to be part of the west since the early twenties. Its immediate region, stretching from Eastern Europe, the Caucasus and the Balkans to Central Asia and the Middle East, has been dramatically altered and re-defined in the aftermath of the Cold War. This entire region is highly strategic in geopolitical terms and is rich in energy resources. Undoubtedly, Turkey is situated in a rather tough neighbourhood, sharing as it does common borders with mostly 'unfriendly' (Greece, Russia and Armenia) and 'outcast' (Iraq, Syria and Iran) nations. To capitalise on Turkey's geographical, economic and political assets in this region, many foreign firms are collaborating with Turkish firms for product distribution in regional markets and joint ventures to compete for regional project opportunities in Russia, Central Asia and the Middle East. China, which has vital stakes both in the Middle East and Central Asia—the main suppliers of crude oil and natural gas—is greatly interested in fostering its political and economic ties with Turkey to mutual benefit.

Due to high domestic savings, a steady inflow of foreign investment and tight controls on domestic expenditure, China is awash with capital. In 1997 capital surplus—foreign direct investment plus the country's current account surplus—hit an estimated $67 billion. More than half of that are invested abroad. As part of this drive, various Chinese oil companies notably, the China National Petroleum Corporation (CNPC) and the CNOOC have embarked, since 1991, on the path of overseas investments in the upstream petroleum sector. In 1997, several large contracts signed between the CNPC and state oil companies drew the global industry's attention to China's overseas investments, which, varied in scale, are now scattered from Peru in South America to Kazakhstan in Central Asia. This is a new strategy associated with China's changing petroleum policy in the nineties. At the national level, this strategy reflects the Chinese government's anxiety about dealing with potentially large oil shortfalls in the future. In the case of individual companies, however, self-interest appears to be the primary motivation driving them to overseas petroleum fields.

TURKEY'S ECONOMIC TRENDS AND PROSPECTS

Turkey has many characteristics of a highly dynamic emerging economy—rapid growth, a large and fast growing population (currently 63 million), openness to global economic forces, and vast under-developed markets ripe for expansion. However, decades of economic mismanagement by a series of weak governments have led to monumental fiscal indiscipline and chronic heavy inflation, which have obscured many of the country's underlying strengths. In the last ten years stop-and-go cycles prevailed, with GNP per capita estimated to have risen to $3,331 in 1997 from $2,022 in 1988 (the 1996 nominal GNP was approximately $205 billion). The reforms of the eighties vastly reduced the role of the central government in the economy. While the public sector's problems are preventing Turkey from reaching its full potential, the private sector continues to prove its ability to thrive despite the odds. Today, Turkey's dynamic private sector dominates the economy and is the engine of economic growth. Besides directing output to exports in response to a shrinking domestic demand, the private sector has also shouldered much of fixed capital investments which largely compensated the declining trend of public investments since 1990. Trade, transportation and manufacturing were the highest growing sectors. The success of the energetic private sector is due, in part, to the underground or grey economy, which has grown so large that it would be impossible to understand the country's business and financial systems without a reference to the parallel world of unrecorded exporters and tax evaders.

The new Yilmaz government has pledged improved economic management, reduced inflation and strengthened public finances. However, the shaky nature of the three-party (minority) coalition and the looming prospects for parliamentary elections, severely constrain the government's ability to address the underlying structural problems of the economy. Turkey's fundamental problem is a fiscal one, and the solution lies in the implementation of tough structural reform measures including privatisation of money losing state enterprises, improved efficiency of tax collection, and streamlining of the social security system. Although the strong domestic demand

and the introduction of the customs union contributed to a significant decline in foreign balances with trade deficit rising up to 10.4 per cent of GNP, the Turco–EU customs union, in place since 1 January 1996, is still one of several factors which is generating optimism about the Turkish economy in the medium to long term. The agreement covers industrial products and processed agricultural goods, and includes transitional protection for shortlisted sensitive items. Turkey has also adopted the EU's common external tariff, resulting in harmonised commercial laws and regulations, which affects its trade relations with China.

Increased spending on infrastructure projects and private sector investment is expected to create a strong demand for a wide range of capital goods. Recent export growth underscores the agility of Turkish entrepreneurs and the geographic advantage Turkey enjoys for sales in the European Union, Russian, Central Asian and the Middle Eastern markets. Turkey's outstanding growth prospects led to its designation by the US Department of Commerce as one of the world's ten big emerging markets. The value of US exports to Turkey exceeded total American sales to such countries as Russia, Sweden, India and all of Eastern Europe. The value of total Turkish import demand is on par with markets like Brazil and Indonesia and is significantly higher than Argentina, Poland and South Africa.

ENERGY FUNDAMENTALS

Turkey's dependence on external energy supplies is far greater than that of China's, but its strategic location enables it to serve as a natural 'energy bridge' between major oil/gas producing areas in the Middle East, Central Asia and the Trans-Caucasus and consumer markets in Europe. (It may be noted that more than half of Iraq's pre-Gulf War oil exports passed through Turkey via the Kerkuk-Ceyhan pipeline.) Due to its large population base and high economic growth patterns, Turkey constitutes a large energy market for future Caspian supplies of oil and gas (not only as a transit country) and independent power producers (IPP). A marked characteristic of the Turkish energy situation is its high demand growth and heavy dependence on external supplies. Energy demand grew by 4.4 per cent per annum between 1973 and 1995, while electricity consumption increased at a dramatic rate of 9 per cent per year. Domestic energy production is inadequate and consists mainly of lignite. As energy demand has risen quickly and production has stabilised, imports—mainly oil and natural gas—are surging. Together with the increase in consumption, energy supply has diversified: natural gas consumption started in the mid-eighties and amounted to over 9 per cent of total supply in 1995, the share of hydropower increased from 1 per cent in 1973 to 5 per cent in 1995. Turkey plans to build a nuclear power plant at the beginning of the next century.

Together with the increase in electricity generation, Turkey has been diversifying its fuel mix. In 1995 the output share of hydroelectricity was the highest (41.2 per cent), followed by coal, mainly lignite (32.5 per cent), and natural gas (19.2 per cent); oil provided 6.7 per cent of generation. Natural gas has become an important fuel, but Turkey faces constraints in the supply of natural gas. New pipeline and LNG terminal construction and the upgrading of existing pipelines are essential for the implementation of new large power plants. At present Turkey is a very minor gas producer (only 2.8 per cent of its consumption requirements) and its gas infrastructure is far from comprehensive, but it has embraced the fuel with an enthusiasm which surpasses even that of Europe's other southern states. Gas consumption is projected to increase to 60 billion cubic feet per year (bcf/y) (burning nearly as much gas as Algeria currently produces) by the year 2010 from the present level of 9 bcf/y. Two new generating plants are under construction, and the authorities have called for tenders for six more, with a combined capacity of 5,200 MW, to be constructed on a BOOT basis. Plans have been made for the construction of at least thirteen plants in total, with a combined capacity of 10,700 MW.

A large portion of the increased natural gas imports will feed into electricity generation, and the proposed new LNG terminals will also be attached to new IPP gas-fired generation facilities. In recent years, Turkey has succeeded in substantially increasing natural gas imports from diversified sources and in building gas transport and distribution infrastructure in the main consuming areas. As a result, Turkey has reaped rich benefits including better energy availability to its rapidly growing economy, increased fuel diversification and security of supply and lower emissions of pollutants and greenhouse gases to the extent that gas has replaced the more carbon intensive and polluting fuels such as oil and lignite. The country's gas import ambitions appear to be boundless; but Turkey should also be seen as a supply 'bridge', linking the large gas reserves of its easterly neighbours with the big consuming countries of Northwest Europe.

Turkey has also looked to other sources to increase and diversify its gas supplies. In February 1996, a deal was signed for the supply of Turkmen gas to Turkey scheduled to begin in 1998 at about 70 bcf per year, and expected to reach 530 bcf/y by the year 2020. The two countries will jointly construct a 300 km pipeline needed for the supplies. Turkey also has a controversial $20 billion (twenty-two year) deal with Iran. Initial deliveries of 105 bcf/y of gas are scheduled to begin in 1999, and eventually reach 350 bcf by the year 2005. This deal has, however, led to criticism from the United States, which views the deal as supporting the current Iranian regime, and as a possible violation of its Oil Sanctions Act. In addition to pipeline gas, Turkey plans to utilise imports of LNG to help meet its demands. It was supplied 70 bcf of LNG from Algeria in 1994 at the terminal at Marmara Ereglisi (105 bcf per year capacity) as part of a twenty-year deal signed in the mid-eighties. Furthermore, Turkey has signed agreements with Nigeria, Qatar, Egypt and Yemen for supplies of LNG. In two instances it witnessed the disruption of natural gas supply. Turkey is vulnerable to natural gas supply disruptions, even though LNG supplies from Algeria and the LNG terminal allowing spot imports have increased its security of gas supply. The new gas storage capacity being envisaged, the new LNG terminals as well as new natural gas suppliers, will diminish the impact of a possible disruption in supply. Likewise, China is also poised to take critical decisions about its young, but promising, natural gas industry and is likely to import increasing volumes of LNG and pipeline gas early in the next century. Both China and Turkey are viewed by foreign investors as the last bastions of the rapidly growing energy markets in the world.

THE WAY AHEAD: CONCRETE PROPOSALS

Turkey's failure to attend to Asia in general and to China in particular will undoubtedly be a grave mistake. Beyond the rhetoric, Ankara has not evolved a comprehensive, cohesive policy toward this region for many years. Turkey really followed a Euro–American-centric approach and failed to take into consideration the importance of Asia. At the present, there is a growing realisation of the fact that it is where the world's future lies and Turkish foreign policy has not been devoting enough energy, drive or resources to its Asian policy. Few intellectual leaders in Turkey have recognised the depth of change in Asia and what it may portend for Turkey's future vision. The following suggestions have been made in the light of professional and personal experiences with the Middle Kingdom over the past decade.

First, Turkey should begin by enriching its knowledge of China, which is generally confined to well-known cliches, devoid of any substance and depth. The twenty-first century will be a period of intellectual power where people will succeed or fail according to their level of 'creative intellect', and where the quality and content of education will be the kernel ingredients. In the age of information, no policy decision stands any chance of success if it is not based on cross-checked, well investigated information, analysis and intelligence, gathered first-hand from the local and foreign sources. This vast country should be scrutinised in a selective manner through the lenses of Turkish experts—and not only through the perspective of foreign sources. The political leadership must take the initiative to call on a group of experts, drawn from the government, the academia and the private sector to produce a comprehensive strategy report on Turkey's new foreign economic relations into the next century. The report could identify the major emerging markets and sectors to which Turkey should channel its resources.

Second, the government could chalk out, in close coordination with Turkey's business and industry representatives, its long-term China (and Asia–Pacific) strategy and follow up vigorously the phases of its full implementation. Diplomatic and logistical (particularly information) support should be extended to Turkish enterprises doing, or desirous to do, business with China. In recognition of the increasing importance of exports and investments in the national economy and foreign policy, all government bodies should be prepared to assist Turkish firms in identifying and qualifying direct leads for potential buyers, agents, joint venture partners, and licensees from both private and public sources. These would include supporting participation of Turkish groups in important China fairs and exhibitions, organising small missions of Turkish groups to visit Chinese provinces in search of new business deals, preparing commercial publicity packages for Turkish companies participating in China fairs and missions, promoting Turkish goods or services at specially arranged seminars in important Chinese cities, and providing facilities for influential Chinese business leaders to visit Turkey to see what the Turkish companies have to offer.

Third, the Turkish–EU Customs Union scheme, the Turkish–US strategic partnership, the Black Sea Economic Cooperation and the Economic Cooperation Organisation are no doubt invariable in Turkey's foreign economic relations scenario and are likely to continue to be so in the foreseeable future; but new openings are urgently needed to overcome the current bottlenecks and to diversify the country's international exposure. A closer and comparative look at China reveals that the Chinese firms are among the strongest competitors of Turkish companies in the Middle East, the former Soviet Union and the western markets, particularly in such familiar sectors as light industry, textile, clothing, food products and construction business. Nevertheless, it represents such as huge market in need of almost everything that one may think of in gigantic proportions, which makes it possible to turn the perceived competition into mutually beneficial cooperation and partnership. Turkey must find ways of diversifying its export commodities destined to China, which are currently limited to selling iron/steel and fertiliser, by exploring innovative trade, investment and financing mechanisms, and learning from the experiences of China's other major economic partners. Otherwise, unstable swings in trade relations will remain the order of the day and Turkey will lag far behind other countries in fully exploring, and establishing itself in, the vast Chinese market.

Fourth, insisting that China should buy more products and services from Turkey or favour Turkish enterprises has not led to any tangible results and no serious outcome is likely to emerge from such futile efforts because of the changing nature of the Chinese economy. Turkish enterprises need to learn the hard way of doing business with China just like thousands of their competitors from all over the world. There is an intense competition to get a larger slice from this ever growing China pie. No longer can the central government in Beijing give contracts easily to its favourites. Most business contracts are being negotiated directly with the increasingly autonomous Chinese conglomerates and powerful provincial authorities. In fact, although Beijing feels uncomfortable because of its slackening hold over national economy decisions, the success of China's experience with socialist market economy lies exactly in this phenomenon of decentralisation in decision-making.

Fifth, transportation appears to be one of the most formidable obstacles to further development of economic relations between Turkey and China. Hence, priority should be given to projects aimed at reducing geographical distances. In this context, the Turkish Airlines could, without further delay, introduce direct flights to Beijing and possibly other major Chinese cities including Shanghai, Guangzhou and Urumqi. Increased human traffic will give a strong boost to trade and investment ties and open up new avenues for partnership. Maritime transportation also deserves immediate attention. There is currently an agreement in force between the two countries on maritime cooperation, which should be effectively implemented. Freight charges should be brought down to the level of Turkish competitors and waiting periods in ports be shortened. With the completion of the 10,000 km long Silk Rail Road from

China's eastern Pacific seaboard to the Dutch port of Rotterdam, Turkey's economic relations not only with China, but also with other countries to be transited on the way including Central Asia and the Trans-Caucasus will receive a boost and inject a new dynamism into the fabric of Turkey's relations. Linking up with the EU's TRACERA project and contributing to the completion of the Central Asian and Caucasian legs of this strategically important railway (later highway) are equally essential.

Sixth, as planned, Hong Kong reverted to Chinese sovereignty in June 1997 and so will Macao in 1999. These economies (perhaps Chinese populated Taiwan and Singapore too) are the critical gateways to China. Hong Kong's capital markets are a growing source for China's infrastructure and project needs. Hong Kong transformed itself over the past two decades into a major service centre, which exported $134 billion and imported $137 billion worth of goods and services in 1994. It is an ideal production, distribution and financing base for backing up any business operations in mainland China. In Hong Kong and other major Chinese cities such as Shanghai, Guangzhou and Urumqi, Turkish trade centres could be set up to pave the way for Turkish companies. These centres should be carefully developed and staffed with experts and managers well versed and experienced in the workings of the private sector and in the Chinese way of doing business. The Turkish private sector, rather than bureaucrats, should play a pioneering role in the process. The present Turkish Embassy in Beijing, equipped only to perform traditional diplomatic functions, also needs to be reinforced and reorganised, taking into account the special circumstances of China and bringing to the fore the dynamics of the prevailing neo-mercantilist economic/trade diplomacy conception. An efficient network of economic intelligence gathering and sharing could be established with all Turkish overseas missions, companies operating in the Greater Chinese Economic Area and Ankara.

Seventh, the presence of the Turkic and Muslim minorities in China's Xinjiang-Uygur Autonomous Region may be seen as an asset to reinvigorate relations between the two countries. They can, and should, play an active role in fostering closer economic and trade ties. In fact, a significant proportion of what is known as 'luggage' trade between the two countries has been transacted by Uygur Turks, whose population numbers no less than 7 million. There is also an increasing number of overseas Chinese in Turkey, particularly in Istanbul, who are expected to spearhead the efforts to enhance bilateral economic ties. It is equally important to reinforce the political atmosphere of mutual trust between Turkey and China through constant dialogue and with a view to avoiding any misunderstanding of the Turkish cultural and economic interest towards the Xinjiang region. Among its neighbours, Russia, Japan and India are most important to China. Russia is its largest Asian neighbour, a major geostrategic rationale is shaping the course of relations between the two countries. Friendly relations with China guarantee Russia's soft belly in its relations with the west, just as friendly relations with Russia guarantee the same for China. Russia is aware, that there is no alternative to greater technological, economic and cultural cooperation with China. There are more than 3 million Chinese living in Russia (particularly in the Far East and Siberia) and, according to some demographers, the Chinese could become the second largest minority in the Russian Federation as early as the first half of the next century, if the current trend of migration continues. Furthermore, Central Asia occupies a special place in China's new Asian policy. The fragmentation of the Soviet Union has re-ignited the ancient contest for influence in Central Asia. For former communist states, China represents one of the successful models to emulate in achieving the economic modernisation they all seek.

In general, Beijing's political interests in Central Asia have been defensive—the avoidance of disorder that would spread into the border province of Xinjiang. A modern 'Silk Road' should be built to link the regions in the next century and work has begun to construct such a link with rails and pipelines. Trade between the Xinjiang-Uygur Autonomous Region and Central Asian republics has grown rapidly, and China has established more than 180 companies or joint ventures in Kazakhstan alone. There are tensions as well as ties; Kazakhs protest Chinese nuclear tests near the border, while the Chinese protest the sanctuary Kazakhstan and Kyrgyzstan afford Uygurs seeking independence of Xinjiang, which they call Eastern Turkestan. To survive, however, Central Asia is conscious of the need to establish good relations with its two most powerful neighbours, Russia and China.

Eighth, several encouraging developments have raised hopes that Turkey, rather than Russia or Iran, will provide the most important export route for energy from the former Soviet republics. But the diplomatic and commercial contest is far from over—in spite of a series of upbeat predictions that a final decision on building a giant pipeline linking Baku in Azerbaijan with Ceyhan in southern Turkey is on the cards. The governments of the US, Turkey and Azerbaijan have all declared their strong support for this pipeline, which would cost around $2.5 billion and run through several potential zones of conflict on its 1,700 km route. But consensus still has to be reached among the partners in Azerbaijan's main oil consortium, which include the US, the UK, Russian, Turkish and Japanese concerns.

European companies such as Royal Dutch-Shell have expressed a strong interest in building pipelines across Iran, and a Franco–Russian contract has been signed to extract gas off the southern Iranian coast. These developments highlight the difficulties facing Washington in seeking to minimise the involvement of Iran in the region's long-term energy developments. But US officials insist that the outlook for their vision of the Caspian region's future—one of multiple pipeline routes designed to avoid giving any country a stranglehold—has brightened in a number of ways. First, Russia has moderated its position on the sharing of the Caspian's riches by joining Kazakhstan in calling for an early agreement on dividing the seabed's resources. Second, there are hopes of a settlement of the Caspian demarcation dispute between the gas rich state of Turkmenistan and Azerbaijan, a republic on which western policy has made high bets. Another intriguing factor to enter the equation is the prospect of 'gas leading oil'—with a gas pipeline shadowing the proposed oil pipeline from Central Asia to the Mediterranean and providing an extra justification for the use of that route.

Kazakhstan and Turkmenistan are both seeking alternative routes to their oil and gas exports and China has the potential to absorb a large proportion of their exports. China also undertook to build a pipeline from Kazakhstan to Iran. Given China's growing role as a player in, and buyer for, oil and gas in Central Asia, Russia and the

Middle East, it is extremely important that Turkey should enter into a serious dialogue with China on coordinating policies and seeking possibilities of joint ventures in Central Asian oil and gas schemes.

Ninth, the cultural aspect of doing business with China is extremely important and is at times the determining factor. Differences in cultural and traditional perceptions between China and the west need to be dealt with intelligently and in an enlightened spirit, and not by adopting an intolerant and superior attitude. The scale of economic and social achievements seen in China means that the west will have to come to terms with, and accommodate, China's new-found wealth and success. China is often the target of sharp criticism chiefly by western commentators who seem reluctant to give credit to China for its astonishing progress. On the contrary, what seems to draw maximum attention, as in the case of Turkey, are negative aspects, real or imagined. Due to the Oriental origins of Turkish business culture, ethics and traditions, as well as Turkish companies' vast experience of working in difficult terrain be it in Libyan deserts or in Siberian steppes, the chances of success of Turkish businessmen and industrialists in China are not surprisingly higher in certain sectors than their western competitors. Turkey's perceived comparative advantage in this respect may encourage western companies to link up with Turkish enterprises in their operations in China either as joint venture partners or sub-contractors.

Tenth, China is likely to face a severe food shortage in the first quarter of the twenty-first century and projections show that it will need 568 million tons of grain by the year 2030. Its current production is around 420 million tons. It is estimated that there will be a shortage of approximately 213 million tons of grain in the next thirty-five years. This estimation, however, does not take into account the likely demand which will arise as a result of rising standards of living between now and then. Since China will become a huge net importer of grain in the next few decades, while exploring new possibilities of cooperation between Turkey and China, the potential of the Turkish Southeastern Anatolia Project (GAP) should be kept in mind for meeting China's food and agro-industry requirements beyond the year 2000. Turkey could start preliminary discussions with the Chinese authorities on how Turkey could offer its vast agricultural potential to help China meet its food supply needs and monitor closely market developments.

Eleventh, establishing a strong presence in China for long-term market share must remain the primary strategic goal of Turkish companies, no matter how much cost is incurred on their operation in the initial stage. They need to be content with modest margins of profit and wait to reap the fruits of their perseverance, patience and initial sacrifice. Quick and easy short-term profits are long gone. Setting up resident offices in China is an absolute necessity if there is to be any opportunity for continued business on a long-term basis. Joint ventures with both the Chinese and third country companies should be encouraged, where possible. Eximbank credit facilities offered to Turkish businesses must be commensurate with the terms offered to rival companies in the market to ensure a level playing field. Transparent, performance based and well-defined government subsidies may be provided only if they are likely to generate long-term gains for Turkey.

Twelfth, Turkey must consider diversifying the range of its economic/trade ties with China, which may include not only commodity trade, but also the rapidly growing services sector. It seems that there are more business opportunities in this sector than in trade. Tourism offers one of the most promising areas in this respect. China will become one of the world's most attractive tourist destinations. Particularly the Silk Road, the end point of which is Turkey, appeals to a broad cross-section of tourists, led by the Japanese. In tourism activities destined to China, Turkey's management, personnel training and marketing experiences, as well as its international linkages can well be utilised, taking into account different tourist seasons in each country. The number of middle income Chinese is steadily increasing, they look for new and relatively less expensive destinations like Turkey. Other service sector activities include partnership in banking, insurance, advertising, marketing and consultancy.

Thirteenth, most of China's large-scale infrastructure projects are being funded by multilateral development banks such as the World Bank and the Asian Development Bank, of which Turkey is also a member, entitled to bid for such project tenders. It is, therefore, essential that an information network be set up to monitor closely the ICBs (International Competitive Biddings) opened in China for highways, railroads, airports, power generation plants, dams, telecommunication networks and pipelines, and bring them to the attention of Turkish companies operating in these areas. No matter how competitive the market will be, Turkey can step in to establish a reasonable presence in this booming infrastructure market, which is estimated to absorb an investment inflow of $750 billion over the next ten years. Turkish firms should be kept posted of all developments in this market and, where necessary, be given strong political support. Turkish contracting firms can enhance their prospects if they can afford to undertake a few prestigious projects on a massive scale in China, just as they did in Russia, even if these start-up businesses may lead to some initial losses or lower profit margins. Since the needs of China are so large, Turkish companies can do business even in critical areas where China and Turkey compete with each other such areas as construction, textiles, clothing and food industry.

Fourteenth, the focus should not be only on business and investment deals involving Turkey or China, the internationally recognised Turkish firms are ideally placed to strengthen China related business and investment links with third countries as well. It is not a distant possibility that Turkish companies may serve as an active bridge to revive the centuries-old Silk Road between China and the Turkish economic basin including the Middle East, the Balkans, the Trans-Caucasus and the European Union to market Chinese products and services or vice versa. To ensure this, Turkey must be prepared, of course, to offer more favourable terms than do other countries in the region. For instance, some area around the port of Mersin may be offered to the Chinese for use as an entry port and storage facility in a bid to replace the current Chinese trade outposts in the Greek part of Cyprus. The possibility of offering China some export outlets to the European Union customs area may also be considered. The long-term Commission strategy vis-à-vis China should be carefully examined to see whether Turkey can be involved in the Commission-financed cooperation, finance and business projects. After all, Turkey has become a part of the EU's common commercial policy through the Customs Union vis-à-vis China.

Fifteenth, in addition to traditional diplomacy, it is important to promote Turkey's public diplomacy to sway influential Chinese groups. The significance that Turkey attaches to expanding economic and trade relations with China must be demonstrated through frequent exchange of visits at all levels. After being postponed several times, President Suleyman Demirel finally paid a state visit to China from 23 to 27 May 1995. For such high level political visits to be successful, they should necessarily go beyond routine protocol and rhetoric. They offer a unique opportunity to bring to life projects and proposals, which will serve mutual interests, and the groundwork for which needs to be laid down well in advance. A presidential summit meeting once in every two years should be instituted. The success of all Turkish state missions to China should be assessed against the background of the business and investment opportunities created for Turkish businesses, besides other possible diplomatic accomplishments.

Besides these proposals, other projects may include energy cooperation schemes with China, particularly in the fields of oil and gas pipeline construction and development of small hydro-power plants; cooperation in defence industry projects involving co-production of light weaponry, ammunition and armoured vehicles (on the basis of the similar defence industry arrangements that exist between China and other NATO countries); making greater use of Turkey's Chinese language teaching institutions, employing better the skills of Turkish Sinologists, improving the quality of analysis and policy advises about China and the Asia–Pacific region by creating a new Asia–Pacific think-tank group; launching publicity campaigns to increase awareness among Turkish business and industry groups of China's importance as a major market, helping organise and participate in China exhibitions and fairs; promoting greater economic and trade ties with Taiwan without creating political sensitivities in mainland China; and expanding the scope of Turkey's cultural, economic and political relations through the Chinese media. The recent visit to China by Foreign Minister Ismail Cem (February 1998) highlighted once again the political will on the part of Turkey to 'open a new page' in the historic Turco–Sino relations. The Chinese side, as always, responded positively but cautiously, to this initiative. Both sides agreed to develop concrete proposals, which will form the basis for further development of the relationship.

FUTURE PROSPECTS

Forging an effective Turkish strategy in Asia and particularly China is an urgent task. This will demand presidential, governmental and business leadership, a sense of direction and hard work. To plan and carry out such a strategy, Turkish political and corporate leaders would do well to take a stock of resources, instruments at hand, and tap the talents of hundreds of Turkish who have studied, lived and worked in the region. All relevant players must be involved in this process. Turkey cannot, and should not, restrict itself to a single level of economic interaction with other nations. The European Union countries are Turkey's largest trading and investment partners. The North American Free Trade Agreement (NAFTA) countries offer good prospects. Latin America must figure prominently in Turkey's future economic/trade strategy. Turkey's immediate neighbours deserve priority attention. In spite of these factors, Turkey must set eyes on East Asia to test the ground for its twenty-first century projections. Turkey should cease to merely reacting to, or falling in line with, other countries' policies. Ankara should begin to innovate and engineer its own policies toward the Asia–Pacific region, a region that constitutes more than half the globe and that may well determine the fate of Turkey's trade and investment growth in the coming century. China remains the key country to enter into, and consolidate in, this region. As Turkey looks to the period ahead, the future of China and of Turkey's relations with China appear promising, should the right policies be formulated and put into practice. For future relations to gain in substance, Turkey and China should work together to develop new areas for common action and cooperation aimed at fostering their economic development and maintaining stability in their neighbourhood.

President Demirel's visit to China in May 1995 raised high hopes for the future development of bilateral relations and the enthusiasm of Turkish companies for doing more business with China. This momentum should be maintained and supported with new initiatives because sustaining engagement in China is vital to Turkey's future interests. Closer government ties are essential, but in a period of generational change on both sides, Turkey also needs to deepen interaction at every level. Cooperation should be bolstered in regions where both countries share common interests and historic ties. Of course, nowhere is Turkey's regional cooperation more important than in meeting the new challenges and opportunities facing Central Asia, Russia and the Middle East. Yet, despite all good-intentioned promises and policy statements, a long-term commitment to China is still lacking, and the relationship between Turkey and China needs to be further cultivated beyond the traditional issues in recognition of the growing economic and geo-strategic significance of this region and China's growing vital links with the Middle East and Central Asia. The Turkish government and the private sector should respond to the new China challenge. Turkey must act keeping in mind that those who look only to the past are certain to miss the future.

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