China’s Role in Shaping the Future of Afghanistan

Summary

• China has steadily increased its economic aid and investment in Afghanistan, most notably with a $3.5 billion deal to develop the Aynak copper mine. At the same time, it plays a very limited security role and has refused any direct military involvement.

• Western commentators have eyed China’s approach to Afghanistan with suspicion and resentment, accusing China of “free-riding” and snapping up investment deals at the expense of the United States, which is paying dearly in blood and treasure.

• While the United States and China share the goal of a stable and prosperous Afghanistan, fundamental differences in their basic strategies exist. China does not want to pressure Pakistan, nor does it want to align itself too closely with the United States, for fear of exacerbating the terrorist threat to itself or facilitating a long-term American presence in the region. By maintaining its distance and even-handed diplomacy, Beijing is positioning itself to work with whoever controls Kabul.

• China has the potential to make important contributions to Afghan stability. State-owned Chinese corporations are uniquely risk-tolerant and can help pave the way for future investments. The Chinese also enjoy a more positive relationship with Afghans, making their investments less likely to be targeted for attack by insurgents. These investments can stimulate economic growth that aid money alone cannot.

• U.S. policy makers should work with Afghanistan to ensure that such investment benefits the local people. Given China’s reluctance to openly cooperate with the United States in Afghanistan, Washington should help Kabul to effectively manage and maximize the positive impact of China’s involvement in Afghanistan through better aid coordination, transparency, and training.
Afghanistan’s “New” Resources

A recently released report announcing vast, untapped, and potentially lucrative mineral reserves in Afghanistan has renewed hopes that such resources could hold the key to the country’s future. According to the team of U.S. geologists and Pentagon analysts who conducted the study, Afghanistan’s deposits of iron, copper, niobium, and other minerals could be worth at least $1 trillion. Afghan officials, noting that 30 percent of the country had yet to be surveyed, estimated the actual worth to be three times that amount.

The Karzai government called it “the best news we have had over many years in Afghanistan,” and U.S. officials heralded the discovery as a way for the war-torn and aid-dependent nation to achieve economic self-sufficiency. An internal Pentagon memo even raised the possibility that Afghanistan could become the “Saudi Arabia of lithium” and General David Petraeus said the discovery had “stunning potential.”

Yet the sense of euphoria coming from Kabul and Washington was also met with an equal dose of skepticism from outside observers, who charged that the curiously timed report sought to reinvigorate flagging domestic and international support for the war. Indeed, the good news broke exactly one week after the Afghanistan conflict surpassed Vietnam as the longest war in U.S. history and just one day before Petraeus was scheduled to testify before Congress on the war’s progress. It also came at a decidedly low point in U.S. involvement in Afghanistan, with negative reports about both insurgents and the Karzai government dominating the headlines.

Nor was the report’s discovery exactly “new.” The geological data it cited was collected several years ago, and the Soviets have known about Afghanistan’s mineral wealth since they conducted the country’s first geological surveys in the 1980s.

A Game-Changer or a New Great Game?

Still, the report has reinvigorated debate about the future role of regional powers in the long-term strategic and economic future of Afghanistan. Indeed, the rich mineral wealth has the potential to help Afghanistan to achieve self-sufficiency and stability or to succumb to the so-called “resource curse,” with the newly found wealth leading to corruption and factional conflict that hinder development and weaken the state.

As former Afghan finance minister Ashraf Ghani put it, “Either we become Congo or we become Botswana or Chile. If we don’t get governance of the sectors right, [Afghanistan] will become a bastion of instability, corruption and criminality. On the other hand, it’s a game changer: for the first time in our history we have the possibility of domestic resources … to be able to
afford both security … but more significantly to be able to provide substantial services to the population.”  

Viewed from a regional perspective, mismanaged mineral wealth might also put Kabul in an untenable position, strengthening both the domestic insurgency and renewing the “great game” competition between major powers for influence on and control of Afghan resources. Perhaps more than any of the other powers, China will likely play an increasingly important role in the future of Afghanistan.

**China’s Afghan Policies**

China has consistently enjoyed positive relations with its Afghan neighbor. After the United States invaded Afghanistan in 2001, China became one of the first nations to establish official relations with President Hamid Karzai and the Afghan Transitional Authority, reopening its embassy in Kabul in February 2002 (after a seven-year absence) and almost immediately providing about $5 million in emergency humanitarian aid.

This initial show of goodwill was followed by additional promises of reconstruction aid, as well as steadfast diplomatic support, including China’s participation in the Kabul Declaration on Good Neighborly Relations (a joint statement in which the six countries bordering Afghanistan agreed to respect its sovereignty and territorial integrity), and support its peace process with the Taliban and reconstruction efforts. China and Afghanistan have subsequently signed multiple bilateral agreements to advance overall relations and facilitate closer and deeper economic and technical cooperation.

Over the past eight years, China has steadily increased its involvement in Afghanistan. It has provided a total of nearly $200 million in foreign assistance and ramped up its economic investment, outbidding competitors by $1 billion in 2007 to win the rights to develop the $3.5 billion Aynak copper mine and establishing itself as Afghanistan’s single largest foreign investor. The already generous bid by the state-owned China Metallurgical Corporation (MCC) also included promises to build a 400-megawatt electrical plant and accompanying schools, mosques, clinics, and even a railway—all generating an estimated 4,000 jobs.

While China has not sent military troops to Afghanistan, it has provided limited training for Afghan police and mine-clearing teams. There are also rumors Beijing is courting Karzai to provide security training to Afghan troops after the United States withdraws. If the deal is completed, China would gain valuable counterterrorism experience, a more secure border along its restive Xinjiang Uyghur Autonomous Region, and a larger foothold in Afghanistan.
It is not hard to see, then, why Beijing already looms large in Kabul’s strategic calculations. As its relations with the United States remain strained, the Karzai regime may increasingly look to China for both leverage and support. The recent “discovery” of mineral wealth is likely to increase China’s economic interest in the country and bind more tightly the interests of Beijing and Kabul.

**U.S.–China Cooperation in Afghanistan**

Because China and the United States share the same basic goal of stabilizing Afghanistan, there is at least theoretical potential for cooperation. U.S. observers have suggested that Beijing could use its special relationship with Islamabad to cajole the Pakistani leadership to intensify its counter-insurgency efforts. Others have called for China to open up its border with Afghanistan to serve as an alternate route for troops and supplies or even to send Chinese peacekeepers or combat troops to assist the U.S.-led International Security Assistance Force (ISAF).

However, China is reluctant to place too much pressure on Pakistan; having a strong ally in the region is a central tenet in China’s geostrategic calculus. In addition to providing a degree of “strategic depth,” by serving as a friendly geographic buffer state, Islamabad helps Beijing maintain a more favorable balance of power vis-à-vis India, the Central Asian republics, and U.S. regional involvement.

Beijing has also steadfastly refused to send troops, employ the direct use of force, or even cooperate openly with Washington. It fears that aligning itself too closely with the United States will exacerbate the terrorist threat to itself or facilitate a long-term American presence in the region.

This reluctance to cooperate stems from divergent strategic perceptions. While the United States prefers a decisive military victory and an Afghan government free from Taliban influence, China doubts that either is possible. Consistent with its five principles of peaceful coexistence—which emphasize non-interference and respect for sovereignty—China has indicated that it prefers a peaceful negotiated settlement to the war in Afghanistan, and even if the final settlement includes or is controlled by the Taliban, China will likely accept and work with whoever holds power in Kabul.

It is clear that there are serious limits to U.S.–China cooperation in Afghanistan. China’s economic interests in Afghanistan play a supporting role to its larger strategic considerations, which are different from those of the United States. Beijing’s investment-centric approach allows it to make friends and preempt enemies; support stabilization while maintaining its distance from troubled ISAF efforts; and enhance its own position with the Karzai regime as well as its possible successors. Compared to the alternatives, it achieves these objectives at a minimal cost. China is not willing to bleed for
its Afghan investments the way the United States is hemorrhaging lives and money to stabilize the country.

Is China Getting a “Free Ride” in Afghanistan?

Western commentators tend to eye China’s approach with suspicion and resentment. They see the country’s involvement in Afghanistan as a burden-shirking variant of the “rogue aid” narrative, with China supposedly snapping up mineral resources in Afghanistan at the expense of Western firms and undermining international norms.

As a prime example, many commentators point to China’s landmark bid for the Aynak copper mine. The deal was mired in reports of corruption and bribery, and its continued development rests on security provided by the ISAF, a force that has received neither Chinese troops nor monetary support.14

While Afghans associate the United States with providing air strikes, soldiers, and support for the corrupt Karzai regime, they see China as pouring billions of dollars into investment projects. “The Chinese contribution (to Afghanistan) is as important as that of Western troops,” Afghan Minister of Commerce and Industry Mohammad Yalaqi noted earlier this year.15 His emphasis on development over security reflects the sentiments of the Afghan people. A recent United Nations Development Programme report that polled more than 5,000 Afghans showed unemployment as the single greatest source of insecurity in Afghanistan—higher even than the Taliban, warlords, or foreigners.16

Despite the hype surrounding China’s investment in Afghanistan, the actual amount of its economic aid has been quite modest. The approximately $200 million that China has committed to Afghanistan over the past eight years represents just a tiny fraction of its global foreign aid, which totaled an estimated $25 billion in 2007 alone.17 And just $58 million of the pledged amount has been disbursed.

This number further pales in comparison to the nearly $48 billion in foreign assistance that the United States has spent on Afghanistan since 2001. While the United States is by far the single largest provider of foreign assistance to Afghanistan, China ranks twenty-fourth, behind such donors as Finland, Turkey, and Italy.18

This mismatch between U.S. and Chinese contributions to Afghanistan has drawn the ire of many American commentators, who think China is getting a free ride for its modest contributions. As analyst Robert Kaplan noted, “The problem is that while America is sacrificing its blood and treasure, the Chinese will reap the benefits.…”19 Or, as S. Frederick Starr, chairman of the Central Asia-Caucasus Institute, put it more bluntly, “We do the heavy lifting, and [China] picks the fruit.”20
While understandable, such resentment alienates both China—which believes it is contributing to Afghanistan’s development and offering generous investment in an environment full of financial and physical risk—and Afghanistan, which is grateful for the support of its faltering economy. It also reinforces pre-existing U.S. anxieties about China’s growing assertiveness and Chinese allegations of U.S. hypocrisy and hegemony. Such complaints, then, hinder U.S.–China cooperation and do nothing to address the increasingly intractable situation in Afghanistan.

**Limits on Chinese Economic Support**

In addition to pointing out the inequity of China’s rewards in Afghanistan, commentators have tended to overstate the magnitude of its economic success there. Indeed, Chinese investments are not without their share of problems. Some industry experts are skeptical of the generous terms of China Metallurgical’s (MCC) Aynak tender. Not only did the deal include a magnanimous package of amenities, it also awarded an $808 million premium to the Afghan government, among the highest ever recorded. The near 20 percent royalty rate was practically unheard of and was well above the average 3–5 percent for similar mining ventures. As a result, some have predicted that MCC might be forced to renegotiate the terms of the agreement or shift parts of the project onto the backs of international donors.

The spotty records of MCC and other Chinese conglomerates elsewhere also suggest that China may have promised more than it can deliver in Afghanistan. In areas lacking a strong rule of law and a predictable regulatory environment—such as Pakistan, Papua New Guinea, and Gabon—Chinese projects have been plagued by a lack of transparency, miscommunication over partnership terms, and lax environmental standards. Disputes have also erupted between Chinese companies and local communities over terms of resettlement, working conditions, and biased hiring and procurement policies that create isolated Chinese enclaves and bring little benefit to the local population.

The Aynak project is already running into problems. Although MCC originally planned to begin production in Aynak in 2011, it is now estimating a 2013 start date. Large-scale mining operations take an average of 7–10 years to become profitable under the best of circumstances, and can take as long as two decades, given the complex and expensive process of tunneling, blasting, processing, and transporting the minerals.

To succeed, mining projects require ready access to plentiful water, reliable electricity, and an extensive logistics network including roads, railways, and maintenance facilities, none of which is in ready supply in Afghanistan. Add to this the remote location of the Afghan mineral deposits and the volatile security situation surrounding them, and mining becomes even more difficult.
China’s Potential Contributions

Given the troubles in Aynak, China’s Afghan investments should not be seen as efforts to lock down mineral resources at the direct expense of the United States, but as risky but welcome down payments on the future stability of Afghanistan. Indeed, China enjoys a unique position to contribute to the peace and security of the war-torn nation.

First, Chinese firms can establish a beachhead in Afghanistan and pave the way for further investment by other companies. The Chinese mining industry is dominated by state-owned enterprises, which take their directives from the top levels of the Chinese government. Although this state ownership constrains corporate autonomy, it provides a degree of insulation from market risks and, to some extent, alters the perception of risk itself—a single corporation may be willing to accept losses in the context of advancing larger national strategic goals, such as securing global commodity supplies.

The state-owned enterprise status of Chinese firms also grants them special access to low-interest, government-backed financing. For example, Chinese mining companies often work closely with the China Exim bank, the China Development Bank, and other government agencies to embed their investment bids in comprehensive deals. In contrast, Western firms are publicly held and accountable, must prove the feasibility of their investments to shareholders, and provide a reasonable expectation of returns. If ventures like Aynak succeed, they will help prove that Afghanistan is a viable place for foreign investment, despite the precarious security situation. This could encourage other foreign businesses to invest in Afghanistan.

Second, compared to the United States or other ISAF countries, China enjoys a stronger political relationship with the Afghan government and people, making its investments less likely to be targeted by militants. Despite tensions surrounding the Chinese treatment of Uyghur Muslims in Xinjiang, Afghan insurgents do not generally attach the same level of hostility to China as they do to the United States.

Indeed, many Chinese analysts acknowledge that they are “enemy number two” and take a correspondingly measured attitude toward the Afghan Taliban. Prominent scholar Jin Canrong described this trend as one in which “China perceives that the Taliban have coalesced with the ethnic Pashtun majority, and therefore hesitates to act against it.” By virtue of its even-handed diplomacy and its close regional proximity, China sees itself as uniquely positioned to be a fair mediator of the conflict in Afghanistan.

Implicit in this approach are the influences of developing country solidarity and soft power, with China disassociating itself from the occupying Western forces and instead concentrating on investments and cultural exchanges, like the recently opened Confucius Institute at Kabul University and the Aynak project. If Aynak succeeds, it will provide local jobs and help put the Afghan
economy on surer footing—something that all parties, including the United States, would like to see.

Lastly, China can help ISAF efforts to stabilize the country by quickly committing to and providing long-term economic investment in Afghanistan. Projects like Aynak have the potential to generate continuing growth, create jobs, and stimulate other sectors of the economy through contract work. And as the world’s single largest user of copper, iron, and almost all other metals, China is one of the most important drivers of the global mining industry. Coupled with its ambitious plans to build extensive transport and energy links with Central Asia, China, along with neighbors like India, is a natural export destination for Afghanistan’s minerals. This has far greater economic implications than one-time foreign aid to build roads, for example. China can help fill Afghanistan’s economic void.

Policy Implications for the United States

China’s increased involvement in Afghanistan carries significant policy implications for the United States. Absent a significant and sudden change in Afghanistan, differences between the two countries are likely to persist. The challenge for U.S. policy makers is not to eliminate competition, but to manage it wisely.

First and foremost, the United States should make greater efforts to formally coordinate domestic and international aid to Afghanistan. As the single largest source of both military forces and non-military assistance, only the United States can realistically integrate the efforts of disparate donors who often have competing priorities.

Current U.S. aid efforts also suffer from the dilemma of sending too much money too quickly, without the adequate oversight or organization to effectively manage it. By streamlining its own assistance efforts and coordinating with international counterparts, the United States can provide the leadership and vision necessary to ensure that foreign aid truly benefits the Afghan people.

This support includes helping Afghanistan to improve the transparency of its public procurement and investment contracts. Specifically, Washington can provide resources and training to build Afghan capacity to make information accessible to the public, through the media as well as outreach efforts to relevant stakeholders (including local populations); assist with independent accounting and auditing; monitor the compliance of contracts; and provide training to help experts ensure a fair and transparent bidding process for Hajigak, the country’s largest iron deposit, in September 2010.

Second, the United States can take steps to foster private enterprise in other sectors of the Afghan economy to support the mining industry. The economic
The impact of foreign investments such as Aynak will depend largely on the country’s ability to support domestic outsourcing. If firms are unable to find suitable domestic contractors to provide mining support, they will look elsewhere—which will not help improve the Afghan economy.

The United States Agency for International Development (USAID) could make economic development outside of the mining industry a higher priority by expanding its relatively small efforts to provide technical and administrative training for businesses, improving access to credit by granting small loans, and developing guidelines that would create a more favorable legal and regulatory environment for businesses.

Third, the United States should train Afghan officials to develop foreign assistance and investment. It has already started some promising programs that send Afghan female diplomats and civil servants to receive intensive training in Washington.\textsuperscript{33} It could expand these initiatives and offer technical geological or mining training to create more Afghan skilled workers who can take ownership of key jobs in the mining industry. Capacity building, in both public and private sectors, is necessary if Afghanistan is to wean itself off foreign assistance.

Chinese companies are starting to adopt corporate social responsibility principles, but such efforts are still limited in scope and depth. MCC, for instance, did not conduct an environmental impact assessment of its Aynak investment. The United States could work with Afghanistan to promote better corporate stewardship by ensuring that due diligence is conducted before future contracts are awarded. Specifically, it could train Afghan officials on best practices for effective environmental and social impact assessments. It could also help develop technical solutions for problems like waste and water management.

More can clearly be done to harness the potential of Chinese investment to improve the Afghan economy but, at the same time, it is important to maintain a realistic sense of the limits of the endeavor. The United States cannot simply inject money into the right projects and fix the Afghan government, which Transparency International ranked as the second most corrupt in the world.\textsuperscript{34} And Chinese investment is not a panacea; it provides just one of the many pieces needed to rebuild the Afghan economy.

Development experts have estimated that Afghanistan will need at least six to eight successful Aynak-sized investments before its economy is on the right track for the long term.\textsuperscript{35} Still, Chinese investment gives Afghanistan a realistic chance to begin what will inevitably be a long and arduous process of reconstruction. Despite concerns to the contrary, it is in the Washington’s interest if projects like Aynak succeed. The outcome for Afghanistan could prove disastrous if they fail.
NOTES


3 See, for example, Jeffrey D. Sachs and Andrew M. Warner, “Natural Resource Abundance and Economic Growth,” Center for International Development and Harvard Institute for International Development, O4, Q0, F43, November 1997.


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