



The Role of China in Afghanistan's Economic Development & Reconstruction

Steven A. Zyck

Afghanistan Team Leader & Economic Development KM

steve.zyck@cimicweb.org

*This report examines the contribution of the People's Republic of China to reconstruction and development in Afghanistan, with a particular emphasis on mining and natural resource exploitation. Related information is available at www.cimicweb.org. **Hyperlinks to source material are highlighted in blue and underlined in the text.***

On 05 December 2011, at the Second International Bonn Conference on Afghanistan, China's Minister of Foreign Affairs declared the following: "The Chinese people [cherish friendly sentiments toward the Afghan people](#) and sincerely hope that peace, stability, independence and development will come to Afghanistan at an early date. We will work with the international community and make our due contribution to the achievement of this goal." Such comments reflect China's engagement with Afghanistan's development, which has, since March 2010, taken place in the scope of the China-Afghanistan [comprehensive cooperative partnership agreement](#), according to *Eurasia Review*. The topic of Chinese involvement in Afghanistan is taken up in this report, which primarily focuses upon China's contribution to development and natural resource exploitation in Afghanistan. This review of Chinese engagement is divided into the following sections: (i) aid and development financing, (ii) bilateral trade and (ii) investment in natural resources. It builds upon previous CFC work concerning this issue, including a May 2010 report on "[Chinese Involvement in Afghan Development](#)".

Chinese Aid & Development Financing

Various sources provide differing estimates of Chinese aid to Afghanistan over the course of the past decade. *China Daily*, for instance, indicates that China offered [USD 131 million](#) to Afghanistan from 2002 to mid-2010. The Afghan Ministry of Finance's (MoF) Donor Assistance Database puts the figure at [USD 146 million](#). Offering a higher and more commonly-cited figure, a September 2010 report from the [Carnegie Endowment](#) says that



China may have allocated approximately [USD 200 million](#) for Afghanistan.¹ However, both the Carnegie report and the Afghan MoF's database say that China has actually [disbursed only USD 58 million](#) in aid for Afghanistan. With the Organisation for Economic Cooperation and Development ([OECD](#)) reporting that international donors have provided USD 33.46 billion² to Afghanistan between 2002 and 2010, the highest estimated Chinese contribution (i.e., USD 200 million) amounts to approximately 0.60% of the total. Such figures, it must be noted, are based primarily on data as of early 2010. In 2011, for instance, China pledged a further [USD 75 million](#) for Afghanistan over a five-year timeline, reports *Foreign Policy* magazine.

Chinese aid to Afghanistan is significantly less than its assistance to other developing countries. USD 200 million spread across nine years amounts to approximately USD 22.2 million per year between 2002 and 2010. In comparison, research from the Center for Global Development ([CGD](#)) suggests that Chinese aid globally amounts to between [USD 1.5 billion and USD 2 billion annually](#).³ Afghanistan's share of total Chinese aid is, therefore, relatively minor at roughly 1.10% to 1.47%. According to the *Agence France-Presse (AFP)*, in response to the widespread Pakistani floods of 2010, [China pledged USD 200 million](#) in aid, an amount equivalent to all of its aid to Afghanistan over nine years.

Reports from the US Army War College's Strategic Studies Institute ([SSI](#)), the Carnegie Endowment, the *Associated Press (AP)* and other sources indicate that China has been involved in a number of specific projects in Afghanistan, including: (i) [USD 5 million](#) for humanitarian aid in February 2002; (ii) [an irrigation initiative in Parwan province](#)⁴; (iii) the re-building of hospitals in Kabul and Kandahar cities;⁵ (iv) the construction of the [USD 25 million Jamhuriat Hospital](#) in Kabul in 2010; and (v) the establishment of the [Confucius Institute](#) at Kabul University in 2010.⁶ In addition, for at least five years, [China has provided scholarships](#), approximately 30 per year, for Afghans wishing to attend Chinese universities, according to *Foreign Policy*.⁷ The number of Chinese scholarships for Afghans was increased to 50 per year in late 2011. Further details regarding Chinese aid to Afghanistan are, however, not publicly available.



Map of Afghanistan, China and the Wakhan Corridor. The Wakhan corridor is a narrow strip of land connecting China and Afghanistan. The two countries share a 74-km border, which has remained closed despite international calls for China to [open the border for commerce](#), according to a [Jamestown Foundation](#) report.

Map available from [US National Public Radio](#).

¹ Data on aid from China to Afghanistan is not included in the [AidData](#) project, which attempts to track multiple sources on official development assistance flows.

² This amount includes only funds actually disbursed to or for Afghanistan and not pledges or commitments which have not been provided.

³ Including "soft" loans and government-sponsored investments, a report from New York University (cited by the US Congressional Research Service) found that China had provided [USD 25 billion in aid in 2007](#) to Africa, Latin America and South-east Asia. South and Central Asia were not included in the NYU study. This study found that China had only recently become a major aid provider but had taken the task very seriously, contributing rapidly escalating resources to this task, including: USD 51 million in 2002, USD 1.5 billion in 2003, USD 10.4 billion in 2004, USD 10.1 billion in 2005, USD 27.5 billion in 2006 and USD 25 billion in 2007.

⁴ This project was the subject of a [January 2012 article](#) in *Xinhua*, the Chinese state news agency.

⁵ The hospital in Kabul is reportedly the Kabul Republic Hospital, according to Avinash Paliwal's August 2011 report entitled "[Silent Game: China's Engagement in Afghanistan](#)".

⁶ It does not appear likely that these final two projects are included in the estimation of Chinese aid to Afghanistan provided earlier in this section. Those estimates were published primarily in the first half of 2010.

⁷ Scholarships for foreign students may not necessarily be included in estimates of foreign aid between countries.



In addition to its aid programme, China has been actively involved in Afghanistan’s economic development through the promotion of bilateral trade and investment (*discussed below*). China has also take additional steps which, while not intended as a form of aid to Afghanistan, may nonetheless contribute to Afghan development. These include, most notably, the contribution of financing for the construction of the [Pakistani port at Gwadar](#), according to the *Asia Times*. This port could reportedly serve as a means of more easily importing goods into Afghanistan and could facilitate the export of Afghan agricultural and industrial products, including natural resources.



The Pakistani port at Gwadar.

Map adapted from the [Hollows Foundation](#).

Bilateral Trade

In order to promote trade cooperation, Afghanistan and China signed a [bilateral economic cooperation agreement](#) in 2006, according to a report from India’s Observer Research Foundation ([ORF](#)). As a result of this agreement and the subsequent formation of the [Sino-Afghan Economic Trade Committee](#), the two countries agreed to lift customs duties on 278 commonly-traded items, according a study by the Norwegian Peacebuilding Centre ([NOREF](#)). However, as data from the Chinese Ministry of Commerce ([MoC](#)) demonstrates, Afghanistan’s imports from China have far outstripped Afghan exports to China (*see Table I*).

Table I. Trade between Afghanistan and China, 1999-2009

Year	Chinese Exports to Afghanistan (USD Million)	Chinese Imports from Afghanistan (USD Million)	Total Value of Trade (USD Million) ⁸
1999	16.68	2.90	19.58
2000	19.89	5.40	25.29
2002	19.92	0.08	19.99
2003	26.45	0.61	27.06
2004	56.97	0.95	57.92
2005	51.21	1.56	52.77
2006	100.47	0.19	100.66
2007	169.00	2.00	171.00
2008 ⁹	152	3	154
2009	215	1	216

Source: Data for 1999 to 2008 is from Stina Torjesen, “[Fixing Afghanistan: what role for China](#)”, *Noref Policy Brief*, Norwegian Peacebuilding Centre, June 2010. Data for all years and specifically for 2009 originates from the statistics section of the [Ministry of Commerce, People’s Republic of China](#). Data for 2010 and 2011 is not yet available from the Chinese Ministry of Commerce.

China does not rank among the [top five importers of Afghan products](#), which included the following in 2010 according to the *CIA World Factbook*: Pakistan (25.9% of Afghan exports), India (25.5%), the United States (14.9%), Tajikistan (9.6%) and Germany (5%). With Afghanistan having exported USD 603 million in 2008, China’s share of Afghan exports in that year was one half of a percent.

⁸ Note that numbers in this column may not be the exact sum of the numbers in the preceding two columns due to rounding.

⁹ Figures for 2008 and 2009 are less detailed than in previous years; hence, decimal places are omitted.



Natural Resource Exploitation

The value of Afghanistan's [natural resource endowment](#) has been estimated at up to USD 3 trillion, according to Afghanistan's Ministry of Mines ([MoM](#)). China has reportedly been involved in gaining the rights to Afghan mineral deposits. This section addresses two major Chinese acquisitions of mineral rights in Afghanistan: (i) the Aynak copper deposit in [Logar](#) province and (ii) oil fields in [Sar-e Pul](#) and [Faryab](#) provinces. Reference is also made to the Hajigak iron ore deposit, which Chinese firms unsuccessfully sought the rights to in 2011.

MCC and Aynak's Copper

The Metallurgical Group Corporation of China ([MCC](#)), a state-owned firm, was awarded a [30-year lease](#) to the Aynak copper deposit in May 2008 for [USD 3.4 billion](#), according to the *Eurasia Review*. In addition, *EurasiaNet* notes that the firm offered an additional [signing bonus](#) of USD 808 million to the Afghan government. According to a [report by US Air Force Colonel Greg Kleponis](#), the Chinese government provided a generous bid far exceeding that offered by competing firms. The bid included not only generous royalties of 20% on extracted copper but also a 400 MW power plant¹⁰, water supply and purification systems, a coal mine, a smelter to refine copper ore and a cross-country railroad from northern Afghanistan to Pakistan. The bid also reportedly included pledges to build schools, roads and mosques for populations in areas adjacent to the mine. The specific text of the Chinese bid and the agreement between the Afghan government and MCC [has not been released](#), according to the *Inter Press Service (IPS)*.

The Aynak copper deposit is believed to be the second largest in the world and was sought by China in order to help feed its [growing need for raw materials](#) to facilitate the expansion of its infrastructure, according to a 2010 CFC report on "Chinese Involvement in Afghan Development". Media reports described the Chinese bid as a major breakthrough for Afghanistan and indicated that it would produce a number of benefits, including rising revenues for the Afghan government and [up to 30,000 jobs for Afghans](#), according to the Embassy of the Islamic Republic of Afghanistan in Washington, DC. With regard to employment, the mine was expected to directly generate 10,000 jobs and spur the creation of perhaps another 20,000 jobs in associated and supporting industries. While some analysts suggested that China was "free riding" by gaining access to Afghan resources without contributing military forces or sizable reconstruction financing for Afghanistan, others noted that the investment could have positive implications for peace and security, according to a report on "[China and the 'AfPak' Issue](#)". It was hoped that the mining revenues would help finance the Afghan National Security Forces ([ANSF](#)) and supplant an eventual decline in foreign aid for Afghanistan. In addition, many hoped that jobs would serve to allure some young men away from the Taliban by providing them with a financial stake in stability.

Other analysts noted that such stability benefits should not necessarily be treated as a given, particularly in the short or medium terms. Under normal circumstances, large-scale mine operations require [seven to 20 years](#) in order to become profitable, according to the Carnegie Endowment report. In addition, revenue and jobs associated with the mine may not be generated until related infrastructure, particularly railroads, are in place to [transport the ore](#) and processed materials to China. With a [feasibility study for the trans-Afghan railway](#) having been launched



Map of Aynak.

Map available from: [The Los Angeles Times](#).

¹⁰ This power plant would serve not only the mine operations and surrounding areas but also Kabul.



only in 2011, according to *The Times of India*, near-term progress on extraction at Aynak is described as being unlikely.

A report from the US Congressional Research Service ([CRS](#)) suggests that the Chinese bid was not only generous, it may have been [unrealistic](#). Kenneth Katzman, writing for CRS, indicates that MCC's bid was "generous to the point where it might not be commercially profitable". The transnational railway proposed by China would cost [approximately USD 6 billion](#), according to figures cited by the *Asia Times*. In addition, royalties of 20% on copper ore are more than five times the average for similar, private-sector mining projects. The Carnegie Endowment report indicates that China has, in other developing countries, offered exceptionally high bids and then re-negotiated the terms with national governments several years later. Other analysts such as Tom Lynch of the US National Defense University ([NDU](#)) have also raised concerns about the project. He told *Politics Daily* that "[t]he Chinese have a [checkered record at best](#). They don't deliver, and when they do, they've left a trail of heartbreak." Lynch suggested that Chinese companies involved in resource extraction have tended to make promises to local communities but often ignores them and does lasting harm to the environment in areas where it extracts natural resources. Such statements are reiterated by the Carnegie report, which indicates in Pakistan, Papua New Guinea and Gabon, where China has also undertaken natural resource extraction [it has been accused of the following](#): "a lack of transparency", "miscommunication of partnership terms", "lax environmental standards", and disputes with local communities over working conditions, biased hiring and procurement practices and inadequate assistance for villages displaced by mining.

Box I. Corruption and the Extractive Industries

Analysts such as those from the [U4 Anti-Corruption Resource Centre](#) have highlighted that extractive industries such as mining [may contribute to corruption](#) if they are not carefully regulated and monitored. Such corruption may have a number of effects. First, resources generated by a nation's natural resources may only benefit a select few rather than the entire nation and population. Second, corruption in one tender process (e.g., for mining or drilling rights) may discourage highly qualified and accountable firms from bidding in the future. Companies with less technical and financial capacity and with lax records regarding human rights, environmental protection and social responsibility will be inclined to bid.

The identification of valuable natural resources in Afghanistan, currently the second most corrupt country in the world according to Transparency International's [Corruption Perceptions Index](#), exacerbated concerns that resources generated by the mining industry would not be appropriated transparently. Such concerns were reportedly realised during the Aynak tender. *The Washington Post*, citing US government documents, reported that the Afghan Minister of Mines overseeing the process had [accepted a USD 30 million dollar bribe](#) from MCC in order to award the lease to the Chinese state-owned firm. While Minister Ibrahim Adel strongly denied the accusations, he was soon replaced as minister shortly before he was due to award the country's massive Hajigak iron ore deposit to another Chinese state-owned company. An adviser to the Ministry of Mines ([MoM](#)) later drafted a report in which he indicated that Minister Adel had refused to allow members of the tender committee to discuss weaknesses in the Chinese bid or the strengths of competing bids. A report by two experts from the United States Institute of Peace ([USIP](#)) also characterised the Aynak tender process as [incongruent with international best practices](#). Regulations guiding the process were reportedly unclear, and the Afghan government allowed the Chinese government to offer aid projects which were conditional on MCC being awarded the lease to Aynak – a practice which is not standard in such tender processes. Without uniform and agreed-upon processes for awarding mining contracts, the potential for corruption to develop increases.

Some media sources have already reported challenges surrounding the Aynak investment. Initial work at Aynak uncovered a [1,400-year-old Buddhist monastery](#) among other buildings and artefacts, a major archaeological find



and an unusually-intact one says the *BBC*.¹¹ Mining at the site was thus put on hold while experts attempted to document and conserve the archaeological find. In light of the delays, mining was set to begin in 2014, but some experts have identified [2016 as a more likely start date](#).

Beyond delays, some experts have raised concerns that MCC is reversing its previously stated intent to employ Afghans and procure goods locally where feasible. Chinese projects in other countries had been criticised for bringing Chinese labourers rather than employing locals. James Yeager, who advised the Afghan MoM in the past, told *Reuters* that China appears to be [doing the same at Aynak](#): “Take a look at what MCC have since done. They brought in their own people, they buy their own goods from China and have them shipped in. The large capital investments by MCC are not benefitting the Afghan people like they should.” Such reports differ from Chinese promises, cited in the [aforementioned ORF report](#), to ensure that the vast majority of employment opportunities at Aynak accrue to Afghans. They are, however, congruent with Chinese mining ventures and construction projects in Angola, another war-torn country, where “the thousands of jobs created...are primarily going to Chinese workers and this is causing increased resentment by the local population”, according to a [US Army War College report](#).

CNPC and Northern Afghanistan's Oil

While significantly smaller than the Aynak acquisition, China's most recent investment in Afghanistan's natural resource sector involves [oil in the Amu Darya river basin](#) in northern Afghanistan. According to *Reuters*, the China National Petroleum Corporation (CNPC), a state-owned enterprise like MCC, won the rights to drill three oil fields in the basin for a period of 25 years in late December 2011. These fields are estimated to hold up to 87 million barrels of oil, a relatively small amount compared with larger fields in places such as Iran, which often contain billions or tens of billions of barrels. However, the Afghan government reportedly viewed the tender of these three fields as a test case for larger oil field tender processes in the coming years. Afghan Minister of Mines Wahidullah Shahrani told *Reuters* in July 2011, for instance, that the Afghan government was looking to tender drilling rights for a [1.8-billion-barrel oil field](#) near Mazar-e Sharif in [Balkh](#) province in 2012.¹²

As in Aynak, the Chinese firm offered [generous terms](#), according to *China Daily*. They will be paying a 15% royalty on oil and a 20% corporate tax on revenues in Afghanistan. Most notably, CNPC will provide 70% of its profits from the venture to the Afghan government. With oil prices around USD 100 per barrel, Shahrani estimates that the Afghan government should take in [USD 7 billion](#) from the project over the course of CNPC's 25-year contract, according to *Reuters*. The minister confirmed that such calculations are based on 23 years of actual oil extraction given that the first two years of the project will be required for preparations and set up. In annualised terms, this amounts to USD 304.35 million per year for the Afghan government. Lu Gong Xun, president of CNPC's international division, indicates that the company has not yet calculated exactly how much it will need to invest in the three blocks but estimates the amount to be [greater than USD 400 million](#).

A September 2011 article by *Bloomberg* indicates that CNPC's bid had also included [plans to build a refinery](#) within Afghanistan. Increasing domestic refining capacity in Afghanistan, which currently has just one small-scale oil refinery near the Afghanistan-Uzbekistan border, is considered a priority for the Afghan government and private sector. At present, the country's land-locked position makes it dependent on periodically-interrupted supplies via Pakistan and Iran and expensive fuel supplies via Central Asian republics to its North.

¹¹ *Time Magazine* reports that the World Bank, the US government and others have provided approximately [USD 50 million](#) for preserving the archaeological finds at Mes Aynak.

¹² Plans to launch this large-scale oil and gas tender process were [announced in February 2012](#), according to *Pajhwok Afghan News*.



As this section has demonstrated, Afghanistan's natural resources have been of particular interest to China and have been the site of significant inward investment. However, as the experts cited above find, the majority of the financial and employment benefits of natural resource exploitation will not be realised until both security and infrastructure are more fully established. As such, the following statement from the [NOREF report on Chinese involvement in Afghanistan](#) finds repeated corroboration among studies and analyses: "China is indeed set to become both a central and a long-term political and economic force in Afghanistan. In the short term, however, its contributions will be limited."

Conclusion: Chinese Engagement & Foreign Policy

While this document has primarily focused upon development and resource-related issues, it is possible to place these within a broader framework of Chinese foreign policy and economic strategy. As Andrew Small's report on "[China's Af-Pak Moment](#)" notes, it is important to recognise how China approaches its international affairs globally and within the South and Central Asian regions in order to understand Chinese engagement in Afghanistan. Small finds that China's primary concern within the region remains Pakistan, where it has provided large-scale investment and developed strong relations. In addition, the Council on Foreign Relations ([CFR](#)) writes that "China has long provided Pakistan with major [military, technical, and economic assistance](#)", including nuclear technology. Mining ventures, roads, railways, ports and energy facilities in Pakistan have received generous Chinese financing, says CFR. According to Small, China wishes to ensure that Afghanistan remains stable in order to prevent it from being used as a [launching pad for attacks](#) against Pakistan. In addition, with periodic instability in western China, officials in Beijing have reportedly raised concerns about Chinese or Afghan extremists using Afghanistan as a training or operational base from which to attack the Chinese government.

Despite its concern for stability in Afghanistan, Small finds that Chinese officials are unlikely to see "[active partnership](#)" with NATO or the United States as the most effective way of pursuing its own security interests. According to Small, the Chinese government may be targeted by Afghan insurgents or domestic groups if it is seen as part of the Western stabilisation mission in Afghanistan. Hence, it provides indirect support by promoting economic development and job creation there. Doing so enables China to simultaneously pursue its security and economic interests, the latter of which are closely tied to a steady supply of natural resources. In addition, the [Carnegie Endowment report](#) concludes that, by avoiding excessive, overt collaboration with the international community in Afghanistan, China's economic interests – and those of state-owned companies such as MCC and CNPC – are likely to be unaffected if groups such as the Taliban play a greater role in the future of Afghanistan.



Annex A: Additional Resources

The reader may wish to refer to the original text of the publications noted below for further information concerning China's engagement with development and natural resource exploitation in Afghanistan.

- [“China and the ‘AfPak’ Issue”](#), *China Leadership Monitor* No. 31, Winter 2010, by Michael D. Swaine.
- [“China’s Af-Pak Moment”](#), Policy Brief, German Marshall Fund, May 2009, by Andrew Small.
- [“China’s Role in Shaping the Future of Afghanistan”](#), Carnegie Endowment for International Peace, September 2010, by Tiffany P. Ng.
- [“China’s Role in the Stabilization of Afghanistan”](#), Of Interest Brief, Strategic Studies Institute, US Army War College, by Col. Greg Kleponis, USAF.
- [“Chinese Involvement in Afghan Development”](#), NATO Civil-Military Fusion Centre, June 2010, by Matthew Hall.
- [“Fixing Afghanistan: what role for China?”](#), Noref Policy Brief, Norwegian Peacebuilding Centre, June 2010, by Stina Torjesen.
- [“From Washington to Kabul to Beijing: Assessing Prospects for U.S.-China-Afghanistan Cooperation,”](#) *Small Wars Journal*, April 2009, by Nirav Patel and David Capezza.
- [“Remarks by H.E. Yang Jiechi](#) Minister of Foreign Affairs of the People’s Republic of China at the International Afghanistan Conference Bonn”, Ministry of Foreign Affairs, People’s Republic of China, December 2011.
- [“Silent Game: China’s Engagement in Afghanistan”](#), ORF Issue Brief, Observer Research Foundation, August 2011, by Avinash Paliwal.
- [“Stabilising Afghanistan: The Role of China-India-Russia \(CIR\) Trilateral Cooperation”](#), *China Report*, May 2010, by Ron Ying.