# The Prospects of Afghan-China Economic Relationship

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May 15, 2022

**Abstract**

The future of economic relations between Afghanistan and China depends on the conditions inside Afghanistan. If Afghanistan becomes politically viable and economically profitable, the Chinese investors will pour in to reap the benefits, irrespective of who is in power. In this paper, we review the evolution of the economic frameworks that may enable cooperation. In doing so, we review aid, investments, technical cooperation and trade flows between the two countries between 2001 and 2021. In our view, evidence from the two large scale Chinese investments in Afghanistan show that technical, social and political challenges exist within Afghanistan that prevent the appreciation of the value of such long-term investments. Contrary to the common narrative that the Chinese will exploit Afghan mines and natural resources, we believe that political incentives may keep Chinese politicians partially interested in containment of the risks emanating out of Afghanistan. They are unwilling to resume a western style role in developing countries and Afghanistan will be no exception unless there is an unprecedented turn in the Chinese foreign diplomacy. Greater regional connectivity for Afghanistan as a small country, will bring more leverage and trickle-down effects of the global supply chain, of which China is a powerhouse. Domestic resources are limited and finite, therefore benefiting from the positive spillover effects in the region is a valid development strategy.

**Keywords:** Regional Cooperation, Economic Development, Afghanistan, China.

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†The views expressed in the paper are those of the author(s) and do not necessarily represent the views of the Institute. The authors are grateful to Dr Omar Joya, Hameedullah Hassani and Adiba Juya for their valuable comments and feedback.

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# 1 Introduction

With demise of the Silk Road, the disconnect between the regions of Central, South, and East Asia widened. These regions were further pushed apart along the new borders and territorial divisions with the rise of the British Empire and the Soviet Union. Post-1990s, the dissolution of the Soviet Union created the momentum for re-connecting in these regions. Central and South Asian countries as well as China adopted new silk road-like policies pursuing economic and geopolitical objectives. On the economic dimension of it, the purpose was/is to access more markets, to expand joint investment, and facilitate trade. Although the pace for economic integration and openness has been slow and problematic, but it is still a possibility.

It is argued that regional cooperation is an econ-centric diplomacy with a multi-stakeholder reach – government to government, business to business, people to people – and mutually beneficial for all the parties (World Bank, 2018; USTR, 2019). Whereas opponents do not shy away pointing out the imbalance in economic power and leverage each party possess prior to sitting on the negotiation tables, arguing that the prime movers advantage has long gone and not all countries are blessed with specialization or riches (Chang, 2016). Needless to say, greater openness has benefited many countries to leap forward, whether it is access to better technology or efficient means of production. China is one such example in the late second half of the 20$^{\text{th}}$ century (Weber, 2021). With the rise of China as a global economic powerhouse, the need for smaller countries in South and East Asia to form multilateral & regional platforms to survive and/or to reap economic benefits became even more pertinent.

China is an important global economic powerhouse and physically located close to Afghanistan, what role China can or will play in shaping the Afghan economy? They enjoyed a close relationship with the Taliban since 2013, the western powers are out of Afghanistan and the Taliban in power, how will their economic engagement change with Afghan rulers moving forward? The ultimate question is, will the Chinese invest in Afghan mines and natural resources? In this paper we attempt to answer these questions. We review the evolution of the Afghan-China economic relationship and examine legal frameworks and agreements that lay the background for economic cooperation between the two countries. Through that, we discuss Chinese investments, aid, and trade portfolio in Afghanistan. The paper examines lessons learned from two of the biggest Chinese investment projects in Afghanistan between 2001 and 2021. The insights drawn from these case studies are crucial in understanding the future of Afghan-China economic relationship. Finally, we discuss existing economic prospects between the two countries including an assessment of the recent development on Taliban-China relationship.

Afghanistan has a dual identity; it is part of Central as well as South Asia. This geo-economic importance often identified as the country's "comparative advantage", has been the grounds for many regional economic connectivity visions: being the shortest land bridge between the two regions, having the potential to create commerce, energy transit, and provide cheapest in-land transport modality. In the early-20$^{\text{th}}$ century, the English historian Arnold Toynbee described Afghanistan as a "roundabout of the ancient world" (Barth, 1964). For Afghanistan, connectivity has economic and peace dividends as well as political sensitivities. It is argued that inter-dependencies created due to the enhanced trade and connectivity between South and Central Asia via Afghanistan would create incentives for peace and reduce violence through tying economic interests of the regional corporations and oligarchy. However, in practice the strategy didn't yield much peace dividend or economic advantage in the past 20 years, whether it was poor planning or external factors, needs to be studied separately. This hypothesis could be questioned in at least two fronts: the sources of fragility in Afghanistan and the region go beyond pure economic incentives and therefore the benefits of such argument may have been over-estimated (for a review of full literature on this see, Rahimi (2020)). Second, the feasibility of achieving even partial economic cooperation, with economic integration being even further from reach, between these regions seems miles away, and as things stand, they remain among the least connected regions in the world (ADB, 2015).

Nonetheless, the government of Afghanistan (2001–2021) adopted regional economic cooperation as a core component of its development strategy (ANDS, 2008; ANPDF I, 2016; ANPDF II, 2020). Development institutions such as The World Bank estimated that USD 5.7 billion of trade in goods could potentially transit through Afghanistan with enhanced regional cooperation. The country could gain 5% of that value per year through collection of transit revenues, job creation, and transit value chain creation (Rocha, 2017). As a long-term vision, it is important for Afghanistan to ensure its geo-comparative advantage in the region is appropriately used to achieve political stability and economic prosperity, a much-needed commodity in this country. Undoubtedly, the Afghan economy is deeply affected by decisions made within the country as well as neighboring and greater economic powers in the region. Adopting the right type of domestic institutions both political and economic, prepares the bedrock for improved bilateral and multi-lateral relations in the region and beyond.

Its well established that China prefers investments and loans in the developmental financial markets rather than traditional grants/aid tools. It does so by weighting different options especially political stability and profitability to ensure that the economic returns are realized. We believe this in part explains the negligible role China played during the years 2001-2021, a period where foreign aid dominated the country's economic landscape. In our opinion, the Chinese economic engagement with Afghanistan, irrespective of the rulers, will remain insignificant and superficial. Given the status quo, incentives to invest remain low due to lack of favourable market conditions and Afghanistan presents a too-risky environment to large-scale investments. Afghanistan's natural resources are the only viable commodity that may attract investments and they require long-term commitments. We find that the political, social and technical challenges that led to the failure of Mes Aynak and Amu Darya Basin, two large Chinese investments reviewed in this paper, have in fact increased. The media cloud claiming that China is moving in to the extract and exploit Afghan minerals/natural resources lack evidence. The key ingredients that makes them profitable for the Chinese is missing in the current climate of Afghanistan. They include political stability and the right type of public-private partnership mentality and expertise which is missing in Afghanistan.

## 2 Pre-2001

Afghanistan was often visited by Chinese Buddhist pilgrims on their way to India in antiquity. As early as the 7$^{th}$ Century AD, a Chinese monk Xuan Zang visited the then-Buddhist valley of Bamyan and admired the two Buddhas, destroyed by the Taliban in 2001. The Central Asian regions (now comprising Afghanistan) were actively engaged in trade with China, through the Silk Route. Fruits, gems, silk were just a few of the products that exchanged hands between people from both territories. In 1830s, direct trade between Bukhara and China (Kashgar and Yarkund) passed through Afghanistan. Other items includes tea,Chinese ware, musk, and bullion were traded. For instance, around 200,000lbs of tea were brought from Yarkund to Bokhara per year. The trade was carried on by the natives of Badakhshan and it was a tedious journey of many months. The Yarkund caravans crossed the high lands of Pamir and followed the valley of the Oxus to Badakhshan, Balkh, then to Bokhara (Burnes, 1834).

In contemporary times, the Kingdom of Afghanistan and the People's Republic of China formally established relations in 1955. China and Afghanistan signed the 'Boundary Treaty' in 1965 initiating the relationship between the two countries and settling the territorial dispute over the Afghan-controlled Wakhan Corridor on the border between Badakhshan Province and the Xinjiang Region in China. The international boundary between the two countries extends 47 miles (the Wakhan corridor) and is divided between the Aksu (Agsu) river to the west and the Karachukur Su to the east. The border is mountainous and extremely hard to pass.

In the period between 1996 to 2001, China did not recognize the Taliban government and was a member of the 6 plus 2 Group on Afghanistan. The format was introduced by Uzbekistan in 1997 and functioned until 2001 under the aegis of the United Nations with the aim of finding a peaceful solution to the conflict in Afghanistan. The group included the six neighbors of Afghanistan – China, Uzbekistan, Turkmenistan, Iran, and Pakistan – as well as Russia and the United States.

## 3 Post-2001

In 2002, the "Good-neighborly Relations" agreement was signed and reaffirmed once again. The two countries enjoy membership to several multilateral platforms: World Trade Organization (WTO), Economic Cooperation Organization (ECO) and Heart of Asia-Istanbul Process. Afghanistan was also an observer member at Shanghai Cooperation Organisation (SCO). Several ad-hoc agreements and protocols were signed with the Chinese over this period at ministerial or higher levels, e mentioned a few of those below:

The "Treaty of Friendship, Cooperation, and Good Neighborly" in 2006.The treaty acted as the legal base for all other agreements, MoUs, protocols and cooperation between the two countries. Both sides agreed on peaceful coexistence; counterterrorism; better partnership; cooperation based on equality and mutual benefit in the fields of economy, trade, science, education, transport, finance, energy, natural resources development, investment, information technology, culture, and cooperation in international organizations.

Most traditional donors created pooled funding mechanisms to channel their aid to Afghanistan via different UN agencies, however, non-traditional donors such as China, did not partake in those funding pools fully. As a result, regular MoUs under the title "Economics and Technical Cooperation Agreement" has been signed to allow the small amounts of aid to flow in from China. In addition, in 2006, The Chinese Council for the Promotion of International Trade signed two separate agreements with the Afghan Chamber of Commerce and Industry (ACCI) and the Afghanistan Investment Support Agency (AISA). Both agreements aimed to facilitate trade, strengthen economic cooperation, and exchange knowledge and new technology between the two countries (MoIC, 2006). Another example includes the banking sector agreement on improving accounting procedures between the Ministry of Finance and the Chinese Development Bank in 2008. An interest-free and charge-free financial account was opened for the Ministry of Finance in China. In 2016, an MoU was signed to promote inclusion of Afghanistan into the Belt and Road Initiative (BRI). There were other protocols on Phytosanitary requirements for the safe exports of saffron and pine nuts from Afghanistan to China in 2018.

Afghanistan has been an importer of goods and services from China during different periods, like many other countries around the world. Trade figures prior to 2001 between Afghanistan and China are patchy and there are little or no official data. However, it has increased several folds in the last 20 years. Take exports, in the last 10 years alone, Afghanistan's export to China rose from $4.48 million in 2011 to $29 million in 2019. In addition, Afghan exports doubled in 2020 to $54 million due to the government subsidized export of pine nuts through the newly established air corridor. For a small economy like Afghanistan that is a significant increase. China's export to Afghanistan rose to $978 million in 2018 and has, on average, been around $500 million since 2011. This places China in the 5$^{th}$ top Afghan export destination while Afghanistan ranks 131$^{st}$ for that of China. See Figure 1 below for the annual breakdown of these values.

Prior to the opening of the air corridor, Afghanistan's top exports to China included animal hair, perfume plants, precious stones, non-retail pure cotton yarn, and spice seeds,

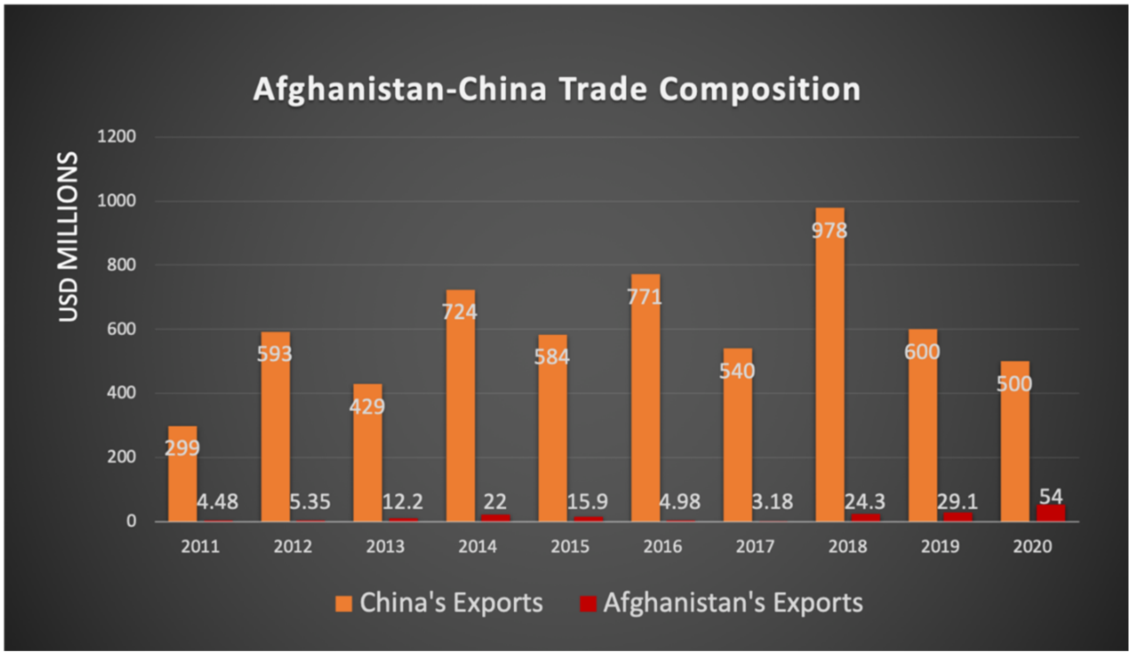


**Figure 1:** Figure 2: Afghanistan-China Trade Composition. Source: OEC, 2011-2019

respectively. Rubber tires, ornamental trimmings, electronic machinery, motorcycles, and telephones were China's top exports to Afghanistan. The products Afghanistan exports are land and unskilled labor intensive. Most of the exports were concentrated on agriculture, animal hair, and natural minerals as mentioned above. This is illustrated in the Product Space for Afghanistan and China in Figure 2. Blue dots in the figure indicate products that Afghanistan has a comparative advantage over China. Conversely, yellow dots represent products that China has a comparative advantage. The most upscale products are placed in a densely connected core of the space concentrated toward the center and lower income products in the less connected margins. Almost none of the products from Afghanistan are near the core, indicating cheaper and less expensive exports to China.

However, the political and economic cooperation remained insignificant for the entire period. Afghanistan imported and continue to import large portions of its domestic consumption from China, as is a global reality. Political, security, and technical reasons, discussed throughout this section, contributed to this stagnation. On the aid front, although China committed to take an active role in reconstruction of Afghanistan after the establishment of the new government in 2001 on paper (Huasheng, 2012), this never materialized in real terms. China's role remained insignificant compared to the other country's involved in the reconstruction of Afghanistan.

Broadly speaking, cooperation with China came in two types: small amounts of aid and private sector investments. Though the data on the total amount of aid from China is patchy,

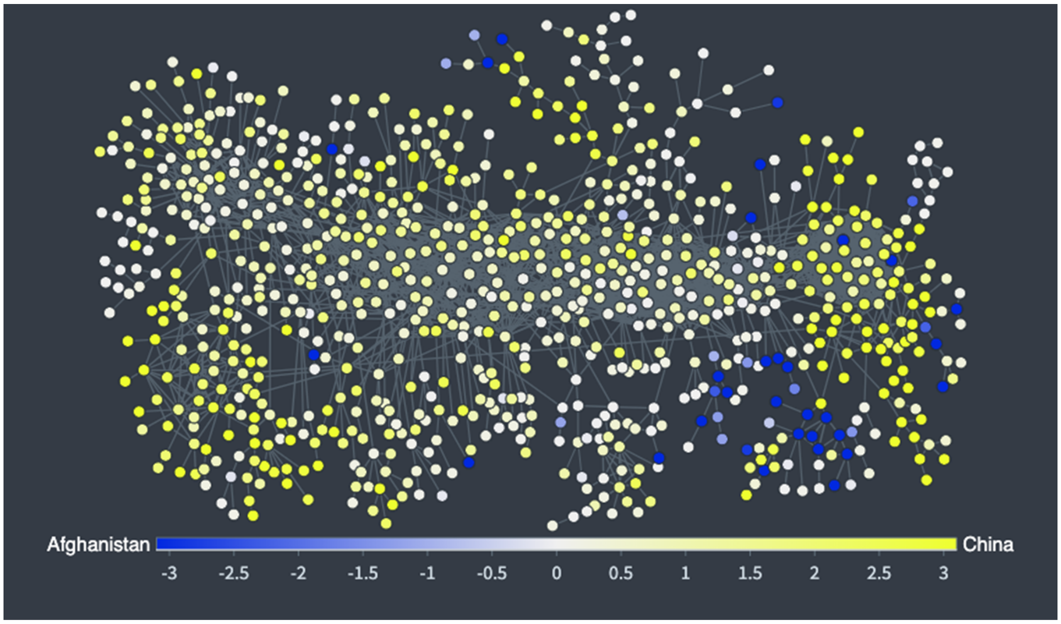


Figure 3: Product Space of Afghanistan and China. Source: OEC, 2019

**Figure 2:** Figure 3: Product Space of Afghanistan and China. Source: OEC, 2019

Figure 1 below shows the estimated amounts of aid from China between 2002 to 2016 as reported by the Ministry of Foreign Affairs of the People's Republic of China (FMPRC). The aid was spent through small development projects such as building Jamhoriat hospital, Parwan irrigation project, human resources development projects such as training officials, transportation equipment for the Afghan National Police, construction of Auditorium building in Kabul University, and shelter in Argo district of Badakhshan province. As of 2021, some of the ongoing projects include solar power project in Bamyan province, construction of three modern cold storages in Spinboldak, Wakhan digital corridor, Torkham passenger service center, and TEVET. These projects after the Taliban takeover in August 2021 were put on hold.

Foreign direct investment (FDI) levels have always remained low in Afghanistan due to uncertainty and unrest. Given China's modality of involvement in international assistance, it was considered Afghanistan's biggest foreign investor in the period between 2001 – 2021. Figure 3 shows the amount of Chinese aid in USD. Two of the biggest projects with Chinese investments worth discussing are Aynak Copper Mine (Mes Aynak) and Amu Darya Basin. Both investments never fully materialized and eventually failed. Below, we review both case studies briefly to provide a better understanding of why and how these investments failed.

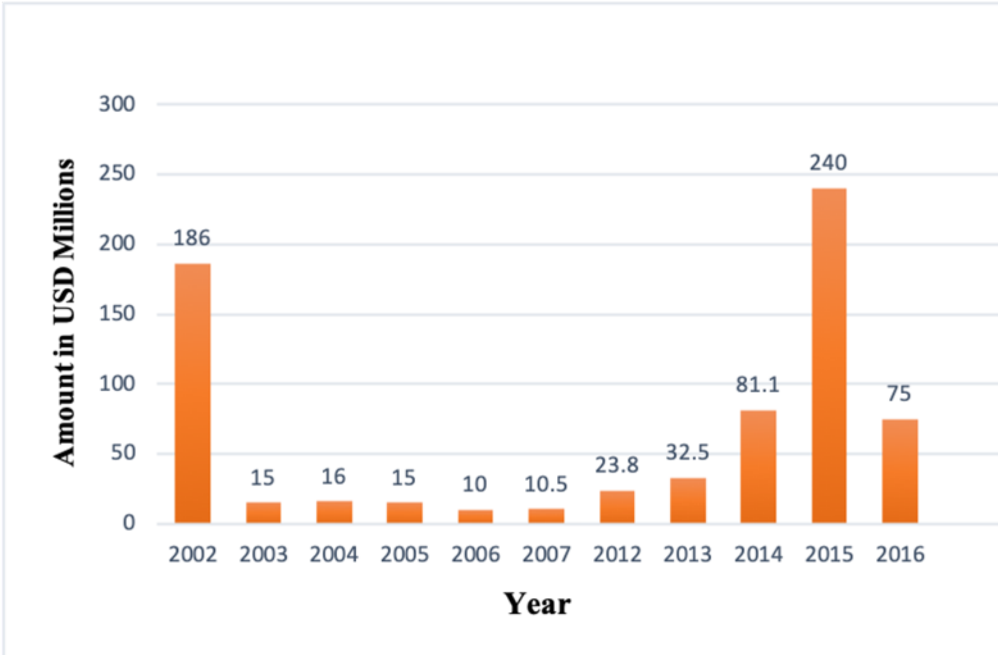


**Figure 3:** Figure 1: Aid flows from China 2002 – 2016. Source: FMPRC

### 3.1 Mes Aynak (Aynak Copper Mine)

Mes Aynak is located 40 kilometers southeast of Kabul in the northern region of Logar Province. The site contains Afghanistan's largest estimated copper deposits. It was Afghanistan's first mineral resource to be internationally auctioned for investment. Nine global mining companies bid, of which Jiangxi Copper Company Limited (JCCL) and the Chinese Metallurgical Group Corporation (MCC) won the contract. The group promised to offer a premium of $808 million payable in three tranches – $80 million was paid at award in September 2008, $161 million payable upon approval of the feasibility study, and $565.6 million payable upon commencement of commercial production (Stanley and Mikhaylova, 2011). JCCL is China's largest copper producer and MCC, a Chinese state-owned enterprise, is China's leading engineering contractor. This was the first multi billion dollar investment contract in Afghanistan. A 30-year lease worth $3.4 billion was granted to extract about 11 million tons of copper (Wines, 2009).

In 2009, the Ministry of Mines and Petroleum estimated that Mes Aynak will create 5,000 direct jobs and an estimated annual revenue stream of $300 million to the government (Stanley and Mikhaylova, 2011). The government hoped to generate one billion USD in revenue from its mining sector by 2017, with the Mes Aynak helping lead the way. Zero copper was extracted by the companies at Mes Aynak and the 2017 revenues reported by the Ministry of Mines and Petroleum amounted $86 million, only 8.6% of the ministry's target (Hampstead, 2018). Early local dissatisfaction emerged regarding land acquisition, resettlement, social and environmental impact assessments, working conditions, miscommunication, transparency, and biased hiring. Besides JCCL-MCC group over-promised on what they could deliver. The company promised to develop a power generating plant of 400 megawatts, invest in schools, hospitals, mining school vocational training centers, roads, railroads, mosques, and hire from locals with the aim to improve the life of local people (Noorani, 2013).

With that in mind, we classify challenges into three categories: (1) political, (2) social, and (3) legal & technical. Politically, it was clear that western allies of the government of Afghanistan did not like the idea of a large Chinese investment in a territory they paid to maintain its peace and security. The US authorities leaked the news of bribery that Afghan officials were paid $30 million by the JCCL-MCC to win the contract (Risen, 2010). A claim rejected by both sides, however, this was no exception as corruption had been rampant in the government between 2001-2021. It is important to note that the US investors never showed interest in Afghan markets given the politically unstable region, despite numerous attempts and initiatives by USAID.

Social and community challenges included understanding of the realities of the localities surrounding the copper mines. The Chinese companies lacked proper understanding of the local dynamics and compensation mechanism for the locals who lost their plot of land which left them disillusioned. Although in early 2011, JCCL-MCC paid $53 million as a portion of its second installment, the government failed to channel and guide local dynamics to allow for the investment to bear fruit. Despite receiving payments, the government continued to evade the issue when approached by community members for land compensation (Noorani, 2013).

The legal and technical challenges were numerous. First, lack of domestic regulatory frameworks such as land acquisition laws, mining sector governance, public private partnership, mining policy, and social and environmental protection policies/regulations. This led to ad hoc decisions and lacked consistency with public officials being replaced every now and then. Mes Aynak deposit was the first case in Afghanistan's history in which the government and developers prepared a resettlement action plan (Stanley and Mikhaylova, 2011), which did not go very well. Second, lack of experience in managing a large-scale private sector investment, paucity of skilled labor in the mining sector, and capacity gap to address environmental issues posed further challenges. For example, excavations led to numerous Buddha statues, stupas, coins, and other items being found on the site. The Hydrocarbon Law in Afghanistan mandated the protection of all archaeological sites in the country. This further complicated the development of the project. In short, both the government of Afghanistan and the Chinese companies failed to act professionally. Lack of political buy-in, rampant corruption, and lack of experience in Public-Private Partnership led to the failure of the project. These challenges are still in place and will not magically disappear unless addressed systematically.

### 3.2 Amu Darya Basin

The oil and gas resources in the northern Afghanistan are accumulated in two basins: The Afghan-Tajik to the east and the Amu Darya to the west. These mines were first identified through a series of topographical and geological surveys dating back to 1950s between the then Afghan government and the Soviet Union. Later in 2005, the Afghan authorities and US Geological Survey estimated that the two basins held up to $1.6 billion worth of crude oil and $15.6 trillion worth of cubic feet of natural gas (Mehrad et al., 2020). The Ministry of Mines and Petroleum of Afghanistan internationally auctioned Kashkari, Bazarkhami and Zamarudsay blocks in the Amu Darya Basin. The first tender of the blocks in Amu Darya Basin were awarded to a consortium made up of China's National Petroleum Cooperation (CNPC) and the Watan Oil and Gas Group, an Afghan firm in 2012.

CNPC was expected to pay 15% royalty on oil, 20% corporate tax, and share 50-70% of its profit from the project with the Afghan government. The development of the Amu Darya basin was predicted to create 2,100 jobs for the local people (Shalizi, 2012). It was predicted that the extraction could lead to self-sufficiency and sustainability, Afghanistan could become a net exporter instead of being a net importer of natural gas and oil. However, almost a year after the award of the project, Amu Darya Basin oil extraction was halted. It was stated that the CNPC put the brakes on its massive drilling operations after disagreements emerged over the exact conditions set for the transportation of crude oil out of the country (TOLO News, 2013). The officials in Kabul said that the venture was disrupted when interest groups in the area intimidated Chinese engineers demanding a share in proceeds. According to the Ministry of Mines and Petroleum, several notices were given to the contractor, but they failed to keep up with the projected timeline. Thus, the Ministry issued a termination notice. The proposal that was submitted by Watan Oil and Gas was still under review when the government collapsed in August 2021. These technical difficulties are small and can be resolved. However, it speaks volumes about the public officials in Afghanistan on their lack of appreciating the strategic value of long term public contracts.

## 4 The Prospect of Afghan-China Economic Relationship

Irrespective of who are the ruler of Afghanistan, there are a few feasible economic opportunities, we discuss each briefly: Afghanistan's integration into the Belt and Road Initiative (BRI). BRI is basically an infrastructure project that stretches from East Asia to the Middle East, Africa, and Europe. As of 2021, the number of countries that joined BRI by signing a Memorandum of Understanding (MoU) with China is 142 (Wang, 2021). Due to presidential election crisis in Afghanistan (2013-2014), the country was left out of the BRI's initial mapping, however, the two countries signed an MoU in 2016 and Afghanistan participated in the first BRI forum in China. If fully operationalized, this will have significant positive economic effects for Afghanistan. There are several routes through which Afghanistan could be included into the BRI: First, through the Five Nations Railway Corridor (FNRC), a project initiated in 2014 in Tajikistan. The railway starts from China, passes through Kyrgyzstan, Tajikistan, Afghanistan, and ends in Iran, covering a total distance of 2100 kilometers. Over one thousand kilometers travels through Afghanistan's provinces of Kunduz, Balkh, Jawzjan, Faryab, Badghis, and Heart.In 2018, Afghanistan National Railway Authority (ANRA) announced that the technical and economic survey for the establishment of the multinational railway project is about 50 percent complete (TOLO News, 2018). Only three-fourth of the 225-kilometer railway line which connects Heart in Afghanistan to Khaf in Iran was completed in 2020 with Iran's financial support. No further progress has been made and the project is currently stalled. As a pilot run, the first FNRC cargo train arrived in Hairatan Port from Nantong, China's Jiangsu province, carrying 84 containers. In 2019, a freight train carrying 1100 tons of Talc in 41 containers left Hairatan port to China (Railway Gazette, 2019).

Second, there are real feasible opportunities to connect through China-Pakistan Economic Corridor (CPEC). This was a flagship BRI project with estimates of over $50 billion disbursements. There are five feasible routes through which Afghanistan can be connected to CPEC. A full review of these routes can be found in Rahimi and Hassani (2021).

Third avenue is the Digital Silk Road, a Chinese investment project, again currently stalled. Initially, the Silk Road Optical Fiber Cable System and Strategic Cooperation was signed between China, Tajikistan, Afghanistan and Kyrgyz Republic. Fiber Optic project has 480Km length inside Afghanistan's territory from Wakhan Corridor to Faizabad city. The estimated cost was $50-$70 million which was envisioned to be financed by the Chinese for a period of 4 years (MoFA, n.d).

## 4.1 Taliban and Chinese Dynamics

The prospects of economic relations between Afghanistan and China depends on the political conditions inside Afghanistan. The August 2021 collapse of government marked the start of a new chapter for Afghanistan with the Taliban in power again. To say the least, Taliban and the Chinese have enjoyed a friendly relationship since 2013 and even during the day of Taliban power grab, China was among the handful of countries who did not shut its embassy in Kabul. Reviewing their engagement since 2013 with Taliban's political office in Doha, reveals the dynamics of this ambivalent relationship even further.

The Taliban team in Doha was invited to Beijing in 2013, they were given tours of the Beijing-Shanghai bullet train (Latifi, 2021). China's special envoy to Afghanistan reportedly traveled to Pakistan to meet with Afghan Taliban representatives in 2014, which was reciprocated by the Taliban and Pakistani officials later that year to discuss the peace process

(Wong, 2015). In 2015, China hosted a meeting between a representative from Afghanistan and Taliban officials to discuss the possibility of formal Afghan peace talks (Wong and Mashal, 2015). Following this, in 2016, a high-level Taliban delegation visited China for a meeting on the Afghan peace process and counter-terrorism issues (Reuters, 2016). In addition, after the Taliban carried an attack in Kabul in September 2019 (Hassib, 2019), the negotiations between the group and the United States were put on hold. To fill the gap, China invited Taliban officials to participate in a two-day intra-Afghan conference in Beijing (Al Jazeera, 2019), but the meeting never took place due to COVID-19 crises.

The display of close relationship between the de facto rulers of Afghanistan and the Chinese continue after they managed to takeover Kabul, with the Chinese referring to the Taliban as "a crucial military and political force in Afghanistan." Taliban assured the group will not allow any force to use Afghanistan's territory for attacks against China. They also hoped that China plays a greater role in reconstruction and economic development in Afghanistan (FMPRC, 2021). Though China has not recognized the Taliban government yet but as a sign of good gesture provided ¥200 million ($31 million) worth of food, winter whether supplies, vaccines, and medicines for emergency use. Taliban called China as their "most important partner which provides an extraordinary opportunity for us because it is ready to invest and rebuild our country" (Sorbi, 2021). The question remains has this display of affection amount to any substantial economic prospect?

Historical data on how China makes investment decisions dictates no. The political environment has the highest weight for interested Chinese stakeholders when determining locations for investment in the mining industry. Since investment in mining sector require a long-term, a stable political environment provides higher security for guaranteed investment return (Wang et al., 2021). Chinese companies might not be ready to invest in Afghanistan yet as much as Taliban had hoped.

Loosely speaking, there are two possibilities with regards to Taliban ruling Afghanistan: (1) Taliban government succeeds or (2) collapses and conflict arises. A successful Taliban regime - whether week or strong - is not going to be a democratic government and is going to need aid (lots of it) and technical assistance to build the bureaucracy needed to run a partially functional and stable government. This is due to the lack of readily available domestic resources and experience in governance. From the outset, China does not engage in the Western type of nation building and repeatedly criticized the approach. Unlike the western style, China is not generous in giving aid but uses state-owned firms to give loans in the form of investment or engage in trade. In this case, Taliban must prove to the Chinese investors that they are reliable partners, and this takes more than just words.

If the Taliban government does not sustain and collapses or widespread conflict arise, Afghanistan will plunge into another war. Lack of experience in governance, lack of money, rising inflation, poverty, antagonized ethnic minorities and suppressing women's rights make this scenario not far-fetched. This again makes Afghanistan a risky market and less appealing to the Chinese investors.

Other underlying factors may also explain the lack of slow-paced with a wait-and-see strategy on the Chinese engagement with the Taliban. These include the modality of how to deal with the Taliban: directly or via an intermediary (i.e. Pakistan). To engage via Pakistan, there may be fears of the leverage that gives to the Pakistanis. To engage directly with an ideologically motivated group with a history of inconsistent foreign policy, carries unpredictable risks. For instance, while some of the Taliban leadership have kept quiet about the incarceration and imprisonment of the Muslim Uyghurs in China, the hardliners have been very vocal about this issue. Based on a UNSC report (2021), the group consists of several hundred members and remains active in Badakhshan, Faryab, Kabul and Nuristan provinces of Afghanistan. The group is aligned primarily with Al-Qaida and seeks to establish a Uighur state in Xinjiang, China. In addition, a UNSC report on the security of Afghanistan (2021) states that months before American forces withdrew from Afghanistan, some 8,000 to 10,000 jihadist fighters from Central Asia, the North Caucasus region of Russia, Pakistan and the Xinjiang region in western China poured into Afghanistan. The Islamic Movement of Uzbekistan (IMU) is currently based in Faryab, Sar-e Pol and Jowzjan Provinces. Other groups with Central Asian backgrounds are present across the northern regions of Afghanistan. This worries the Chinese about the stability of their relationship with the Taliban.

# 5 Conclusion

China as a global economic powerhouse has its own regional and international agenda. Afghanistan isn't a big economy (with approx 36 million population) nor lucrative enough to be of strategic interest for the Chinese investors. Alternatives such as ASEAN or Middle East markets provide much better returns. This switches away investor interests whether state-sponsored or privately-owned from Afghanistan. Political incentives may keep Chinese politicians partially interested in containment of the risks emanating out of Afghanistan. However, in our view economic engagement and thus associated dividends from the Chinese support will remain insignificant, as it did since 2001 and will continue with the Taliban.

Afghanistan as land-locked country can benefit from greater connectivity and should actively pursue to engage in all forums that bring it to the fold, being included into BRI is one such scheme. From a pure economic standpoint, there are clear benefits to greater connectivity and inclusion of Afghanistan into the BRI mapping. This will have long term benefits for Afghanistan as a land-locked country. Although, the groundwork for further economic cooperation between China and Afghanistan and other stakeholders in the region has been put in place for the last twenty years, however the domestic political climate and lack of security in Afghanistan continue to hinder any meaningful progress.

Mes Aynak and Amu Darya Basin are examples of failed large-scale investments that the Chinese will not repeat in Afghanistan unless favourable conditions for doing business such as political stability, demonstration that there is a strategic understanding of the value of long-term public contracts and assurance that investments will be profitable arise. Moving forward, more studies should explore the three categories of political, legal and social challenges that led to the failures of those two investments to allow for lessons learned. The aforementioned investment conditions are not there yet and there will not be any significant economic engagement with the Chinese in the near future. Unless China's foreign policy takes an aggressive and unprecedented turn. There is almost certainty, they will not take on the commercial or political role that the US/NATO/EU took between 2001-2021.

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