

Chinese Investment Strategies in Afghanistan after the September 11, 2001

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Abstract— Since the early 2000s, China has become a leading economic player in Central Asia, in the commercial sector, in the field of hydrocarbons and in the infrastructures building. China has been able to show its economic power through various trade exchanges with countries in Central Asia and particularly with Afghanistan.

China's presence is increasing in Afghanistan for too many years and has been the topic of many studies and publications in recent years. In this research paper, we are going to study and to analyze the different Chinese investment strategies in Afghanistan.

And we are also going to see the different labor movements and interests from the Chinese companies in Afghanistan regarding the natural resource minerals energy extraction. This study will be established regarding the period post 2001 11th september

Index Terms— Investment strategy, Afghanistan, China

I. INTRODUCTION

In less than two decades, China has achieved a massive and multifaceted entry into the Central Asian space: it has peacefully negotiated the border settlement with its Central Asian neighbors, has established itself as a faithful and predictable partner in bilateral diplomacy.

China has also succeeded in establishing itself more and more on the afghan market by establishing numerous Chinese companies there.

The General overview of the labor conditions in the Chinese firms in Afghanistan are essentially focusing on the extraction of afghan natural resource and mineral energy.

We could also note that some trends are common between these two countries despite their management process differences.

Despite obvious differences in management between Chinese and foreign companies, Chinese companies have adhered quite easily, quickly and familiarly to the neo-social process concerning the extraction of natural resources, the exploitation of labor and the establishment of several infrastructure projects.

Thus all these elements do not allow the improvement and the development of the local workforce and skills.

Afghanistan is a country bursting with vast and varied wealth and resources. Its vast mineral wealth, is valued about \$ 1 trillion by a US geological survey and \$ 3 trillion by Afghanistan government in 2007. Because of these financial estimates, China has not hesitated to invest on the Afghan market.

Regarding this estimation, metallurgical corporation of china (MCC) and Jiangxi copper corporation (JCCL) agreed to make the single largest foreign investment in Afghanistan (\$4.4 billion). They have indeed won a call for tenders in order to establish and update their activity. Geologists believe that Afghanistan possess in the world, the second largest undeveloped copper deposit at Aynak in the logar province, which is located 35 kilometers of southeast of Kabul.

In 2011, China National petroleum corporation (CNPN) signed an agreement with an afghan partner Watan oil and Gas , and has obtained the secured rights to three oil blocks in the province of sari pol and faryab, in northwestern Afghanistan.

Thereby, CNPC expect to invest \$ 400million in the development of this project.

Those investment and business presence increase the power and the impact of China in Afghanistan.

China, indeed, efforts a lot in 2001 to stabilize the political situation in Afghanistan. It has also enjoyed positive relations with its afghan neighbor after the united states invasion. China becomes also the first nation to have established an official relation with the president Hamid Karzai and the afghan traditional authority.

In fact, China having reopened its embassy in Kabul in February 2002 and having provided more than 5 million dollars in emergency humanitarian aid to Afghanistan, has been able to demonstrate by these actions, its desire to maintain and preserve good long-term relationships.

In this article we could examine many elements of "the popular narrative" about China role in Afghanistan. It shows that Chinese firms invested in the extraction of Afghan natural resources (mineral and hydrocarbons) with the goal to achieve their own corporate interests rather than to comply with the Chinese government concern regarding the resource security and protection .

In fact, Chinese government want to be sure about the firms security because they want to have one leg up on their western competitor by virtue of their state ownership .

The infrastructure packages developed and implemented by the Chinese government in Afghanistan are compatible with changes and advances in the global mining industry.

The only way to escape the development of the private sector and develop its skills in the extraction of natural resources and minerals, which represents a significant saving for Chinese companies. However, Chinese companies must be careful about the security of their sharing of know-how because the investments made by Chinese companies can unfortunately benefit American companies.

1. A BRIEF HISTORY OF SINO AFGHANISTAN RELATION

Afghanistan's relationship with China dates back 7 centuries, when Chinese monks used to travel the Silk Road through Afghanistan.

They used to come to visit the Buddha statues in Bamiyan province in Afghanistan. Indeed, the Afghan land was dominated by Buddhism, 500 bc.

Kandahar Herat province were considered as the jewels of the world Buddhist rule in Afghanistan and dates back to 650-320 B.C.

The largest Buddha statue (one thousand meters long, sleeping Buddha statue) is located in the Bamiyan province.

There were 12 large and small Buddhist monarchies in Afghanistan, including the Bactrian Kingdom with its capital in Kandahar as the largest and most important.

Bamiyan Buddha statues had greater attraction for Chinese people, part of many followers of this religion (UNESCO)

In 1957, the two neighboring countries began diplomatic relations which strengthened the ties of these two countries. Indeed, during the Cold War era, the Chinese prime minister, Zhu Enlai, visited Afghanistan in 1957. The Prime Minister of Afghanistan Daud Khan also paid a reverse visit to Beijing on the same year. These reciprocal visits have strengthened the ties and bilateral relations.

The Sino-Afghan friendship and non-aggression treaty was signed between these two countries in August 1960. Subsequently, the Beijing treaty of formal border between China and Afghanistan was signed in 1963, thus settling the question of the 76 kilometers long border once and for all (Rahimi 2008).

In 2002, China has pledged to respect Afghanistan independence and its territorial integrity. Indeed China and Afghanistan enjoyed friendly relationship since the beginning of their bilateral relationship in 1950, which could be exceptional in the realm of international relations.

China has suspended its official relations with Afghanistan amidst the soviet union and restored its relation after the fall regime of Taliban in 2001 .

After the fall of the Taliban regime, Sino-Afghanistan improved their relation. Recently, the bilateral meetings have become quite frequent.

In 2014, the Chinese foreign minister, state councilor, and chief of PLA general staff visited Afghanistan.

In fact, it was the first time in Sino- Afghanistan history that many time Chinese high level chief visits have been made to Afghanistan in 2014.

From 2001 to 2013, China has provided an extensive assistance to Afghanistan.

It also provided a total of \$240 million in aid to Afghanistan in 2014.

And it has finally, provided \$80million aid to the afghan government and pledges to give another \$240 million for the period from 2015-2018.

2. MCC IN AFGHANISTAN (Metallurgical Corporation of China)

As a super conglomerate, China Metallurgical Group Corporation (MCC Group) is the longest-running construction force in China's iron and steel industry, serving as the pioneer and main force in this field.

After the fall of the Taliban regime in 2001, the MCC company wanted to continue its research on the

archaeological site of Aynak, a site located 35 km south of Kabul, in the province of Lōgar.

It was from there that a collaboration with Sun Changsheng sun was born, with which they were able to obtain a call offer and work conscientiously on the development of techniques and technologies used in the extraction of copper mines. These techniques have also been of great benefit to Afghanistan and its government.

Indeed, their research work was so developed and effective that MCC caught the attention of President Hamid Karzai and the Afghan Minister of Mines, Juma Muhammad.

Muhammadi also visited another site occupied by MCC on February 23th, 2003, in the Sadak mine in Pakistan to learn more about the company's mining techniques and technologies.

Afghanistan is a country rich and abundant in natural resources. Indeed, we can find in Afghanistan a lot of different resources such as gold, silver, iron, coal, copper, lithium, different kinds of jewelry, mineral precious stones and all hydrocarbons, including some have been discovered while most remain, to this day, unexplored, according to a study by the geological service of Afghanistan and the United States, conducted between 2007-2009.

Deposits of copper, mercury, rare earth element potash, graphite sulfur chromite asbestos have been found in more than 20 mineralized zones.

The investigation reveals that, the known and most considerable metal deposits are composed of iron and copper. The total copper resources in Afghanistan reach up to 60 million meters. Which represents several tons of copper.

It is estimated that the copper deposits in the Aynak mines also amount to nearly 30 million tonnes of copper and that the quantities of undiscovered Skarn copper deposits and porphyry are expected to be around 28.5 million tonnes. tons of copper.

Sedimentary iron deposits are abundant, the Haji Gak and surrounding deposits are on the verge of containing approximately 2,260 million metric tons of iron and have grades over 62% iron by weight.

Discoveries of additional resources in the same deposits are likely (representing economic and strategic interests of China in Afghanistan).

Jiangxi Copper Corp Company produces copper cathode and other copper products. Its operates minerals development, finance, investment, trade, logistics, and other businesses.

Jianxi Copper Corporation (JCCL) is China's largest copper producer, which has partnered with MCC in Afghanistan in order to secure additional copper resources and meet the demand for copper products in China.

Like other Chinese smelters, JCCL prefers to have its own copper resource rather than buying from other manufacturers to minimize risk exposure.

JCCL also wants to increase its chances and opportunities to acquire and bring more natural resources to China. Hence his interest in the Aynak mines, which would allow and have the capacity to increase JCCL's copper production by more than 50 percent.

At full production, the mine is expected to produce around 200,000 tonnes of concentrated copper per year, roughly similar to JCCL's total national mine production, which is equivalent to 210,000 tonnes per year.

Most of the production from the Aynak mine could end up in JCCL smelters, according to an agreement between JCCL and MCCL. Thus, JCCL will have the right of first refusal and to acquire at least 50% of the copper products generated by Aynak.

China is the first country of the 21st century, after the september 11th 2001, to have invested in Afghanistan.

MCCL won the right in 2007 to develop the Aynak copper mine with its back-to-back investment of \$ 3.5 billion and knew how to establish and recognize itself as the largest foreign investor in Afghanistan.

The investment offer of China Metallurgical Corporation (MCCL) is linked to the government decision, and also included agreements and promises to build different types of infrastructure. Namely, an electric pants of 400 megawatts, the construction of schools, mosques, clinics and even a railway - all also allowing the creation of more than 4,000 jobs.

A US geologist said the Aynak site is the world's second-largest undeveloped copper deposit, and its announcements will be worth at least \$ 1 billion to \$ 3 billion. China has made substantial contributions in terms of development and exploitation of natural resources and infrastructure in Afghanistan ...

3. CHINA NATIONAL PETRULEM CORPORATION (CNPC)

CNPC's investment in Afghanistan could also offer the opportunity to build more gas pipeline between China and Central Asia.

In 2011, CNPC and Watan oil & gas signed an agreement with the Afghan government.

Afghanistan has three oil blocks in three provinces Jewzejan, Faryab and Sare-pul in the north-west. China National Petroleum (CNPC) and its Afghan partner explore and exploit crude oil from the Amu Darya River field in northern Afghanistan.

The deposits of the Amu Darya Basin represent more than 87 million barrels of crude oil, northern Afghanistan has more than 6 billion barrels of crude oil, 16 billion cubic feet of natural gas and 500 million barrels of liquefied natural gas (United States Geological Survey, 2011 Haroni).

China has invested \$ 400 million to explore these oil fields in Afghanistan.

Finally, China was the first foreign country in a decade to have signed an oil exploration agreement with Afghanistan in June 2012. CNPC also signed an agreement with the Afghan government to establish a feasibility study on the installation of a pipeline, going from Turkmenistan to China and crossing Afghanistan.

CNPC might see this project as having greater possibilities, such as establishing a larger gas pipeline and extending it to Iran. Iran where the company CNPC will wish to develop its phase 11 of South Pars, a project which concerns the largest natural gas field in the world.

However, in 2011, the Iranians decided to freeze the contract established with the CNPC due to the failure of the company n However, in 2011, the Iranians decided to freeze the contract established with the CNPC due to the failure of the company not to have succeeded in starting the works.

This failure to have failed to start the works on time, therefore to counter the plans of the company CNPC.

Indeed, if the CNPC had been able to end up exploiting the southern parts, a pipeline connecting China, Turkmenistan and Afghanistan would be a means for CNPC to monetize its production.ot to have succeeded in starting the works.

It is also important to note that Chinese financial aid goes through partial and closed tenders and this does not make anyone else competitive to compete with Chinese companies. On the other hand, China has decided to offer the construction of a power station and a railway in order to be able to serve the mine, which could almost multiply the investment of the company. It will also benefit the local population, who can benefit from useful and civic facilities.

It is interesting to note that, despite the risk of encountering too many foreign companies in Afghanistan, it is mainly Chinese companies that reap the economic benefits (daishi 2009)

Table 1 bids for Ayank copper mine

Company	MCC	Hunter Dicken son	Kazakhmys Corporati on	Freeport mcMoRa n	Strikeforce Limited
Headquart ers	China	Canad a	Kazakhst an	USA	Cyrus
Start of production For concentrat e	5 years	7 years	4 years	6 years	4 years
Maximum Royalty percentage	19,5%	15%	18,1%	12.5% capped at USD 100 million per year	7,5%
Energy production	400MW	100M W	350MW	15MW	Import power
Bonus to Governme nt of Afghanistan	808 3 Installme nt	100 Multip le Install ments	2 1 Installme nt	243 Multiple Instalmen ts	238 Multiple Installments
Infrastruct ure (railways investment)	Yes	No	Yes	No	No

Table 2; Bids for Amu Darya oil Blocks

Company	CNPC	Buccaneer energy	PEL	Tethys petroleum
Headquarters	China	Australia	Pakistan	United kingdom
Conforming	Yes	No	No	No
Royalty	15%	10%	10%	4%
Profit sharing to government	50-70%	50-70%	50-70%	33%
Income Tax	30% variable	30% variable	Ministry of mines to pay taxes disagreed	20% stable
Market pricing	Disagreed			
Bid Guarantee	Submitted	Not Submitted	Not submitted	Not submitted

CONCLUSION

The investments made by Chinese companies in Afghanistan are linked to the decisions taken at the head of the Chinese government.

MCC, JCCL and CNPC, are three large companies that have invested in the exploration and exploitation of natural resources. Each of them has played an important role in China's economic and strategic policy in Afghanistan, especially after the fall of the Taliban regime.

They also played a predominant role when US forces withdrew from Afghanistan.

In addition, the proposed infrastructure projects and investments in copper and oil positions China as the best ally of Afghanistan and thus pushes it to continue this momentum. Indeed, China is also an engine of regional economic integration.

The Objective and the primary interests of Chinese firms in Afghanistan are linked to winning tenders for minerals and hydrocarbons. But also should give China a substantial stake in Afghanistan for the next 20 years.

The initial investments made by MCC, JCCL and CNPC mainly concern the exploration of the copper deposits of Aynak and the Amu Darya basin. The duration of the MCC contract is thirty years and renewable upon expiration, while the duration of the CNPC contract is only twenty-five years. China has taken on an increasingly important place in Afghanistan, as it has continuously invested in the exploration and exploitation of natural resources. All these investments by Chinese companies, especially focused on copper and oil, have continued to strengthen and further bind the ties between China and Afghanistan.

On the other hand, whether through these strong investments or by its geographical proximity, the two countries clearly have the will to support each other, whether from a diplomatic or financial point of view. All this will also allow Chinese consumers to benefit from certain new infrastructures but also to be continuously supplied with energy.

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