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China Buys into Afghanistan

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This article examines three elements of the popular narrative of China's involvement in the development of Afghanistan's vast natural resource wealth. It argues that Chinese companies invested in Afghanistan's minerals and energy in the pursuit of their own corporate interests rather than at the direction of a Chinese government concerned about resource security. To be sure, the Chinese firms did have a leg up on their Western competitors by virtue of their state ownership. However, the infrastructure packages they offered as part of their bids are consistent with a shift in the global mining industry away from enclave private sector developments and towards leveraging mineral development to benefit the broader economy, which is being driven largely by Chinese companies. Finally, while it is fair to say that China is free-riding on the U.S.-led stabilization efforts in Afghanistan because Chinese companies are benefitting from a public good to which China has not contributed, the mining and energy investments made by Chinese companies could well end up advancing U.S. goals.

Many discussions of China's involvement in Afghanistan begin with the investments made by Chinese firms to extract Afghanistan's vast mineral wealth, which is valued at about $1 trillion by the United States Geological Survey and $3 trillion by Afghanistan's Minister of Mines.[1] In 2007, Metallurgical Corporation of China (MCC) and Jiangxi Copper Corporation (JCCL) agreed to make the single largest foreign investment in Afghanistan to date—$4.4 billion—when they won a tender to develop what geologists believe is the world's second largest undeveloped copper deposit at Aynak in Logar Province, 35 kilometers southeast of Kabul.[2] In 2011, China National Petroleum Corporation (CNPC) and its Afghan partner, Watan Oil & Gas, secured the rights to three oil blocks in the provinces of Sari-i-Pul and Faryab in northwestern Afghanistan, which CNPC expects to invest $400 million initially to develop.[3]

These investments gave rise to the contention that China is free-riding on the U.S.-led efforts to stabilize Afghanistan to lock down natural resources needed to fuel China's continued economic development. Specifically, critics argue that China is benefiting from a public good provided by the United States and its partners in Afghanistan—security—to which it has not contributed. China has not offered any troops, equipment, or funds to the International Security Assistance Force (ISAF) in Afghanistan. Yet, ISAF has made Afghanistan safe for Chinese investment. China's state-owned energy and mining companies won Afghanistan's first major mineral and energy tenders. Moreover, they did so by offering generous terms, including infrastructure development packages, which their Western competitors were

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unable to match. To add insult to injury, as the narrative goes, U.S. troops are indirectly providing security for the Chinese companies by patrolling the areas in which they operate.

This narrative portrays the economic activities of a monolithic China in Afghanistan as inimical to American interests. Indeed, the very use of the term "free riding" to characterize China's approach to Afghanistan implies that the Chinese government made a calculated decision to exploit the U.S.-led efforts to stabilize Afghanistan to benefit the Chinese economy by dispatching state-owned energy and mining companies to secure copper and oil. In this view, it's bad enough that Chinese firms snatched valuable mining contracts that should have been awarded to companies headquartered in the United States and other NATO countries as a reward for their sacrifices in Afghanistan. What's worse, China's apparent willingness to profit off of the blood and treasure spilt by other countries is yet another example of how China is unwilling to assume international responsibilities commensurate with its rising global power.

This article examines three elements of the popular narrative about China's role in Afghanistan. It argues that Chinese companies invested in Afghanistan's minerals and hydrocarbons in the pursuit of their own corporate interests rather than at the behest of a Chinese government concerned about resource security. To be sure, the Chinese firms did have a leg up on their Western competitors by virtue of their state ownership. However, the infrastructure packages they offered as part of their bids are consistent with a broader shift in the global mining industry away from enclave private sector developments and towards leveraging mineral development to benefit the broader economy, which is being driven largely by Chinese companies. Finally, while it is fair to say that China is free-riding on the U.S.-led stabilization efforts in Afghanistan because Chinese companies are benefiting from a public good to which China has not contributed, the mining and energy investments made by Chinese companies could well end up advancing U.S. goals.

Are China's Energy and Mining Investments the Brainchild of the Chinese Government?

The answer is not exactly. The deals struck by MCC, JCCL, and CNPC in Afghanistan, like most investments made by Chinese firms globally, are examples of the companies leading the flag. The impetus to exploit Afghanistan's minerals and energy came from Chinese business executives located in Pakistan and Turkmenistan based on their own corporate interests. Beijing's concerns about resource security made it easy for the Chinese firms to secure the necessary governmental approval and diplomatic and financial support. Although the copper and oil investments are not the product of a Chinese strategy for Afghanistan, they may end up shaping one.[4]

Many discussions of the investments made by MCC, JCCL, and CNPC in Afghanistan portray them as the product of a national strategy to advance China's economic and political interests in Afghanistan. Some commentators do this implicitly by stating that it is "China" that made the investments. Others are more explicit. For example, a *New York Times* article asserts that "the Aynak investment underscores how China's leaders, flush with money and in control of both the government and major industries, meld strategy, business, and statecraft into a seamless whole."[5] Such language conjures up an image of Chinese officials and business executives jointly plotting where China's energy and mining companies will expand overseas.

There certainly are good reasons to suspect that the investments made by Chinese companies in Afghanistan are the brainchild of the Chinese government. First, both MCC and CNPC are centrally-administered state-owned enterprises whose top executives are appointed by the Chinese Communist Party. Second, the Chinese government regards oil and copper as strategic commodities, shortages of which might constrain China's continued economic development. Third, Afghanistan is located in China's backyard, which raises questions about whether national security concerns influence investment decisions because overland delivery of energy and minerals to China is possible. Fourth, a larger Chinese economic presence in Afghanistan might help counter the growing influence of India in Afghanistan, a concern shared by China and Pakistan, which have very close political, military, and economic relations.[6]

However, publicly available information indicates that the decisions to invest in Afghanistan originated not with Chinese bureaucrats but rather with MCC and CNPC executives. To be sure, the companies had to secure the Chinese government's approval for their projects, and the government undoubtedly gave the companies the green light because they are developing natural resources in short supply in China. But each of the companies invested in Afghanistan had its own corporate ambitions to pursue. MCC pursued Aynak to advance its objective of diversifying its lines of business, while JCCL partnered with MCC to secure additional copper supplies. CNPC ventured into Afghanistan to expand its options in Central Asia, where it is one of the largest foreign investors in oil and natural gas. In addition, all three companies improved their overall portfolio security through increased geographic diversity by investing in a neighboring country where established global players were reluctant to enter.[7]

MCC: Looking for Business Diversification

MCC's quest for Aynak originated with Sun Changsheng, the executive who ran the company's Saindak copper and gold mining project in Pakistan's Balochistan Province in the early 2000s. After the fall of the Taliban in 2001, Sun submitted a proposal for the development of Aynak to the interim government of Afghanistan, which attracted the attention of President Hamid Karzai.[8] Sun subsequently arranged for Afghanistan's minister of mines, Juma Mohammed Mohammedi, to visit MCC's operations at Saindak to learn about the company's mining techniques and technologies.[9] On February 24, 2003, the Cessna airplane that Sun and the Afghan delegation boarded in Karachi crashed en route to Saindak, killing everyone on board.[10]

MCC, a leading engineering and construction firm, continued to pursue Aynak to help grow and diversify its business away from domestic construction and ultimately boost its profitability. The small profit margins in MCC's traditional field of steel mill construction prompted Yang Changheng, the chairman of MCC, to move the company into more lucrative areas, including natural resource development and real estate. Yang intended for natural resource development to become MCC's flagship industry.[11] To achieve this goal, MCC invested in a series of ambitious overseas mining projects in the 2000s. In addition to Aynak, MCC is developing the Ramu nickel-cobalt mine in Papua New Guinea, the Minera Sierra Grande iron ore project in Argentina, and the Cape Lambert iron ore project in Australia. MCC injected all of its overseas mining assets into the subsidiary it listed on the Hong Kong Stock Exchange in 2009 on the expectation that investors would find mineral development to be a more compelling growth story than steel mill construction because of the low profit forecasts for the domestic steel industry at that time.[12]

JCCL: Looking for Copper

JCCL, China's largest copper producer, joined hands with MCC in Afghanistan to secure additional copper resources to meet China's growing demand for copper products. Like other Chinese smelters, JCCL prefers to own copper resources instead of purchasing them from other producers to minimize its exposure to upstream raw material risk. With limited opportunities to acquire resources in China, JCCL set its sights abroad in the late 2000s. In addition to its 25 percent stake in Aynak, the company has a 40 percent interest in Lumina Copper, a joint venture with China Minmetals, which is developing the El Galeno copper project in Peru. JCCL, a provincial-level company, considers partnerships with better-connected centrally-administered firms like MCC and China Minmetals to be essential to its international expansion not only to help control risks but also because it does not have the balance sheet to bankroll the development of projects the size of Aynak and El Galeno.[13]

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Aynak alone has the potential to increase JCCL's copper production by more than 50 percent. At full production, the mine is expected to produce concentrate containing 200,000 tons per year of copper, about the same as JCCL's total domestic mine production of 210,000 tons per year.[14] Most of the output from Aynak may end up in JCCL's smelters. According to an agreement between JCCL and MCC, JCCL will have the preemptive right to acquire at least 50 percent of the copper products generated from Aynak.[15]

CNPC: Looking for Options

Lu Gongxun, the head of CNPC's operations in Turkmenistan, led CNPC's successful bid for the Kashkari, Bazarkhami, and Zamarudsa oil blocks in the Amu Darya Basin to expand the company's options in Central Asia.[16] The amount of oil that the three blocks is estimated to contain is small, about 90 million barrels, which indicates that it will be sold locally.[17] However, the asset provides CNPC with opportunities to increase its production and extend its pipeline infrastructure in Central Asia.

Expansion into Afghanistan is a natural move for CNPC, which is one of the largest foreign investors in Central Asian oil and natural gas. In Turkmenistan, CNPC is already producing from the same geologic structure as the three oil blocks in Afghanistan; the company is developing the Bagtyyarlyk natural gas fields and South Yolotan-Osman, the world's second largest natural gas field, both of which are located in the Amu Darya Basin. CNPC's victory in the Amu Darya oil tender gives CNPC "first mover" advantage in Afghanistan, putting the company in a good position to win tenders for other assets.[18]

CNPC's investment in Afghanistan may also provide the company with an opportunity to build more pipelines between China and Central Asia. In June 2012, CNPC signed a framework agreement with the government of Afghanistan for a feasibility study on a pipeline from Turkmenistan to China via Afghanistan.[19] CNPC may view this proposed project as a segment of a larger pipeline that stretches from Iran, where CNPC has a contract to develop Phase 11 of South Pars, the world's largest natural gas field.[20] In 2011, the Iranians froze CNPC's contract due to the company's failure to start work.[21] However, if CNPC eventually exploits South Pars, a pipeline from the field to China via Turkmenistan and Afghanistan would be one way for CNPC to monetize its production.

The Firms Lead the Flag

The energy and mining companies invested in Afghanistan may end up helping to shape the emergence of a more proactive Chinese policy toward Afghanistan, which traditionally has been a low diplomatic priority for China. The projects undertaken by MCC, JCCL, and CNPC give the companies—and the Chinese government—a potentially large and long-term economic stake in Afghanistan, especially if MCC makes all of the more than $10 billion worth of investments it has proposed to develop the Aynak copper mine and associated infrastructure.[22] Indeed, Chinese diplomats already view the project as under their purview.[23]

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Moreover, the investments have become part of the Chinese government's narrative about its contributions to the economic reconstruction of Afghanistan. At the end of 2011, Chinese foreign direct investment in Afghanistan totaled $200 million.[24] This amount is a small fraction of the nearly $5 billion that MCC, JCCL, and CNPC intend to initially invest in the development of their copper and oil projects.

Moreover, China is only a minor donor to Afghanistan. The Chinese government has only provided modest amounts of foreign aid to Afghanistan. Beijing's pledge of $197 million in official development assistance for 2002–2013 ranked China twenty-third on a list of donors to Afghanistan published by Kabul in 2009.[25] Since then, China has offered an additional $24 million in aid.[26] The reasons for Beijing's limited contributions are three-fold. The Chinese government has refrained from actively supporting American efforts in Afghanistan out of concern that such support might create a perception in the broader Islamic world that China is part of an alliance against Islam and engender support for separatists in China's Xinjiang Province.[27] Chinese officials are probably reluctant to provide large amounts of money until they have a better sense of who the most powerful actors will be in Afghanistan after NATO withdrawals.[28] Moreover, Beijing prefers to give bilaterally instead of multilaterally to increase its leverage over the recipient.[29]

The deals struck by MCC, JCCL, and CNPC give Chinese officials something they can point to as a Chinese contribution to the reconstruction of Afghanistan.[30] Indeed, at an Asian security meeting in the summer of 2009, a Chinese general voiced his unhappiness with China's exclusion from a list of countries that U.S. Secretary of Defense Robert Gates acknowledged for their contributions to Afghanistan. When asked by a reporter from the *Economist* to explain why China should have been included, the general replied, "I mean the mine. Our copper mine."[31]

Did China's Energy and Mining Companies Win Tenders in Afghanistan by Offering Development Packages Their Western Competitors Couldn't Match?

Yes. The Chinese companies had an advantage over their Western competitors in Afghanistan's first mining and hydrocarbon tenders because of their state ownership. Most importantly, Chinese energy and mining companies have access to lower-cost capital and inputs than their competitors. Moreover, the Chinese firms enjoyed greater diplomatic support. In addition, wholly state-owned companies like CNPC may not be subject to the same level of shareholder discipline as their private sector competitors because the Chinese government probably has objectives other than profit maximization. That said, the bids offered by the Chinese firms, especially MCC and JCCL, are consistent with a broader shift in the global mining industry away from enclave private sector investments towards public-private partnerships which combine the extraction of mineral resources with the construction of infrastructure for shared use. Western companies may have to seek greater support from their home governments to help level the playing field that is currently tilted against them.

The Chinese firms offered more of what the government of Afghanistan wanted in terms of revenue and infrastructure than their competitors, including firms headquartered in the United States, the United Kingdom, and Canada (see Tables 1 and 2). In the case of the Aynak copper tender, MCC and JCCL agreed to pay the highest bonus to the government of Afghanistan and one of the highest royalty rates in the world.[32] The Chinese consortium also pledged to build more infrastructure than the other bidders, some of which will benefit the broader economy. Specifically, MCC agreed to develop a 400-megawatt thermal power plant and coal mine to feed it, the water supply, minerals required to provide inputs to copper production, and a railway to connect the mine to Pakistan and Tajikistan via Kabul, which is conditioned upon feasibility. The power plant and the railway will serve both the mining project and other parts of Afghanistan.[33] In the case of the Amu Darya oil tender, CNPC was the only company to make a conforming bid; CNPC accepted both the oil pricing formula and the profit split proposed by the Afghan government and agreed to pay the bid guarantee of $10 million.[34] CNPC also committed to build Afghanistan's first refinery.[35]

Bids offered by the Chinese firms, especially MCC and JCCL, are consistent with a broader shift in the global mining industry away from enclave private sector investments towards public-private partnerships.

The success of the Chinese firms led to charges by high-profile critics that both the Aynak copper and Amu Darya oil tenders were uneven playing fields tilted against Western firms. James Yeager, who was a consultant to Afghanistan's Ministry of Mines and Industries during the Aynak tender, maintains that companies like the United States-based Freeport McMoran and Canada's Hunter Dickenson were ill-equipped to compete against the MCC-JCCL consortium, which was able to offer a generous package of infrastructure because of financial support from the Chinese government.[36] His assessment of the disadvantages of the Western bidders is echoed by Gryphon Partners, the U.S. advisory firm run by former U.S. Ambassador Zalmay Khalilzad whose client (Tethys Petroleum) participated in the Amu Darya oil tender. Ambassador Khalilzad and his colleagues contend that the unattractive terms proposed by the Afghan government and the procedures for selecting the winning bidder made it "all but impossible" for a Western company to prevail over CNPC, which can make investments which are not strictly profitable because it is not accountable to shareholders.[37] Indeed, Tethys Petroleum, in a press release issued after CNPC's victory, stated that "[as] a commercial oil and gas company Tethys could not offer the same terms as CNPC, which in Tethys' view, would make the project non-commercial."[38]

Table 1: Bids for Aynak Copper Mine

Company	MCC	Hunter Dickenson	Kazakhmys Corporation	Freeport* McMoRan	Strikeforce Limited
Headquarters	China	Canada	Kazakhstan	USA	Cyprus
Start of Production for Concentrate	Year 5	Year 7	Year 4	Year 6	Year 4
Maximum Royalty Percentage	19.5%	15%	18.1%	12.5%, Capped at USD 100 million per year	7.5%
Energy Production	400 MW	100 MW	350 MW	15 MW	Import power
Bonus to Government of Afghanistan (USD millions)	808 3 Installments	100 Multiple installments	2 1 Installment	243 Multiple Installments	238 Multiple Installments
Infrastructure (Railway investment)	Yes	No	Yes	No	No

*In March 2007, Freeport McMoRan acquired Phelps Dodge Corporation, which submitted the bid for Aynak.

Sources: Islamic Republic of Afghanistan, Ministry of Mines, "Aynak Tender Process History," http://mom.gov.af/en/page/1401; and Metallurgical Corporation of China Limited, Prospectus, September 11, 2009, pp. 182, *http://psh.hkex.com.hk/01C92F2A-82DC-46B5-AF61-E124792B43E6/FinalDownload/DownloadId-E51B67507551999A53095B49B08A61C1/01C92F2A-82DC-46B5-AF61-E124792B43E6/userpages/eipo/english/MCC_e_part1.pdf*

Table 2: Bids for Amu Darya Oil Blocks

Company	CNPC	Buccaneer Energy	PEL	Tethys Petroleum
Headquarters	China	Australia	Pakistan	United Kingdom
Conforming Bid	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	20% Stable
Formula Price Required by Government	Agreed	Agreed	Disagreed	
(Market Pricing)	Disagreed			
(Market Pricing)				
Bid Guarantee	Submitted	Not Submitted	Not Submitted	Not Submitted

Source: Islamic Republic of Afghanistan, Ministry of Mines, Press Release, June 22, 2012, http://mom.gov.af/Content/files/Press%20Release%20[IMMEDIATE%20RELEASE].pdf

The Chinese companies undoubtedly had a leg up on their Western competitors due to their state ownership. First, CNPC and MCC have lower costs of inputs and capital than their private sector competitors. Their cost advantage in inputs is derived from knowing the best suppliers of manufactured products, such as tanks and pipes, in China. Their cost advantage in capital comes from the availability of cheap financing provided by Chinese banks, notably China Development Bank and the Import-Export Bank of China. Both banks are wholly state-owned financial institutions with a mission to advance China's national interests, including the international expansion of Chinese firms to secure natural resources. MCC secured loans from both banks for the development of Aynak, the terms of which have not been publicly disclosed.[39] (MCC and JCCL will initially invest $4.4 billion in the joint venture project company, which will be contributed by capital injection and project financing in the proportion of 30 percent and 70 percent, respectively.[40]) Access to low-cost capital and inputs probably explains why MCC expects an internal rate of return of 11.01 percent, slightly above the normal benchmark return of 10 percent for mining projects.[41]

Second, CNPC, MCC, and JCCL benefited from greater diplomatic support. Chinese officials vigorously lobbied their counterparts in Kabul on behalf of the Chinese firms.[42] Foreign Minister Yang Jiechi even visited Kabul one month ahead of schedule, arriving the week before Afghanistan's Ministry of Mines announced that MCC and JCCL had won the Aynak tender.[43] Moreover, the Chinese Embassy reportedly had a much closer relationship with the Ministry of Mines than did the embassies of the United States and Canada.[44]

Third, CNPC may not be subject to the same level of shareholder discipline as many of its competitors because it is wholly state-owned. To be sure, Chinese state-owned enterprises (SOEs) are under increasing pressure from the Chinese government, their sole or majority shareholder, to generate profits. Not only do SOEs pay dividends to the central government, but their chief executives' salaries and tenure depend on their companies' financial performances more than ever before.[45] However, the Chinese government is probably willing to settle for rates of return that are lower than what the shareholders of CNPC's publicly quoted competitors would accept because Beijing has objectives other than profit maximization, such as securing natural resources. In contrast, the overseas mining projects of MCC and JCCL are held by their internationally-listed subsidiaries, whose shareholders may not be willing to accept lower rates of return.

It is worth noting that MCC and JCCL's winning bid for the Aynak copper deposit is part of a broader shift in the global mining industry away from enclave private sector projects that do not provide broader public goods towards public-private partnerships which bundle mineral and infrastructure development to benefit the economy beyond the mining sector. This shift is being driven by both the emergence of Chinese companies on the world stage and the migration of the global mining industry to parts of the world with little or no infrastructure. According to a recent report from the World Bank, the governments of mineral-rich nations, especially developing ones, seek comprehensive packages of contributions from mining companies to spur economic growth and diversification.[46]

MCC and JCCL were well-positioned to meet the Afghan government's request for a comprehensive mining and infrastructure development package because of their complementary strengths. MCC, one of China's largest construction companies, has expertise to build the mine and associated infrastructure at Aynak. Jiangxi Copper, China's largest copper producer, has the skills to produce the copper and the networks to market it. According to an MCC executive, Chinese firms have a complete set of exploration, research, design, and construction teams; and foreign mining companies have nothing comparable. MCC will use its advantages in early stage exploration and design, while Jiangxi Copper will use its advantages in management and other areas.[47]

The success of state-owned companies from China and other emerging economies in winning tenders to develop world-class mineral deposits raises the question of whether private sector mining companies headquartered in the United States, the United Kingdom, and Canada will have to secure greater support from their home country governments to help level the playing field.[48] In the case of the Aynak copper tender, anecdotal information indicates the U.S. firm, Freeport McMoran, might have emerged as the preferred bidder if Washington had voiced a preference for a U.S. firm to win the tender. Reportedly, Afghan President Hamid Karzai indicated to U.S. President George W. Bush that he would offer his support to the Freeport McMoran bid for the Aynak copper deposit, but Bush declined his offer.[49] Western miners may require the practice of a more robust form of commercial diplomacy by their home governments, including the integration of official development assistance into bid packages, to succeed in countries in which the host government seeks to leverage mineral exploitation to spur broader economic development.

Are China's Energy and Mining Investments in Afghanistan Are Inimical to U.S. Interests?

No. While it's fair to say that China is free-riding on the U.S.-led efforts to stabilize Afghanistan, the investments made by Chinese energy and mining companies may advance U.S. goals for Afghanistan.[50] Washington regards the achievement of a more prosperous and independent Afghan economy not only as an end in itself but also as a means to a responsible political solution in Afghanistan. Bolstering Afghanistan's economic prosperity and independence involves the development of the country's vast mineral wealth and the construction of transport infrastructure to more deeply integrate Afghanistan into the regional economy. MCC, JCCL, and CNPC are positioned to contribute to both endeavors.

Western commentators and politicians have described China as gaining at the expense of the United States and its allies in Afghanistan. As Robert Kaplan noted in a column penned for the *New York Times*, "while America is sacrificing its blood and treasure, the Chinese will reap the benefits."[51] Frederick Starr of Johns Hopkins University has similarly observed, "Chinese investors—who are able to brush off risk, ignore the bottom line, and grease palms as needed—have capitalized effectively on the sacrifices made by ISAF [the U.S.-led coalition] partners over a decade."[52] Their views are shared by Andrew Rossindale, a member of the British Parliament, who remarked, "The Chinese are self-interested. I don't blame them for that. But it is on the backs of the sacrifice made by [the] British and Americans and others, the sacrifices we have made which we hope after 2014 will lead to a more stable and secure Afghanistan, and for the Chinese to capitalize on that doesn't go down well. I don't think it will go down well with the British public. China is a wealthy country in today's world and it's wrong that they are not prepared and haven't been prepared to contribute to the enormity of the task that we have had to face in dealing with Afghanistan."[53]

These depictions of China as a free-rider are accurate. A free-rider is an actor that enjoys a good produced by the collective action of others but makes no contribution to the collective action from which it benefits.[54] The good that troops from the United States and other ISAF countries are collectively providing (or at least striving to provide) is a secure environment in which foreign capital can be invested, equipment transported, people can be employed free from sabotage, and copper eventually can be delivered from mine to market. The cost of providing this security is part of the estimated $641.7 billion the United States has directly spent on the Afghan War for fiscal years 2001–2013.[55] Chinese firms are benefiting from the collective efforts of the United States and its partners in Afghanistan to provide security even though China has not contributed to the provision of this public good.

The Chinese companies do, however, appreciate the security that U.S. troops are providing. Although the actual mine site is guarded by an Afghan protection force and Pakistan may have instructed insurgents who are part of the Haqqani network to refrain from attacking the Chinese, the Chinese firms recognize that they benefit from the U.S. military presence in Logar Province. Pan Qifang, secretary of the board of directors of JCCL, told the *Wall Street Journal*, "It is very safe to conduct the project in Afghanistan because the Americans are guarding us."[56] MCC has also expressed a desire for U.S. troops to stay as long as possible.[57]

The development of the copper mine at Aynak and hydrocarbon reserves in the Amu Darya basin have the potential to be drivers of sustained economic growth in Afghanistan, especially if the country does not succumb to the "resource curse."[58] The World Bank has projected that the Aynak copper deposit and the Hajigak iron ore deposit, which an Indian consortium won the rights to develop in a 2011 tender, will create more than 90,000 jobs and generate annual fiscal revenues of $500 million, about 30 percent of Afghanistan's domestic revenue in 2011.[59] The World Bank also expects that the development of both projects may have positive spin-off effects in terms of providing contracts for small businesses.[60] MCC and JCCL similarly project that Aynak will directly provide about 3,700 jobs and indirectly create tens of thousands of jobs by promoting the development of other industries, such as construction, machinery maintenance, and construction.[61] Additionally, Afghanistan's Minister of Mines expects that CNPC's development of three blocks in the Amu Darya Basin could earn Kabul $7 billion over twenty-five years, assuming reserves of 87 million barrels and an oil price of $100 per barrel.[62]

Similarly, transport infrastructure proposed by MCC and CNPC, if constructed, will help increase connectivity between Afghanistan and its neighbors. U.S. Secretary of State Hillary Rodham Clinton has articulated a vision for a "New Silk Road" to embed Afghanistan firmly in the economic life of South and Central Asia through the construction of railways, roads, bridges, pipelines, and electric power lines.[63] Chinese companies are already pursuing such projects. In August 2011, a Chinese company won a tender held by MCC to conduct a feasibility study on a railway linking Aynak to Pakistan and Tajikistan.[64] In June 2012, CNPC signed a framework agreement with Afghanistan's Ministry of Mines, which covers technical and economic feasibility studies of a natural gas pipeline that would stretch from Turkmenistan to China via Afghanistan and Tajikistan.[65] Both the proposed railway and pipeline are a reminder that it is Afghanistan's neighbors who are likely to have the most influence over the how the concept of a "New Silk Road" is translated into reality. China, for one, has an established track record as a force for regional integration through the construction of cross-border infrastructure.

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However, the development of Aynak has stalled. The start-up date of late 2011, announced by MCC president Shen Heting in September 2009, has been postponed at least until 2014–2016.[66] As a result, the project has only generated limited revenue and jobs for Afghanistan. During Afghanistan's fiscal year 1388 (21 March 2008 – 20 March 2009), the government received a payment of $80.8 million from the MCC-JCCL joint venture company.[67] Kabul has not yet received the full upfront bonus of $808 million, payment of which is contingent upon the approval of a bankable feasibility study.[68] As of mid-2012, MCC and JCCL only employed about 1,800 Afghans, mostly as members of a special mine-protection force.[69]

MCC and JCCL frequently cite the preservation of Afghanistan's cultural heritage as the reason for the delay.[70] Aynak is an archaeological treasure sitting on top of an economic one.[71] The copper deposit is located directly below Mes Aynak, a vast complex of ruins including Buddhist shrines, monasteries, statues, and frescoes dating to the fifth and sixth centuries A.D. and evidence of even older Bronze Age settlements.[72] Although the site was first recorded in 1963, MCC claims it did not know of its existence.[73] Salvage excavations led by Afghanistan's National Institute of Archaeology began in 2009. While the excavations have undoubtedly prevented the Chinese companies from making progress in some areas, the Afghans have complained that the MCC-JCCL consortium has not built roads and other infrastructure, the construction of which is not impeded by the cultural preservation efforts.[74]

Four other factors may explain why MCC and JCCL are delaying the development of Aynak. First, the consortium may be reluctant to deploy more capital, personnel, and equipment to Aynak due to the worsening of the security situation in Logar Province and uncertainty about whether it will further deteriorate after the departure of U.S. combat troops by 2014.[75] Indeed, as of July 2012, the mine site had been attacked nineteen times, and forty Chinese engineers had departed due to the security situation.[76] Second, MCC has been preoccupied with other problems that have arisen overseas. In Papua New Guinea, where MCC is developing the nickel-cobalt mine at Ramu, the company became involved in court cases concerning the company's right to dump toxic mineral waste into the sea and the imprisonment of almost 200 Chinese for working illegally.[77] In Australia, MCC is the lead contractor for CITIC Pacific's Sino-Iron project, which is massively over budget and behind schedule. The estimated cost of the project has more than tripled from $2.5 billion to $7.8 billion, and the start-up date has been delayed from 2009 to late 2012.[78] Third, MCC and JCCL's initial development program for Aynak was probably overly optimistic. MCC initially expected the development of the copper mine to take five years.[79] However, it takes approximately seven to twelve years to develop a copper project from the time exploration confirms there are sufficient ore reserves to production, according to Western industry analysts.[80] Fourth, Andrew Small has noted that the Chinese companies may want to delay making large investments until they have a better sense of which actors in Afghanistan will be able to provide a sustainable political and security framework for their operations. Many Chinese analysts are skeptical about the staying power of President Hamid Karzai and his associates but are unsure who or what will succeed them.[81]

Conclusion

The investments made by MCC, JCCL, and CNPC in Afghanistan are a case of Chinese companies leading the Chinese government into Afghanistan. It was not bureaucrats in Beijing but rather MCC and CNPC executives based in Pakistan and Turkmenistan, respectively, that led their firms' expansion into Afghanistan. The projects, driven by the individual corporate interests of each firm, give China a larger and longer-term stake in Afghanistan and set the stage for China to play a bigger role in the country, especially after the withdrawal of the U.S.-led forces. In addition, the proposed infrastructure

It was not bureaucrats in Beijing but rather MCC and CNPC executives based in Pakistan and Turkmenistan, respectively, that led their firms' expansion into Afghanistan.

projects associated with the copper and oil investments position China to continue its role as a driver of regional economic integration.

The victories of the Chinese companies in Afghanistan's first mineral and hydrocarbon tenders are likely to give China a substantial stake in Afghanistan for the next few decades. The initial investments to be made by MCC, JCCL, and CNPC in the Aynak copper deposit and the Amu Darya oil fields alone are estimated to total close to $5 billion. MCC's contract period is for thirty years and renewable upon expiration, while CNPC's contract period is for twenty-five years.[82]

The departure of the U.S.-led troops from Afghanistan means that the Chinese companies will lose an important source of security for their projects. To be sure, the Aynak copper mine is guarded by a special Afghan protection force. However, it will be more difficult for MCC to find a replacement for the foreign troops whose continued presence in Afghanistan would arguably increase the safety of the roads or railways over which the copper must travel from mine to markets.

The Chinese copper and oil investments have increased the pressure from the United States and its partners on China to make security commitments to Afghanistan commensurate with its economic interests in the country. For example, Sir William Patey, who left his post as the British ambassador to Afghanistan in March 2012, has requested that countries investing in Afghanistan also help foot the bill for security. According to Patey, "We welcome Russian and Chinese investment, we want to see Pakistan and India invest in copper and oil and gas. But it would be even more heartening if these countries set aside a budget to help with the security effort; particularly after coalition forces leave."[83] Similarly, there were calls at the NATO summit in Chicago in May 2012 for China to contribute to a fund to pay the Afghan army and police after 2014.[84]

While China is unlikely to heed such calls, it does appear to be positioning itself to play a more proactive role in Afghanistan as the U.S. presence diminishes.[85] During the first half of 2012, Beijing hosted the first China-Afghanistan-Pakistan trilateral dialogue, invited Afghanistan to be an observer of the Shanghai Cooperation Organization, and agreed to a strategic partnership agreement with Kabul in September. Zhou Yongkang became the first senior leader since 1966 to visit Afghanistan, where he signed an agreement to help "train, fund, and equip Afghan police."[86] These actions are consistent with calls from NATO countries for China to "do more" in Afghanistan. However, the Chinese government's more proactive stance is probably not a bow to international pressure. Instead, it is a response to the realization that the impending departure of the U.S.-led forces from Afghanistan may not bode well for China. Specifically, Beijing is concerned that terrorists and Islamic extremists based in Afghanistan might destabilize Xinjiang.

Finally, a larger Chinese role in Afghanistan may lead to a larger Chinese role throughout Asia. The proposed cross-border infrastructure projects associated with the Chinese copper and oil investments, if constructed, would help bind together countries in one of the least economically integrated parts of the world. China is well positioned to be a force for such integration because of its geographical proximity, demand for natural resources, and the willingness of its government to support, diplomatically and financially, the construction of infrastructure designed to deliver energy and minerals to Chinese consumers.

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