

The Bargain with the Demands: A Review of recent Afghanistan–China Trading Relation *

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Abstract

This paper consist of two part, the first part of the paper analyze the economic investment of Afghanistan from China. I find there is closer-intimacy in Afghanistan–China relation after the official control of the Taliban, China are much keen to develop trading networks in import good to Afghanistan than export. The second part of the paper highlights some key challenges than hinder investment in long run, which human rights production may block Afghanistan from SWIFT system.

Keywords: *Foreign Direct Investment; Education; China; Afghanistan Economy; Economic Development*

1 Introduction

This paper consist of two parts. The first part analysis the FDI between Afghanistan, more precisely the Taliban government and China . I would cover the recent patterns and trade provide a by year comparative statics from the Chinese Ministry of Foreign Affairs official website. The second part analysis Afghanistan from a social perspective, which I try to cover some recent topics of gender inequality. Afghanistan is classified as one of the least developed countries. Following the withdrawal of US troops from Afghanistan in the summer of 2021 and the subsequent return of the Taliban to power, initial expectations of the country descending into conspiracy and chaos orchestrated by terrorist groups were prevalent. However, approximately 2 years later, the actual unfolding of events paints a somewhat different picture, and since then,

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China has begun to construct formal relationship with the Taliban. The official diplomatic ties between China and Afghanistan can be traced back to March 2024, a significant diplomatic event unfolded as the Taliban orchestrated a pivotal diplomatic gathering in Kabul during the same month to pursue international recognition. In this context, hard-line factions within the Taliban aim to attract regional nations such as Iran, Pakistan, and Central Asian countries to invest in Afghanistan's abundant mineral reservoirs and bolster cross-border trade networks. Chinese investors, supported by their government, have successfully negotiated several prominent and profitable contracts in oil, gas, and mineral extraction with the Taliban, solidifying their influential role as a key stakeholder in the rugged, landlocked nation following the U.S. military withdrawal. After that, China Deepens Its Engagement With Taliban-Ruled Afghanistan by vastly increased economic engagement with Afghanistan as it eyes a new node in the Belt and Road Initiative (Ali, 2024).

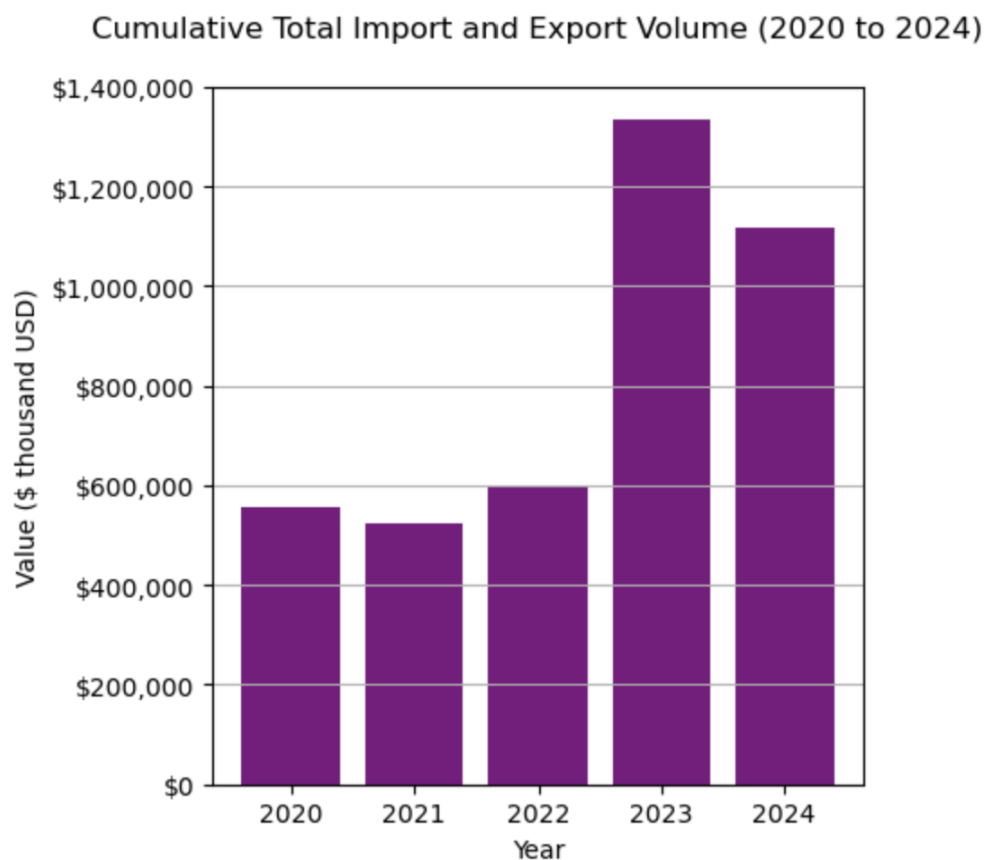


Figure 1: China by year trade volume between Afghanistan

Figure 1 illustrate the current trading volumn between China and Afghanistan.

Refer to the Chinese Ministry of Foreign Affairs data, the trade volume between China and the UAE in 2023 is projected to reach US \$ 1.33 billion, marking a substantial year-over-year surge of 125.4%. In contrast, in 2021, the non-financial direct investment of Chinese companies in Afghanistan fell to US \$2.82 million, reflecting a notable annual decline of 35.9%, and the value of new project contracts inked by Chinese companies in Afghanistan amounted to US\$130,000. Noteworthy developments include China's decision, commencing from December 1, 2024, to extend zero-tariff treatment to all of Afghan products, signifying a significant policy shift.

2 Economic Analysis

By history (Tahiri, 2017), Afghanistan and China share a historical connection through the ancient Silk Road in the Han dynasty, an extensive network of trade routes linked the East and West. It was until the prolonged war in Afghanistan which has significantly undermined its appeal to foreign investors. The persistent instability, characterized by bombings and kidnappings, alongside inadequate infrastructure and frequent power shortages, has deterred many foreign companies from entering the market. For instance, between 2003 and 2015, while nearly 45,000 local companies registered, only 2,822 were foreign firms, highlighting the challenges of attracting foreign capital. However, with the cessation of conflict, there have been signs of economic recovery, suggesting potential for revitalization and growth in foreign investment as stability improves.

China's current strategy is to project its global influence into Belt and Road Initiative countries (Huang, 2016). Even at the 1980s, China arose as a low-cost outsourcing destination for manufacturing, the recent transformation encourages China to pursue market outlets or national brands and to access energy resources and raw materials. Afghanistan is rich in natural resources which includes water resources, gas and crude oil, gemstones and other minerals. There are still no precise figures for Afghanistan's mineral reserves. In 2008, an investment consortium composed of China Metallurgical

Corporation and Jiangxi Copper Company signed an agreement on the Aynak copper mine development project with the Afghan government in Kabul. Table 1 highlight the current mineral resources, data collected by the Nature Environment Research Council Survey (2024). Afghanistan is rich in metal and gemstones which China do not enjoy comparative advantage in. Table 3 illustrate the domestic production from agriculture sector. Wheat and cereal production is Afghanistan's traditional agricultural mainstay. China mainly export electronic equipment and manmade filaments. Food shares only very few proportion among total. This follows the going global strategy so to encouraging Chinese companies to embrace "The Two Markets" in asia and China. And for Afghanistan, although those Chinese firms because Monopoly to particular industry, the governments do not have the physical ability to restore industry and manufacturing. Allowing Chinese firms to invest becomes the dominant strategy. And consider the low per capita gdp, most of the public cannot afford high price international product. Cheap prices products among other competitive substitutes become an advantage. Some of the Global Champions such as XiaoMi and VIVO expand quickly and captured great market share. This follows the going global strategy so to encouraging Chinese companies to embrace "The Two Markets" in asia and China.

Figure 2 and Figure 3 illustrating the import and export values from Afghanistan to China from 2020 to 2024. Figure 4 depicts a line chart showcasing the trade balance between China and Afghanistan from 2020 to 2024. More importantly, the transition of As the Taliban gain full control of the city, import and export restored immediately. By analyze the data from the Afghan National Statistics and Information Authority. I found Afghanistan trade do benefit from peace and alliance relation with China. Figure 2 indicates trends in trade between China and Afghanistan, highlighting years of significant change. The data point for 2023 suggests a peak in exports, which as China and Afghanistan build up alliance relation. Which could also reflected in Figure 3, the import values from Afghanistan to China from sudden increase in 2023. The trade balance in figure 4 shows a steady increase from 2020 to a peak in 2023. There is an increasing volume in trading between Afghanistan and China.

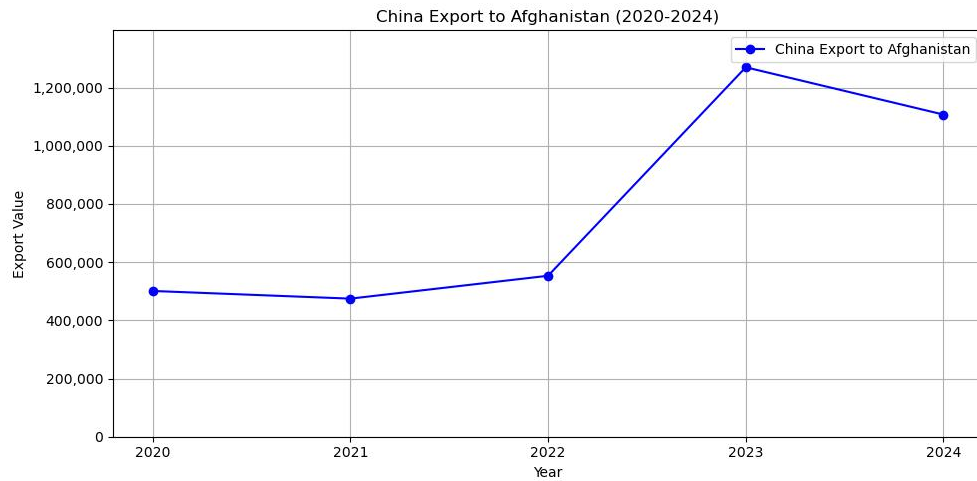


Figure 2: China Export to Afghanistan

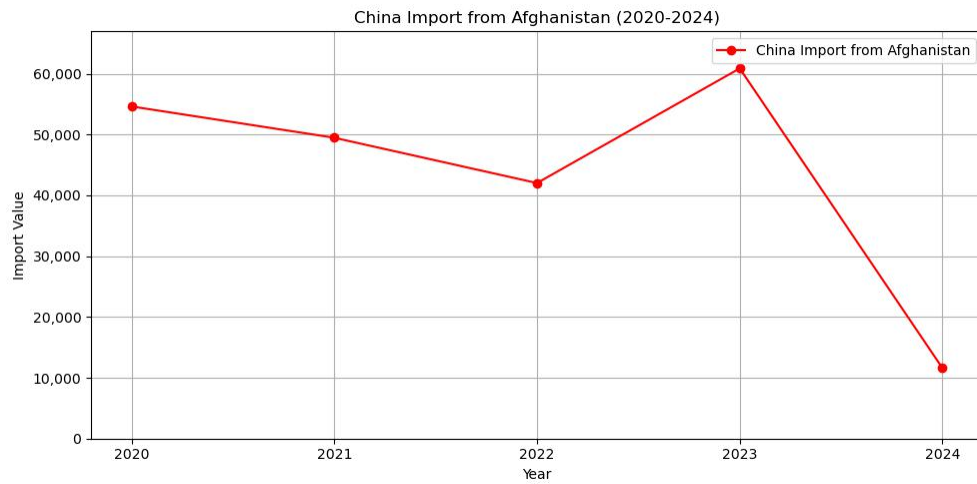


Figure 3: China Import from Afghanistan

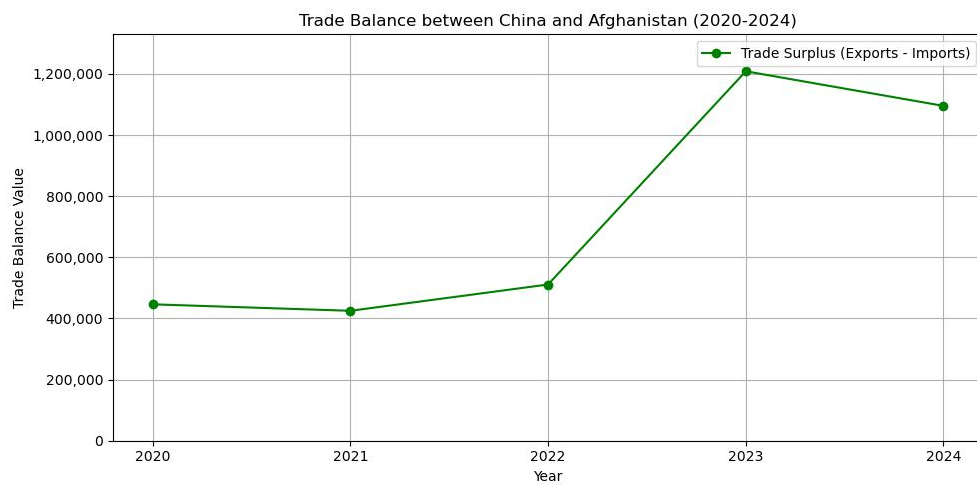


Figure 4: China Trade Surplus from Afghanistan

Meanwhile when comparing the current trend of export and Import. Figure 5 and Figure 6 illustrate the export and import share of Afghanistan. I find that currently China shares a greater importance in Import position India holds the largest share at 47%, indicating it is the dominant exporter in this context. Pakistan follows with a 34% share, making it the second-largest exporter. China (3.6%) shares only a small proportion. One potential reason my because of the geographically incovenience and culture difference.

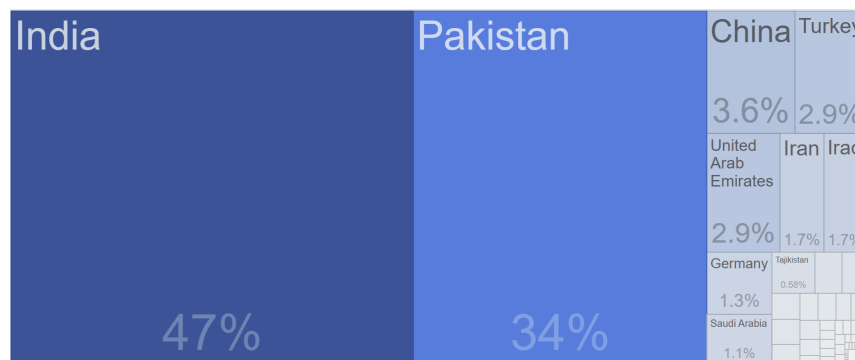


Figure 5: Afghanistan Export share by country, 2024

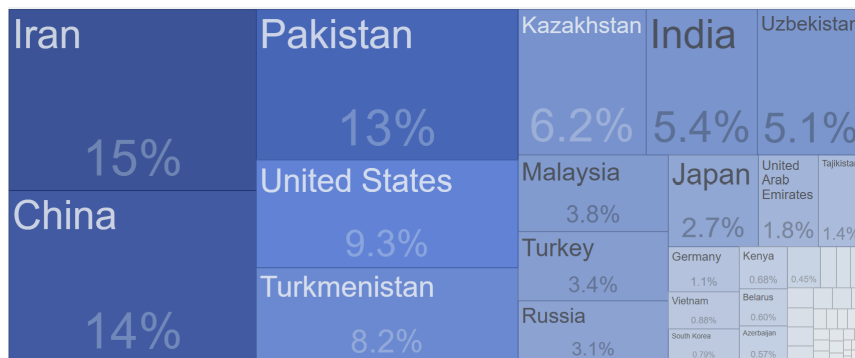


Figure 6: Afghanistan Import share by country, 2024

Table 5 reveal some significant difference when compared to other Central Asian nations. According to the The country has established merely 645 enterprises, representing a scant 0.1% of the total enterprises in Asia. In contrast, nations such as Kazakhstan and Uzbekistan demonstrate considerably higher enterprise counts and investment volumes. For example, Kazakhstan boasts a substantially larger business ecosystem, comprising thousands of enterprises and a robust investment framework that successfully attracts considerable foreign direct investment. The major motivation

of China's diplomatic strategy from currently is to enlarge the global influence (Zia, 2018). Current investment do not significantly effect the trading pattern of China-to-Afghanistan. Afghanistan connects the Pakistan who consistently with alliance with China for more than centires. Political, gaining certain controll or trust would help China to project the national influence toward central-asia, such as Iraq and Saudi Arabia. These countries have great surplus in oil which would help substain the recent energy demand. In October 2023 (Ministry of Commerce of the People's Republic of China, 2023), the Chinese government extended an invitation to representatives of the Taliban to taking into its prestigious global "Belt and Road" forum. This marked a significant occasion as it was the first instance of Afghanistan's rulers engaging in a prominent multilateral gathering since reclaiming power.

3 Social Analysis

The second part of this paper emphasis on the social problem. Human rights is still in remaining issue that the government would need to tackle in order to gain trust from Chinese investors. Potential risk of another war in mid East Asia could cause trillion dollar deficit. The internal conflict from 1970 caused most of the countries' transportation, communication, healthcare, industrial, educational, and agricultural infrastructure has severely impaired, thereby hampering economic development. Consequently, over 6 million individuals have left the country. The human rights problem in basic life protection relieve a little until the Agreement for Bringing Peace to Afghanistan, commonly known as the United States–Taliban deal or the Doha Accord in 2020, some politicians believe the restriction would bring peace in a short run (Little, 2016). Yet, empirical data from the Institutes for Economics and Peace do illustrate that less terrorism attack after the Taliban take control of the country. The Taliban government would take efforts to ensure a safer environment that allows the basic economic trading. In May 2008, the China Metallurgical Corporation and Jiangxi Copper established an investment consortium and entered into an agreement with the Afghan government to

develop the Aynak copper mine, situated approximately 35 kilometers from Kabul. This mine represents the second-largest untapped copper deposit globally and constitutes China's most significant investment initiative in Afghanistan, as well as the largest foreign investment in the country's history. The agreement stipulates a total investment of US \$4.2 billion. Despite the project's initiation in 2009, progress has been markedly limited. The mine is located in a region that has been frequently targeted by Taliban militants. Notably, in 2014, the Taliban perpetrated an attack that resulted in the deaths of eight Afghan workers near the Aynak site. Consequently, Chinese-funded enterprises operating in Afghanistan confront a range of security challenges, and these threats are expected to escalate, particularly following the withdrawal of U.S. troops from the region.

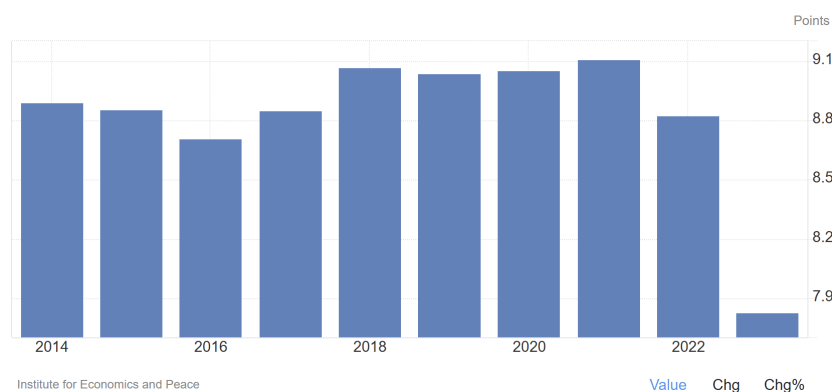


Figure 7: Afghanistan Terrorism Attack Indicator Grading from 2024

Moreover, another critical analysis is the trade of between economic development and human right. One major accusation of China is the policy support extremism and militancy, which is perhaps due to the 'infamous' reputation of Taliban. Johnson (2021) remarked that Taliban will welcome any sort of investment, especially if it is not accompanied by lectures on human rights. Although human rights do not affect business environment directly, yet in long run or indirectly. One big debate is on women right. Refer to the recent article written by United Nations Educational, Scientific and Cultural Organization, UNESCO (2024) around 1.4 million girls banned from school, the impact on future generations is profound, as it not only limits individual opportunities but also stifles overall societal progress. The drop of 1.1 million students in

primary education highlights a significant regression in educational access, affecting both girls and boys. Education inequality would cause serious social problem in long run.

A big concern would be the potential risk of US weaponizing SWIFT towards Afghanistan. Whether would Afghanistan be another symbol of terrorism is still not promising. In that case, it is possible for US to exit the SWIFT system. SWIFT (Maurer & Nelis, 2012) was created to address the inefficiencies and security concerns associated with the traditional method of telegraphically transferring financial messages. The SWIFT system has evolved to become the backbone of global financial communication, which financial sanctions by limiting the use is potential available. One example would be the recent ban on Russian bank in since 2021 (Greene, 2022). The SWIFT network exemplifies the efficacy of international sanctions as a response to geopolitical conflicts, specifically the Russian invasion of Ukraine. Following this military incursion, the European Union and other Western nations enacted sanctions targeting these financial institutions to effectively isolate Russia from the global financial system. A concerning issue would be the women right Chughtai and Ali (2023). Although there is no evidence and data on FDI currently. Economist find host country's participation in human rights regimes provides a "reputational umbrella" for investors, and has a positive effect on FDI (Garriga, 2016). Another concern is the trust of Taliban legitimacy, potentially includes corruption and discrimination against Chinese. The business is relatively unstable compare to other central-asian countries.

4 Discussion and Conclusions

China's investment in Afghanistan has become essential for economic growth and opportunities. More entrepreneurs and investors are incentivized to China-Afghanistan cooperation. The Taliban government do demonstrate for further cooperation and the country has the potential to attract Chinese foreign direct investment by addressing security concerns effectively. China's interest lies in Afghanistan's rich natural resources

and strategic location, which can enhance trade routes as part of the Belt and Road Initiative. Improved transportation services would facilitate resource exportation and boost economic ties. For example, if security measures are strengthened, projects like the extraction of lithium—vital for tech industries—could advance, benefiting both Afghanistan and China. Both countries stand to gain significantly from a mutually beneficial partnership, fostering economic development and infrastructure.

Currently, The absence of up-to-date data in Afghanistan currently lead to misconceptions about the education and employment, which in turn impacts foreign investors, including Chinese businesses. For instance, if outdated data suggests low literacy rates or limited skilled labor, it might dissuade companies from investing, even if recent developments show significant improvements in most economic indicators (such as GDP).

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Table 1: Production Quantity of Various Commodities (2017-2021)

Commodity	2017	2018	2019	2020	2021
Chromium, mine, chromite	4,500	4,500	1,300	1,000	500
Raw steel, from scrap	33,000	33,000	33,000	29,000	29,000
Products, cast iron	3,945	3,790	3,800	16,000	8,000
Cement, hydraulic	80	80	80	80	40
Fluorspar	7,500	11	10,812	10,000	5,000
Precious stones	610	610	610	600	600
Semiprecious stones	4,500	4,500	4,000	4,000	4,000
Gypsum, mine	40,000	79,800	68,100	40,000	40,000
Lime	66,000	49,000	35,970	NA	NA
Salt, rock salt	63,645	56,270	170,144	57,422	77,000
Sand and gravel, unspecified	1,580,000	607,000	3,620,000	5,084,000	2,500,000
Crushed, marble	18,919	43,594	49,179	42,032	48,300
Onyx	6,367	26,068	500	602	700
Travertine	2,315	9,891	3,848	1,520	1,500
Talc	726,154	52,295	211,465	186,000	628,000
Coal, bituminous	2,217,864	2,444,600	2,445,600	616,367	650,000
Natural gas, marketable	165	153	129	80	88

Table 2: China's Trade with Afghanistan and Unemployment Rate

Year	China Export to	China Import from	Unemployment Rate (%)
2020	500,859	54,612	11.1
2021	474,509.7	49,464	11.7
2022	553,083.4	42,016.3	12.1
2023	1,269,489.1	60,863.3	14.1
2024	1,107,004.5	11,593.7	15.4

Table 3: Crop Production Data from 2022-2024

Crop	2024	2023	2022
Cereals	2,345,860	2,189,173	2,368,118
Wheat	2,022,988	1,859,339	2,046,564
Rice	128,703	127,719	141,222
Barley	65,795	61,952	40,273
Corn	127,103	138,950	139,080
Millet	1,271	1,213	979
Pulses	81,061	75,576	69,831
Bean	26,541	23,111	22,988
Pease	34,092	32,237	26,076
Mung bean	20,428	20,228	20,767
Vegetables	95,488	86,561	85,733
Potato	61,118	56,091	55,706
Onion	34,370	30,470	30,027

Table 4: Investment Data of Enterprises in 2023

Country	Enterprises	Proportion (%)	Cumulative FDI (\$ billion)	Proportion (%)
Asia	883210	78.4	20525.4	73.0
Afghanistan	645	0.1	0.8	0.0
Bahrain	28	0.0	0.2	0.0
Bangladesh	690	0.1	0.4	0.0
Bhutan	5	0.0	0	0
Brunei	1818	0.2	28.3	0.1
Myanmar	457	0.0	1.3	0.0
Cambodia	273	0.0	3.8	0.0
Cyprus	289	0.0	3.5	0.0
North Korea	655	0.1	1.2	0.0
Hong Kong	525478	46.7	15703.1	55.9
India	2920	0.3	9.5	0.0
Indonesia	2299	0.2	27.0	0.1
Iran	1651	0.1	1.2	0.0
Iraq	920	0.1	0.3	0.0
Israel	1018	0.1	5.8	0.0

Table 5: Agricultural Cooperatives Data

Metric	2022	2023	2024
Number of active agricultural cooperatives	225	203	180
Number of members in active cooperatives	13.7	14	12
Share capital of members (in million)	112	110	106
Total area under property of cooperatives (in thousand hectares)	15	14	13