

BUSINESS

New Great Game Being Played In Afghanistan, Without The US

BY **IBT STAFF REPORT**

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A small icon of a document with a green checkmark, followed by the word "Delegates" in a black font.

Delegates attend a reception of Afghan and international representatives at a conference in Tokyo on the future of the country's

reconstruction on Saturday. Photo: Reuters

After nearly 11 years in Afghanistan, a disheartened U.S. is preparing to get out. Perhaps it was no surprise that American efforts were humbled there. The lackluster performance of the U.S. comes as the latest in a long line of disappointments suffered in Afghanistan by history's great powers -- Alexander the Great, Genghis Khan, the British Empire, and the Soviet Union.

But that doesn't mean there aren't geopolitical competitors ready to step in. Afghanistan's neighbors are itching to get involved in-country in a bigger way. Indeed, it looks like a 21st century version of the Great Game is taking shape.

Unlike the circumstances leading to the coining of that strategic term -- originally a struggle defining the contours of the British and Russian empires -- the new Great Game centers on China and India (and, to a lesser extent, by Russia and Iran) accessing Central Eurasia's untapped resources.

As it turns out, Afghanistan is sitting on some \$1 trillion in minerals and oil, according to estimates of the U.S. Geological Survey, at today's prices. The Kabul government is eager to point out the figure could be as high as \$3 trillion, since large parts of the country have yet to be surveyed. One of the poorest countries in the world is sitting on one of its richest deposits of natural resources.

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That's pushing both big dreams and big fears for Afghanistan. On one hand, there is optimism that mineral development could be a path out of economic destitution. On the other, there is deep concern that natural-resource development, known for unbalancing economies and corrupting weak governments, would only intensify the political problems that already exist.

Yet, Afghanistan may have little choice but to rely on mining and natural resource extraction to secure its economic future. There are few viable agricultural cash crops (unless the government began to condone opium production), an absence of manufacturing and a near-total dependence on foreign aid money to sustain the national budget.

In 2010, Kabul spent \$17 billion -- only \$2 billion of it came from domestic sources of revenue. As Western nations increasingly become disillusioned with the Afghan government, foreign assistance could dry up. And Afghanistan has little to no history, or knowledge, of exploiting oil and minerals.

Whatever the case, few American companies have been brave enough to do business in the emerging Afghan mineral sector. Although the country has a wealth of iron, copper, gold, coal, precious gems, and lithium -- even the rare earths Western analysts fear are being monopolized by China -- Western companies have shown little interest in seeking out opportunities there.

Most are concerned that being Western makes them a target. High hazard pay for employees, low levels of local infrastructure, and

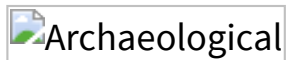
security risks that remain elevated mean few U.S. companies are willing to take the plunge.

Not everybody shares this view. China and India have already made history in Afghanistan.

'Most Reliable Friend'

In 2007, the Chinese state-owned Metallurgical Group Corp., or MCC, signed a \$3.5 billion lease for the Mes Aynak Copper Mine in mineral-rich Logar province, 15.5 miles (25 kilometers) southeast of Kabul. The site is thought to contain the world's second-largest copper deposit, worth some \$88 billion at today's prices. As part of the deal, the company will create training and education centers for Afghan personnel.

To fully exploit the site, MCC will need to link the mine by rail to the Afghan capital, perhaps even extending the track to Pakistan and Uzbekistan. The rail project could cost MCC another \$5 billion, and preliminary studies on the new rail network began in late 2010.



Archaeological workers excavate a site on a mountaintop overlooking a patch of housing and offices at the Mes Aynak site last November. On-site production is still several years off, but prefabricated houses have already been put up by the Chinese state-owned MCC. Photo: Wikipedia Commons

Mes Aynak is also the location of a major Buddhist archaeological site, including monuments to pseudo-Buddhism precursors. Some 400 artifacts, essentially doubling the size of the Afghan National Museum, have already come out of excavations in the area. It is hoped that over the next five years, valuable archaeological work can be done before mining activities fully begin.

China will get to develop the site for the next 30 years. At the time, the deal represented the largest foreign investment ever made in Afghanistan's history.

Last January, the China National Petroleum Corp., or CNPC, became the first company in the world in decades to sign an oil contract in Afghanistan -- a deal worth \$700 million for three oil fields along the Amu Darya River. CNPC is partnering with the Watan Group, believed to have connections to President Hamid Karzai's family, in a joint venture to develop the area's estimated 87 million barrels of oil. CNPC will give generous sums back to the Afghan government. A 15 percent royalty on oil, a 20 percent corporate tax, and 70 percent of profit go to Kabul.

The amount of investment and effort Chinese companies are putting into the country doesn't just stop at natural resources. Chinese telecommunications giants Huawei Technologies Co. Ltd. and ZTE Corp. (the second- and fifth-largest telecom companies in the world, respectively) are installing digital switches and 200,000 lines in the country.

Indeed, if anything currently differentiates the Chinese and American approaches, it is that China's engagement with Afghanistan is almost entirely driven by business deals, not by aid projects. Early last month, Beijing promised to grant the Afghan government \$23.8 million in official aid, a paltry sum compared to the billions now being sunk into the country by state enterprises.

The Chinese Foreign Ministry noted on June 6 that China will continue to provide assistance within its capacity to Afghanistan in line with its actual needs and strengthen cooperation with the country in fields such as resource development, infrastructure construction, energy, and personnel training.

Days before Karzai's visit to Beijing to attend a major meeting of the Shanghai Cooperation Organization, a major Sino-Russian-Central Asian security and energy pact, the Chinese ambassador told the Afghan president that his country was the most reliable friend of Afghanistan.

Robert Kaplan, geopolitical scholar and author, wrote in the New York Times in 2009 that [t]he whole direction of America's military

and diplomatic effort is toward an exit strategy, whereas the Chinese hope to stay and profit.

India Pushes Northwest

China's drive into Afghanistan has also pulled India further in. Historical pride, insecurity about India's geopolitical standing, and the hunt for raw materials to power a surging economy are pushing New Delhi to make its own lasting mark on Afghanistan.

This summer, the Ministry of Mines in Afghanistan is expected to announce a deal that will eclipse Mes Aynak: the finalization of a \$10.8 billion bid for the right to develop a massive iron-ore deposit at Hajigak by a conglomerate of Indian state-owned mining companies called the Steel Authority of India Ltd.

SAIL, India's largest steel maker, is expected to develop on-site mining and refining facilities and off-site road and rail infrastructure needed to transport ore from the location. The Hajigak site is located about 80.6 miles (130 kilometers) west of Kabul, in Bamyan province. It is estimated to hold more than 1.3 billion metric tons of high-grade iron ore.

Sandeep Jojodia, the managing director of Monnet Ispat Ltd., one of the companies making up SAIL, told Bloomberg News late last year the deal will pave the path for more such formations bidding jointly for overseas assets. ... It is something that China has done for years, [but now] Indian companies can join hands to tackle China's might.

In June, the former Indian Army chief, Gen. V.K. Singh, called China's involvement in Afghanistan an outflanking move meant to strengthen links with Pakistan and further encircle India.

India risks losing the influence it has in Afghanistan because of a China-Pakistan link that is getting stronger and is seen in evidence here, Singh said, describing the possibility of new tri-national transportation developments between Afghanistan, Pakistan, and China.

Indian companies have already spent some \$1.5 billion over the past 10 years on Afghanistan's roads, electric grid, schools, and government facilities. The new Afghan parliament building in Kabul is being built by India.

C. Raja Mohan, a scholar at the Center for Policy Research in New Delhi, told Bloomberg that engaging and bringing stability to its northwest is the country's top foreign- policy priority, because most of our threats come from there.

Beni Prasad Verma, the Indian minister for steel, told the press in April that Afghanistan is our old friend, and we want to invest lots of money in the sector of steel, natural gas, petroleum, and copper. This is our duty, to help Afghanistan.

What Keeps The West Out?

Duty -- or national interest -- aside, sites now being developed by Indian and Chinese companies are not without their own unique geographic challenges or security risks.

Afghanistan is setting up a special unit to police and protect mining and mineral sites. The foreign operators will need that protection. Examples around the world, as in the Niger Delta and Colombia, have shown that foreign-operated sites are prime targets for insurgent groups and terrorists. The Logar region is thought to remain a major transit zone for Pakistan-based insurgents.

But major Chinese or Indian companies may not care about that.

They operate in some of the world's least-welcoming places, and they do so with state backing to keep toeholds in areas where Western companies are too risk-averse to enter and where there is still plenty of money to be made.

Robert M. Cutler, a professor at Canada's Carleton University in Ottawa, said that when it comes to operating in Central Asia,

companies from both countries have unquantifiable advantages -- things like cultural affinity, regional familiarity, and fewer qualms about practices that cross the line of business ethics, combined with strong technical skills and comparatively low labor costs.

It's not just Chinese and Indian companies that are getting involved in the country.

Iran is also among the first to set up major facilities in Afghanistan. The Majd Industrial Pishgaman Co., an Iranian outfit specializing in cement, is building a factory in Herat, large enough to service much of the country. Cement may seem a quaint business venture, but Iranian companies have been perfecting it for years to defend against American and Israeli bunker-busting bombs, making cement one of Tehran's strategic industries.

The Iranian plant in Herat will produce 1 million metric tons of cement a year. A construction boom in the country is expected to raise demand to 7.2 million metric tons a year by 2020 from 2.5 million metric tons in 2005.

India, meanwhile, is also courting Iran to serve as a potential destination point for its railway linking the Hajigak mine to the outside world. A previous proposal to put track across Pakistan was a highly uncertain undertaking. The Indian-built Chabahar port in Iran, some 558 miles (900 kilometers) from Hajigak across vulnerable and exposed terrain in southwestern Afghanistan, may eventually be where the site's iron ore is offloaded. That would set up a competing line of transportation with China's proposed rail network, which may link to Pakistan and bring minerals north through Xinjiang or south to the Arabian Sea port of Gwadar.

The only American company that has moved into the vast mining space in Afghanistan thus far has been a merchant bank, and, even then, very tentatively. Last year, JP Morgan Chase & Co. helped to arrange a comparatively small \$40 million deal for individual Western investors to pool money in an Afghan gold mine pulling out a modest 5.4 metric tons of gold ore a year, in Qara Zaghan, north of Kabul.

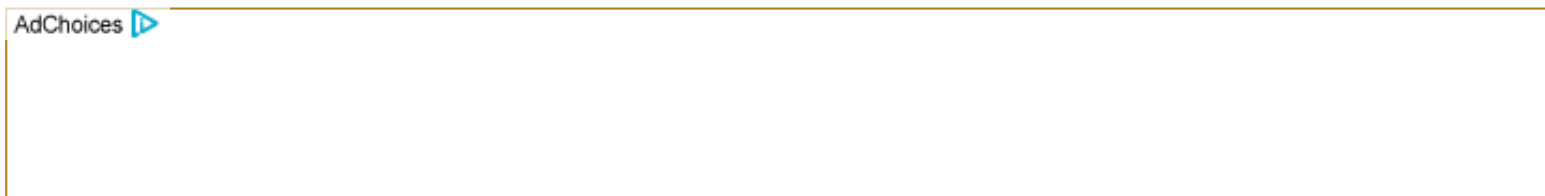
The only Western company slated for a significant contract in Afghanistan is Kilo Goldmines, a firm headquartered in Canada that is

active mostly in gold mine reclamation in the Democratic Republic of Congo. The company is poised to develop a smaller portion of the Hajigak mine in a separate bid from SAIL.

Kilo's CEO, Alex van Hoeken, called his firm a pioneer for entering its target regions. Van Hoeken objects to making comparisons between the DRC and Afghanistan, saying the challenges facing the two places are very different. Kilo has a reputation as a risk taker: Van Hoeken said his company's smaller size and flexible decision-making are the root causes of its success. Kilo refused to release any specific details on its contract bid with the Afghan Ministry of Mines, including its monetary value.

On Friday, the Exxon Mobil Corp. indicated the multinational oil-and-gas company is considering exploring six moderately sized oil bids in northern Afghanistan.

Exxon Mobil is the only fully private company bidding for the contract. Seven other potential competitors include state-owned companies from India, Brazil, Turkey, and Pakistan.



Acatco is not an impartial party. It lost out against both the Indian and the Canadian companies in proposals for the Hajigak mine. But its claims are nevertheless troubling, and if ultimately proven true, they would be damning for the Afghan government and its current approach to courting foreign investors.

Shansab said his company raised \$1.2 billion in guaranteed funds, offered the most faithful compliance to the requirements of the Afghan government, and promised the creation of indigenous steel processing, as well as the prospect of full-scale operations in three years.

He accused SAIL and Kilo of being involved in bidding procedures mired in corruption and bribery, saying the two should have been disqualified. Shansab claimed the original bid requirements to return between 12.5 percent and 22.5 percent in royalties to the Afghan government was met by neither of his rivals, and there were no firm promises from either to develop a domestic processing and manufacturing capability in Afghanistan, a key stipulation.

In letters to the Ministry of Mines, Acatco's president accused SAIL and Kilo of fraud and corruption, saying the evaluation process for the Hajigak tender has been deceptive. Shansab said that a gross exaggeration of the costs for developing the mine is likely being used to stuff pockets and cover up bribes.

Shansab said he suspects Kilo, a company which had \$29 million in aggregate assets last October, will eventually be unable to raise the money necessary for the mine, in effect awarding the entire project to an extension of the Indian government. However, he also said he expects the Indian conglomerate itself may face difficulties raising the massive funds it has promised for the bid. In December, SAIL approached the Indian government for \$7.8 billion in aid and loans to support its bid.

The announcement of the finalized contract award for SAIL and Kilo was delayed by the Ministry of Mines from last December to April, then to May, then to June, and it has yet to happen.

According to Shansab, Minister for Mines Wahidullah Shahrani is giving away Afghanistan's arguably most valuable asset without any financial commitment at all.



Afghan Mining Minister Wahidullah Shahrani promotes Afghan investment opportunities at a London conference on June 25, 2010.
Photo: Reuters

That's increasing suspicion among analysts that the bidding tenders so far have been decided based on building regional allies, not on actual financial soundness.

However, the Afghanistan Embassy in Washington adamantly denied that Western bidders have been purposely rejected to favor Chinese and Indian ones for the purpose of establishing stronger diplomatic links.

Shakib Noori, the commercial attache of the Afghanistan Embassy in the U.S., said his government is seeking balance and diversity in foreign investments. He called mining a long-term prospect for a development strategy for Afghanistan.

If anything, the Afghan government is desperate for Western investors -- but the latter simply have no interest in putting their money into the country. Noori said that, on average, for every 20 bids in response to an advertisement for a site by the Mining Ministry, only one or two are from Western companies.

We encourage them to go to Afghanistan, to see for themselves said Noori, but they have a lack of information.

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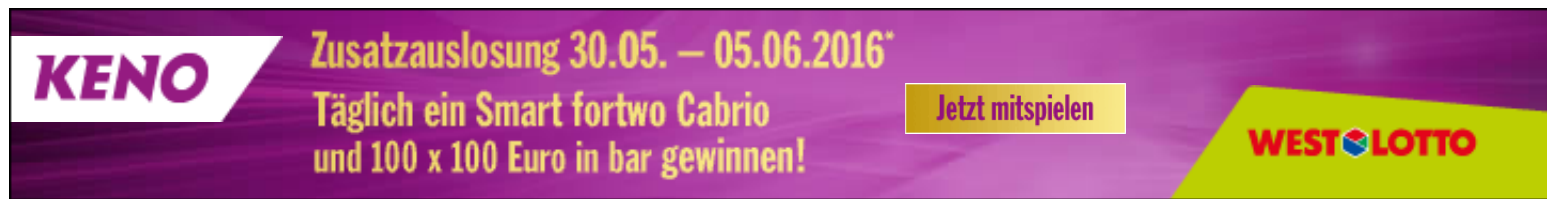
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