Conference Report

An Outline for UK–China Cooperation on Afghanistan

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Published in 2019 by the Royal United Services Institute for Defence and Security Studies.

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An Outline for UK–China Cooperation on Afghanistan

On 29 April 2019, representatives from the UK, the People’s Republic of China (hereafter China), the Islamic Republic of Afghanistan (hereafter Afghanistan), Pakistan and Uzbekistan held a seminar in Beijing to discuss cooperation on development in Afghanistan. Initially conceived as a trilateral format (between the UK, China and Afghanistan), the addition of participants from Pakistan and Uzbekistan expanded the format to help adequately address some of the regional connectivity questions. The event was co-hosted by RUSI and the China Institutes of Contemporary International Relations (CICIR) and was attended by representatives from the UK embassies in Kabul and Beijing, representatives of the governments of China, Afghanistan, Pakistan and Uzbekistan, as well as representatives from the Asian Development Bank (ADB) and the Aga Khan Foundation. The seminar focused on five key questions:

- How can the UK and China best prioritise areas of cooperation in Afghanistan?
- What are Afghanistan’s rail infrastructure needs?
- What is the connectivity landscape between Central and South Asia, and what role might Afghanistan play as a bridge between the two regions?
- How can Afghanistan engage with the China-Pakistan Economic Corridor (CPEC)?
- How can the UK and China cooperate in the space of humanitarian aid in Afghanistan or other third countries?

The event was a product of a broader government-to-government conversation between then-Foreign Secretary Boris Johnson and State Counsellor Yang Jiechi, who met in London in December 2016 for the UK–China Strategic Dialogue. It builds on an earlier trilateral dialogue held in July 2017 in Beijing between the UK, China and Afghanistan on cooperation and development between the UK and China in Afghanistan, demonstrating the potential for a UK–China global partnership in action. The aim was to identify more specific and feasible areas of cooperation for China and the UK, with the support of other key regional powers, to move forward in aiding development in Afghanistan. The discussion was free, open and personal and did not necessarily reflect or change the official positions of any government, nor did any government commit itself to any action following from the discussion.

As in the previous iteration of the conference, participants broadly concluded that the UK has particular strength and expertise in the ‘software’ of infrastructure development (working on financing arrangements, insurance, planning and management) and a historical engagement in many possible third countries that could help inform Chinese engagement. China, in contrast, had extensive experience and competitiveness in the ‘hardware’ of infrastructure construction (delivering difficult and complicated infrastructure projects in harsh environments...
to demanding timelines), potentially presenting an ideal complementarity between the two countries to support Afghanistan’s long-term development. However, on specific areas for cooperation such as railway infrastructure, there was a strong sense that all three sides required a better understanding of project development timelines, underscoring that railways were both costly and medium- to long-term projects. Other areas of cooperation may be more feasible for pilot initiatives.

Additionally, there was a strong focus on regional connectivity in the north and south of Afghanistan, with both the UK and China seeking ways of supporting this connectivity, which has been growing organically to a greater degree in recent years. The inclusion of Pakistani and Uzbek experts helped to clarify some of these ideas and stimulate further thinking in this direction. Their participation was evidence of the UK and China’s regional convening power. Uzbekistan’s opening and specific push to include Afghanistan in its broader Central Asian initiatives was seen as a positive regional development. Identifying industry sectors in Afghanistan that could connect with South Asia was seen as a cost-effective way of supporting growing sectors in Afghanistan in the short- to medium-term.

Some recommendations and ideas drawn and developed from discussions included:

- Participants from all sides appreciated the event format and thought it should be continued. The signalling of close cooperation between the UK and China on Afghanistan in a time of broader international tensions was seen as a very positive message.
- When looking at railway development in particular, while participants downplayed this as an opportunity – reflecting a sense of concern around the expense and complexity of it – there was a sense that northern links into Central Asia were most likely to be advanced. Uzbek participants encouraged these developments, downplaying issues around gauges and other technical complications.
- Chinese participants felt that, at the moment, Afghanistan is mostly likely to be a target for small-scale investment projects, rather than large infrastructure programmes. This reflected a sense that there was a need for quick wins rather than more dramatic large-scale projects. Agriculture and gemstones were seen as opportunities for exploration and development in this regard.
- Projects and policies need to focus on job creation and the development of smaller businesses. Agricultural processing and internal transport development related to these goals were focuses, with Chinese participants seeing them as areas in which they could contribute.
- One possible approach was the establishment of a joint fund, where the UK and China could pool resources to help foster small- to medium-sized enterprises and entrepreneurs in Afghanistan. Such a fund could be managed by the ADB, which already manages several similar funds focused on Afghanistan.
- There was a need to better harmonise regional trading regimes, visa policies and customs approaches. Afghanistan in particular needed to develop a better set of trade policies with its immediate neighbours. This was something that outside powers such as the UK could seek to help broker, drawing on experience and expertise. China was also
encouraged to smooth over its transport links to Afghanistan, with participants pointing out the flight from Urumqi to Kabul is erratic and visa regimes remain complicated.

- There was a need to better harmonise the many institutions and formats focused on Afghanistan. At an international level, there were numerous structures and meetings that consumed time and energy, in which participants were not always able to show results. Participants agreed that formats needed greater harmonisation and coordination, although they recognised that the different formats reflected the complicated and variable geopolitics of the region in which Afghanistan is situated.
- The topic of humanitarian aid was discussed as a potential avenue for cooperation, but there was little detailed elaboration on this within the specific context of Afghanistan. Other formats seeking to understand the extent of potential humanitarian aid cooperation between China and the UK have highlighted China’s preference to not focus cooperation within this framework on countries that are conflict afflicted, given the additional layer of complexity this would add. Participants discussed the potential for Afghanistan as a location for cooperation, but spoke in broader contexts.
- Finally, there was a need for all powers involved to ensure that a focus on Afghanistan has a practical long-term view. While there was acceptance that the current environment complicated issues, all powers involved in the discussion have a long-term interest in and commitment to Afghanistan’s stability and prosperity. Small steps building on existing activity offered the best way to start closer cooperation.

The discussion was overlaid with the broader geopolitical context, which is heading towards greater confrontation rather than cooperation. While not explicitly discussed during the event, the peace talks with the Taliban, led by US Ambassador Zalmay Khalilzad, were moving forward rapidly, and the media was filled with discussions of growing US–China tensions and a broader global confrontation between China and the West. Since the discussions’ conclusion, protests in Hong Kong and the continuing condemnation of Beijing’s policies towards Xinjiang have only added to the sense of division between the West and China.\(^1\) Notwithstanding this backdrop, Afghanistan is repeatedly discussed by both Western and Chinese experts and officials as a location for potential cooperation between China and European powers. The long conflict in the country has been a source of concern for regional and extra-regional powers for decades and has been a place where often conflicting powers have found ways of working together. The US and China have cooperated for years on training programmes in the country, while China and India are discussing similar work. While it would not resolve the broader tensions, the need to help Afghanistan could provide a bridge to foster some form of practical cooperation between China and the West.

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\(^1\) Given the UK’s historical links with Hong Kong, the ongoing protests have been brought up at a diplomatic level between the two countries, leading to frank comments by both UK and Chinese officials. When looking to Xinjiang, the ongoing revelations of the treatment of minorities in the region has become a growing source of condemnation for China. Numerous UK and Western officials have called for China to reconsider some of its actions in the region.
Prioritising Areas for Cooperation in Afghanistan

While Afghanistan’s need for infrastructure (such as energy, transport and communications) was underscored in the first iteration of the seminar, this year’s discussion focused on what prioritisation should look like in the context of Afghanistan’s role as prospective regional trade and connectivity pivot and how the country should be planning its infrastructure construction. As participants pointed out, President Ashraf Ghani’s ‘roundabout of Asia’ concept is indicative of the role that Afghanistan seeks to play in the wider region’s connectivity. This is something that has been noted by other regional players, with Uzbekistan in particular playing an increasingly significant regional role in trying to tie Afghanistan into broader Central Asian discussions. Uzbek participants emphasised that the country regularly ensured that any Central Asian discussion they hosted included Afghan participants. Other Asian powers have also noted the significance of regional connectivity for Afghanistan, with Indian President Narendra Modi and President Xi Jinping together highlighting during their bilateral meetings, including most prominently in Wuhan, Afghanistan as a location for them to potentially cooperate, with infrastructure being a potential arena for effort.³

Participants from all sides noted that infrastructure has been an underpinning element of the development agenda in Afghanistan as a priority for both the national government and citizens. According to the Asia Foundation’s annual survey of the Afghan people, energy and road infrastructure have been among the top priorities of the roughly 15,000 Afghans surveyed.⁴ While the ADB has been leading the effort on transport infrastructure and agriculture (alongside other development actors like the World Bank), the infrastructure deficit in the country’s energy sector is beyond the capacity of development partners to address. According to ADB estimates, Afghanistan will require at least $4 billion over the next three years in this sector of infrastructure alone.⁵

In presentations to the audience, experts illustrated the scale of the problems that Afghanistan faced. Only 30% of Afghanistan is connected to the energy grid and 85% of the country’s

energy is imported.\textsuperscript{6} The urban–rural divide in energy prices further complicates the energy roll-out across the country, with residents of Afghanistan’s urban centres paying 10 cents per kilowatt hour, while rural residents pay 50 cents.\textsuperscript{7} In other areas of infrastructure development, Afghanistan has so far achieved mixed results. In Afghanistan’s agricultural sector, only 10% of land is irrigated with formal water systems.\textsuperscript{8} In communications infrastructure, 28 million of Afghanistan’s 35.53 million citizens were connected by 2018, with over 70% of them owning mobile phones.\textsuperscript{9} Participants during the conference highlighted how roughly half of Afghanistan’s roads have been paved (19,000 km of 35,000 km), but 70% of interprovincial roads are in a poor state. The ADB has assisted in building the country’s first railroad, but regional connectivity remains underdeveloped according to any objective measure (and was spoken about repeatedly during the conference) and unable to take advantage of many regional economic visions that exist around Afghanistan. Currently, Afghanistan sits largely adjacent to these regional initiatives that have been driven by Chinese investment in Central and South Asia.

Participants noted that project prioritisation remains an issue for Afghanistan, despite the streamlining of project selection. International financial institutions like the ADB and World Bank have worked with the Afghan government to help them establish a roster of projects and the order in which to achieve them. A strategy for the prioritisation of Afghanistan’s infrastructure has been laid out in the National Infrastructure Plan (2017–21)\textsuperscript{10}, including focusing on network infrastructure (transport and communications), utilities (energy, water, mining and extractives), urban development and housing, public goods (such as defence, health, education, monuments and parks) and the commercial and manufacturing sectors. Regional cooperation is seen as cross-cutting to many of these priorities, with different aspects more relevant in different directions. At the same time, given Afghanistan’s landlocked nature, it is unlikely that any major project in the country is going to lack a regional component.

However, participants suggested a differentiation must be made between development ‘wants’ (which are projects which the government would like to see implemented) and ‘needs’ (which are critical infrastructure projects that will help drive socioeconomic development). While assessment of these requirements may vary, there is a limited pot of investment coming into Afghanistan as well as a relatively limited capacity for managing large infrastructure projects. Realism over what is technologically feasible in the short, medium and long term must also

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\item[7.] Ibid., p. 2.
\end{itemize}
be kept in consideration, with an appreciation that prioritisation of short- and medium-term projects would be quick wins for the government that would help promote further long-term investment objectives. The process is starting to be streamlined, with the Power Master Plan (2012–32),11 Gas Development Master Plan (2015–35)12 and Transport Master Plan (2017–36)13 being approved in 2014, 2016 and 2017 respectively.14

Another way of prioritising areas for cooperation in Afghanistan noted during the seminar is the 2013 World Bank approach for Afghanistan, which articulated and integrated the sequencing of investment for goods and services along a resource and trade corridor. This would help identify actions around top priorities (such as soft infrastructure, preparing large long-lead-time items and developing instruments), medium-term actions (such as deciding several large-scale infrastructure projects) and, in the long term, finally triggering potential extensions to more remote areas. At the policy level, this could help build momentum in Beijing, Kabul and London. However, with a plethora of regional connectivity initiatives (the US New Silk Road, the Lapis Lazuli route, the EU’s Connectivity Strategy for Europe and Asia, and the Belt and Road Initiative [BRI]) there is a need to understand which strategies Afghanistan should prioritise for engagement and attention.

There are two elements to this dilemma that participants outlined. On the one hand, there is a difficult capacity question within Afghanistan that needs addressing – these initiatives need political and managerial attention, which is not always in ready supply. At the same time, these different initiatives have their own political complexities and have advanced to different degrees. CPEC, as a more obvious and advanced development corridor, could be an entry point for Afghanistan. Similarly, the China–Uzbekistan corridor, with an emphasis on connecting major cities and corridors, provides a way of connecting dots that already have some degree of linkage. Both projects build on pre-existing regional connectivity and reflect the broader thinking around Chinese regional connectivity and the BRI throughout the region.

The general situation in Afghanistan remains unchanged since the first iteration of the conference as the scale of Afghanistan’s requirements continue to exceed the financing opportunities. More than 80% of Afghanistan’s development budget is financed through grants from development partners (currently standing at $1.28 billion of $1.6 billion), according to official participants

at the conference. As a grant country until 2021, Afghanistan has difficulty borrowing funds from the private sector, commercial banks or similar financial sources. The government of Afghanistan is nevertheless looking to these sources as future opportunities for infrastructure financing. Indeed, public–private partnership and private sector funding have been trickling into the transport sector, and the government has started to examine the possibility of mining sector revenues as forming another source of funds for infrastructure construction. According to figures cited by conference participants from the Ministry of Trade, Economy and Finance, this could grow to $800 million per year. The ADB, as manager of the trust fund for infrastructure in Kabul, has likewise also been garnering private and development partner funding.

Nevertheless, as was pointed out by both Afghan and international participants, progress is being made. Concept notes for projects are being developed, with standards requirements, incentives and penalties for execution as well as performance benchmarks. Participants pointed out that these were being debated in the Afghan National Infrastructure Council based on economic and social benefits, geographical equity, regional cooperation and integration, and climate resiliency. 11 executing agencies are involved in the project approval process in the National Infrastructure Council.15 So far, 21 projects have been identified for the 2017–21 period (totalling $5.99 billion). Moreover, the separation of project and budget cycles (whereby individual projects are delivered at their own pace, rather than waiting for the national budget cycle to move forward) means that the execution rate of projects has increased, and the project implementation rate is increasing. Current prioritised projects are in accordance with the master plans and, as was highlighted by participants, are in 80% alignment with the National Infrastructure Plan and maximise on-budget funding.

Several other factors continue to slow the progress of Afghanistan’s infrastructure development. First, the difficult operating environment complicates the work of consultants and contractors and there is a noticeable lack of project implementation benchmarks, thereby weakening the implementation cycle. Harmonising on- and off-budget projects is another challenge, with donors working on a use-it-or-lose-it budget planning cycle. Bilateral donor funds are also once again off-budget, leaving the government with limited information on what investors are doing in the country and leading to misalignment and duplication of efforts. International financial consultants participating in the conference pointed out that from 2010–15 most donors had put funds on-budget; however, these were taken off due to a slow execution rate. A third challenge to implementation is Afghanistan’s fragile conflict areas. Security expenditure is a substantial part of a donor’s fund. Furthermore, on-site monitoring and supervision remains problematic, with donors like the ADB unable to visit sites and therefore relying on third-party monitoring. Other challenges to the implementation of Afghanistan’s development revolve around land acquisition and resettlement, as well as taxes and duties.

15. These include: the Ministry of Public Works; Afghanistan Railway Authority; Ministry of Civil Aviation; Ministry of Transport; Ministry of Energy and Water; Da Afghanistan Breshna Sherkat; Ministry of Mines and Petroleum; Ministry of Irrigation, Agriculture and Livestock; Ministry of Urban Development; Kabul Municipality; Ministry of Communications and Information Technology.
Despite these challenges, the complementarity of China and the UK in third-country cooperation was stressed by Chinese and UK participants – namely, China’s expertise in infrastructure construction, machinery and equipment and the UK’s expertise in financial services and low-cost capital access, green financing, consultancy services for project management and legal advisory services. However, for the two countries to work together more closely and practically in Afghanistan, a number of things need to change in all three countries. There is a need for devolution to the local levels of government in Afghanistan in order to understand needs and attain buy-in beyond the national government (which would help broader third-party engagement), greater emphasis by both capitals on encouraging cooperation, as well as visibility and working-level engagement between Chinese and UK government officials in Kabul.

**Investing in Railway Infrastructure**

Afghanistan’s railway plan (2017–30) encompasses four strategic corridors. All corridors have been planned and designed and all feasibility studies have been completed, but by and large operational work on the physical construction of the railways has not commenced. The network is designed to help Afghanistan transport industrial goods and commodities like mineral products to regional ports, as well as facilitate the transport of agricultural products, provide facilities for goods and connect major economic centres.

However, as with other areas of infrastructure investment, the railway plan lacks sufficient financing. China, it was noted by participants, is less interested in financing railway corridors, but has articulated interest in the design and governance of the railway networks. Indeed, a Memorandum of Understanding (MOU) to that effect has already been signed in 2017. It was also noted by participants that at the second Belt and Road Summit in April 2019, financial cooperation was discussed in particular, and the China Development Bank and the UK Treasury’s special envoy for the BRI, Douglas Flint, held bilateral meetings to discuss future cooperation. From China’s perspective, the long history of the UK’s financial sector is seen as a strong reason to collaborate on the design and development of projects in third countries, and to establish multilateral financial platforms together.

Despite this potential fit, participants suggested that several political and practical obstacles hamper the implementation of Afghanistan’s national railway plan. Railways are projects that require a high level of political decision-making, intertwining domestic and foreign policies, as well as large fiscal burdens. With six neighbours, Afghanistan’s relationships with the surrounding region are crucial to the success of its railway strategy. These relations function

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16. Corridor 1 (C1) stretches from Northwest China through Central Asia and Iran to Afghanistan; C2 is from Pakistan to Iran through the wider Middle East; C3 connects China with Central Asia and Pakistan; while C4 is a central corridor that connects all the corridors inside Afghanistan.

to varying degrees and reflect both regional and local geopolitics. Given that one of the major beneficiaries of the railway infrastructure would be Afghanistan’s potential extractives sector which, would be able to move large volumes of raw materials around the country, there is a need to harmonise any considerations around rail with extractives opportunities. Participants pointed out that the coupling of these two complicated sectors (large infrastructure and extractives projects are both notoriously expensive, politically difficult and technically challenging) means that there needs to be an emphasis on the politics being right for things to work.

A practical difficulty in railway construction is the issue of gauges (or spacing of rails), with different neighbouring countries to Afghanistan preferring different gauges and providing competing options for Kabul to choose from. Indeed, the Hairatan to Mazar-i-Sharif railway from Uzbekistan faced substantial delays, according to participants, in part due to Iran’s preference for the international gauge, while other countries were using the Russian-standard gauge. However, while standard selection and setting is clearly a sensitive issue, it was stressed that this should not be politicised. Indeed, the Uzbek railway line has recently received the green light to proceed after an agreement was reached to use the 1520 Russian gauge. Uzbek participants were keen to emphasise this agreement and de-emphasise the complicating factor that gauges present.

Given the expenses associated with developing the railway sector, it may be more prudent for China and the UK to look at small steps, such as helping Afghanistan develop trade policies with neighbouring countries with whom Afghanistan is naturally bound and will likely provide trading markets in the medium- to long-term future. Moreover, rather than automatically focusing on railways as the natural area for UK–China cooperation, a cost–benefit analysis of different transport options could point towards other ways in which the two countries could help build Afghanistan’s transport infrastructure. Indeed, highways from major cities, like Karachi, and dry ports in neighbouring countries, like Pakistan, might be more feasible and less costly in the short to medium term.

Central–South Asia Connectivity: What Role for Afghanistan?

The need for greater regional integration and connectivity in South and Central Asia is evidenced by the low level of interregional trade in these areas. While there is enough opportunity for greater engagement, the lack of overland connectivity to take advantage of this is severely lacking. This has been a longstanding issue regionally which international development partners have sought to address, for example through programmes like the ADB’s Central Asia Regional Economic Program (CAREC).

Afghanistan’s vision of itself as a regional land bridge could act as a focal point for many of the region’s connectivity initiatives. This is already articulated in a number of regional projects like the Regional Economic Cooperation Conference on Afghanistan (RECCA), the Turkmenistan–Afghanistan–Pakistan–India Gas Pipeline Project (TAPI), Central Asia–South Asia Power Project (CASA-1000), TAP-500, the Lapis Lazuli Corridor and the Heart of Asia or Istanbul Process. These regional projects all focus on Afghanistan, and while there are others
that connect up Central Asia or provide for better connectivity through South Asia, Afghanistan offers itself as a natural connection point between the two regions, building on its location at the ‘heart of Asia’.

In South Asia, Pakistan has been moving from state-to-state partnerships to entering a phase of business-to-business partnerships and investments. According to Pakistani participants, over the three months prior to the conference, over 150 Chinese companies have expressed interest in investing in Afghanistan, with 16 companies currently operating in the country, combining over $1 billion in investments. The next steps for Pakistan are to fast-track functional economic zones so that Chinese companies can set up operations in and export from the country. These zones will also aim to provide an environment in which local companies can incubate to develop opportunities which can then take advantage of regional markets to grow.

The integration of Pakistan into connectivity platforms like the BRI has meant its port, railway and energy infrastructure in the country have benefitted from investment. While violence associated with terrorist groups is still a problem in Pakistan, violence year-on-year continues to fall and large Asian sovereign wealth funds were said by Pakistani participants to rank security concerns lower down their priorities for doing business in Pakistan. Geopolitical concerns remain high, but the fact that British Airways (for example) has decided to reopen its routes to Islamabad reflects a general awareness in the international community of the improved security situation. Other countries, like Turkey, have also expressed interest in finding ways to connect to Central Asia via Pakistan, while agreements have been signed with Turkey, Saudi Arabia and were, at the time of the seminar, under negotiation with Qatar and Malaysia. All of this was highlighted by Pakistani participants to illustrate the growth taking place in Pakistan, highlighting an opportunity for potential connectivity to Afghanistan.

In Central Asia, there has been a dramatic change in tone and behaviour in the past years. In particular, relations between Uzbekistan and Tajikistan have transformed, which dramatically changes a key relationship to Afghanistan’s north. While it is still not clear how this will develop in the longer term, there is a keen interest in Tashkent to seek opportunities to bring Afghanistan into regional conversations. All regional discussions led by Uzbekistan include Afghanistan as part of the region, and institutions in Tashkent are focused on seeking how they can better connect with Afghanistan. Tashkent is playing a more forward and active role in regional peace discussions (including publicly hosting Taliban delegations), and Uzbek participants pointed out that the country has expressed a willingness to invest up to $500 million into Afghanistan, with the caveat that Uzbek firms are involved. Uzbekistan President Shavkat Mirziyoyev has made an explicit commitment to focusing his administration on Afghanistan and has shown willingness to bring in European partners. Conferences held in Uzbekistan over the past two years on Afghanistan have included senior European participants, including former High Representative Federica Mogherini.

For regional connectivity in South and Central Asia, greater effort must be made to facilitate and increase the exchange of goods, services and people across borders in the region. Economic diplomacy has reached the highest level, indicating a strong political will to look for opportunities
to facilitate greater cross-border opportunities. From Pakistan’s perspective, China is leading the development of a new economic geography in the region, one in which Pakistan and other countries in the region must play a role and take advantage. But while CPEC is principally a Pakistani project, Pakistan will need to connect with its neighbours if it is to deliver all its benefits. The first CPEC special economic zone at Rashakai has been officially announced and, given its proximity to the border with Afghanistan, could be developed to include Afghan businesses or train Afghan workforces. One example suggested by Pakistani participants was to use Rashakai as a base from which to process fruit from Afghanistan for export to Pakistan.

For China, Central Asia is a first step on the shortest access route to Southern Europe. Discussions have been ongoing about the creation of a financial platform with long-term funding in which the public and private sectors can engage in project discussions across the space. Priority areas would include bringing Afghanistan into regional energy infrastructure. Discussions with the German government have been ongoing on whether and how it could be included in regional initiatives, and there is a hope that the UK government would likewise be interested in participating. Both countries have interests in Central Asia, as well as a longstanding contribution to Afghanistan.

To move towards greater regional connectivity and integration, more work needs to be done on the details of implementation. Vehicles for such ideas might be regional and international think tanks and other research institutions who can act as generators of specific ideas and help build consensus amongst expert communities. Beyond the regional expert community, long-term institutional stakeholders need to be identified who can be used to commit and implement projects and ideas, with a focus on results that would help generate a template for success which would ultimately be the catalyst for more investment. There has been a great deal of discussion around regional connectivity, but it has not always been clear how rapidly it is advancing in ways that address local needs.

From Afghanistan’s perspective, ‘quick wins’ are needed in the form of bridges, roads and markets, which would provide connectivity with Pakistan’s economy now that political will seems to have improved sufficiently to move the discussions forward. Similar opportunities should be sought with Central Asia around small businesses and facilitating cross-border trade. Strengthening the organic connectivity that exists across Afghanistan’s borders with Central Asia and Pakistan was seen as an opportunity that should be taken. However, the view by the international donor community that hard infrastructure was the panacea to Afghanistan’s development was questioned by some participants. The country, and region, clearly has an infrastructure deficit. But at the same time, the soft needs are also substantial.

Knowledge transfer on how to create and manage businesses was seen as an underexplored area of investment that would ultimately help reduce the burden on government and grow Afghanistan’s crucial small and medium-sized enterprise community. This would help with

job generation and strengthen the local and national economies. In order to deliver this all, however, it was also stressed that local partnerships are key to make sure that there is buy-in at multiple political levels. For regional engagement and opportunity to work in this increasingly interconnected region, efforts need to be made to connect with local, provincial and national stakeholders, and ensure coordination across these levels.

**Afghanistan and CPEC: Opportunities for Engagement**

Afghanistan could benefit from greater connectivity with Pakistan, but there was no consensus on how this could be done. There have been some positive developments, like the memorandum of understanding signed in 2016 between Afghanistan and China to boost BRI cooperation, and the 2017 trilateral between Pakistan, Afghanistan and China in which it was officially announced by China and Pakistan that CPEC would be extended to Afghanistan and potentially Central Asia in the future. Another positive development has been Pakistan and Afghanistan joining the Asian Infrastructure Investment Bank. Given the lenders’ focus on developing Asian infrastructure and improving regional connectivity, this offered itself as another potential opportunity for infrastructure cooperation between the two countries. Two projects were highlighted for potential Afghan inclusion: the Gwadar Free Zone and the Rashakai Special Economic Zone. In both, participants highlighted that Pakistan could act as the gateway for Afghanistan’s access to regional and international markets.

This natural logic, however, faces numerous challenges. In the first instance, Pakistani participants thought that it is unlikely that any formal extension of CPEC to Afghanistan will happen before the third phase of CPEC is implemented. Likewise, political fragility between Afghanistan and Pakistan, and Pakistan and India, mean that political tensions run high and can prevent effective cooperation. For example, tensions between Afghanistan and Pakistan over the past few years have resulted in a lowered bilateral trade volume. The stalled Afghanistan–Pakistan Transit Trade Agreement is reportedly unlikely to be renewed despite six rounds of talks in 2016 after Afghanistan requested that India be included. Furthermore, corruption and poor governance in Afghanistan and Pakistan hinders private sector investment in sectors that are in dire need of significant investment. Another challenge is Afghanistan’s relatively weak economy, which needs to be bolstered in ways that ensure that it is not dominated by foreign goods and instead supports domestic business growth. Therefore, Afghanistan is unlikely to fully open its economy but continues to seek to protect national firms to help the country domestically. These micro- and macro-level problems complicate engagement within larger regional frameworks and formats.

Participants noted that the solution to some of these problems could be found in multilateral frameworks, such as the Shanghai Cooperation Organization (SCO), RECCA, CPEC, CAREC, and other regional initiatives, which could all help reduce political tensions and help facilitate trade and economic growth. Trilateral meetings – or other multilateral (or mini-lateral) formats – are important to facilitate dialogue at the highest level, highlight and consider concrete opportunities for trade and investment, and find consensus on an overarching framework under which everything else can be negotiated at a working level. The additional complexity
when seeking to bring in extra-regional partners like the UK is the degree to which formats are constructed in exclusive ways that complicate the inclusion of others. CPEC, for example, is a largely bilateral project and while there has been discussion around opportunities for third-party involvement, it is not yet clear how this has materialised. Similarly, the SCO has expanded beyond its initial membership, but is still largely seen as a regional institution.

For China, the most important underpinning factor is the principle by which bilateral or trilateral engagements are built in small and achievable steps. The ‘heart of Asia’ vision for Afghanistan – envisioned in the Istanbul Process – which sought to create a plan for Afghanistan based on its regional location, with different powers taking the lead in different areas, was ambitious but has not yet achieved many milestones. This fact undermined the broader goals of the project and meant a lowered commitment by partners towards the vision.

One first step from China’s perspective would be to facilitate connectivity between Afghanistan and Pakistan by linking Afghanistan into existing projects in North Pakistan, such as the Karachi–Peshawar route. Railway construction was potentially too costly a project to commence with, so other transportation infrastructure would be better placed as an initial effort. This could focus on rebuilding existing roads, improving bridge infrastructure and other smaller-scale local efforts which would have a positive local impact. In the mid-to-longer term, Afghanistan could be connected to Central Asia and a north–south railway line could be examined. These efforts could eventually be connected up with projects being developed by the government of Uzbekistan and provide a seamless regional connectivity.

Such goals are beyond CPEC, participants agreed, but are well within the remit of China’s interests in South Asia. Opportunities were highlighted in Afghanistan in the field of energy and renewable energy, with a focus on solar and wind power generation. This could also tie into regional supply chains, generating income for the Afghan government as well as power at domestically. However, any of these investments would need to be small to begin with. Another area of investment could be gemstone processing given the business complementarity in the regional value chain and Afghanistan’s rich gemstone resource base. Finally, China and Afghanistan both have large agricultural sectors. China could assist Afghanistan with knowledge transfer and sector investment in areas such as livestock breeding and seed selection, and provide assistance with specialisation in certain crops like cotton and wheat. There is potential to form a trilateral consortium on this between the UK, China and Afghanistan, helping smaller Afghan enterprises develop within the country and then take advantage of the regional opportunities and connectivity that CPEC offers to grow beyond local markets.

Future

There was discussion amongst participants that the seminar format should continue and be further developed. If possible, it could be established as a regular forum for trilateral cooperation and discussion (between the UK, China and Afghanistan), while also bringing in key actors (in particular regional partners from Central or South Asia) for specific discussions. It was also agreed, however, that attention needed to be paid to not simply replicate or duplicate the
many other regional formats that already exist around Afghanistan. Furthermore, Beijing was also becoming overcommitted to multiple different formats, so streamlining or connecting with existing frameworks (either at an existing multilateral level, or at a bilateral UK–China level) might be most sensible. It was also discussed that milestones needed to be developed to ensure that progress advanced and was measurable. Here are some ideas discussed and subsequently developed further by RUSI:

1. **Institutionalise and escalate the format.** The format was one that all participants agreed was useful and helped focus on Afghanistan through a positive lens with powers who are deeply invested in the country’s stable future. Afghan participants, in particular, were keen that it was elevated into a track 1 format. If there is a hesitation to create a new trilateral format in what is already an increasingly crowded space, Afghan participants could be brought into existing UK–China bilateral formats, which touch on the country and broader region, to demonstrate a political eagerness from both powers to find ways of supporting Afghanistan.

2. **Focus on rail in the north.** Rail was expensive, long-term and politically complicated. There were numerous projects being discussed around Afghanistan, but participants agreed that those in the north were the ones most likely to generate benefits. China and the UK should continue to work with Uzbek partners and encourage their efforts. This should take the form of greater and more senior engagement in Uzbek-led formats, including greater bilateral coordination discussions pre- and post-event, to ensure that China and the UK are finding ways of supporting Uzbekistan’s growing regional leadership role.

3. **Establish a joint investment fund for Afghan small and medium enterprises and entrepreneurs.** Chinese participants were downbeat about the immediate prospects for large-scale projects in Afghanistan, and the consensus was that job-creating projects focusing on gemstones, agriculture or smaller enterprises and opportunities might be a way to gain some quick wins in Afghanistan which will generate wider success. The UK and China could consider establishing a joint fund for small and medium enterprises and entrepreneurial investment in Afghanistan – this could be managed by the ADB amongst the many funds for the country they are already managing. This bilateral fund could be created with support from the UK Department for International Development and Chinese policy bank support, in consultation with the ADB and other international financial institutions engaged in Afghanistan to better understand which gaps it might specifically address, and to ensure that it reaches the appropriate parts of Afghanistan’s entrepreneurial community.

4. **Foster local Afghanistan–Pakistan infrastructure connectivity.** The UK and China could focus on funding and improving local cross-border connectivity and trade between Afghanistan and Pakistan. While larger tensions between the two countries can complicate this relationship, the existing web of economic relationships that cross the border should be fostered and encouraged. Focusing on local bilateral cross-border economic relationships should be key and done through engagement with local leaders as well as at national levels. This could be undertaken through coordinated efforts by
Beijing and London to work with local researchers on both sides of the border to better understand local infrastructure needs. Once this research has been undertaken and projects identified, UK and Chinese officials could reach out through government channels in Kabul and Islamabad to establish the best way to deliver projects on the ground. If cooperative outreach is complicated, the two countries could divide responsibility and leadership in reaching out to Kabul and Islamabad.

5. **Help foster greater harmonisation of regional trading regimes.** The UK and China could lead an effort to help harmonise and improve regional trading regimes, visa policies and customs rules. This should be something that these states could do through an existing regional structure rather than a new one, which could focus on helping Afghanistan develop a better set of trading policies with its neighbours. Delivery of this recommendation would have to start with a clearer understanding of existing research and recommendations on this topic. This could be done through the funding of local researchers in Kabul to conduct a detailed assessment of the policy landscape in Kabul as compared to the country’s neighbours. Having developed this understanding, China and the UK could then find ways of sponsoring regional discussions between specific departments or agencies in Afghanistan and their neighbouring counterparts to address the dissonances. If bilateral support between the UK and China is complicated in this regard, then the two can coordinate leading on different parts of the Afghan system. This could then be supplemented by a bilateral UK and China engagement to ensure coordination which could be conducted in Kabul between embassies.

6. **Encourage greater harmonisation of Afghanistan-focused international institutions.** There are numerous regional structures and institutions focused on Afghanistan. Their volume is a burden on Afghan officials, and it has created a confusing web of institutions seeking to help the country. The UK and China could work together to encourage these institutions to better communicate and coordinate with each other, while avoiding the creation of entirely new formats. This could be done through messaging at international engagements, with the UK and China referencing findings from previous engagements and suggesting that milestones for progress and success could be registered at other engagements where Afghan development was discussed. This way, the two powers could explicitly connect the various formats more closely.

A final issue which did not lend itself to a tidy recommendation but was worth further discussion and exploration at a bilateral level, was the idea of cooperation between China and the UK on humanitarian aid in Afghanistan. During the session, a concluding discussion covered the topic, but spoke about Afghanistan within the broader context of bilateral cooperation on humanitarian aid. Beijing has traditionally preferred to engage in most of its aid support at a bilateral level and has spoken of avoiding humanitarian aid in conflict situations, preferring to focus on natural disaster relief. Afghanistan faces both issues at the same time, suggesting an environment in which Beijing might consider such aid in the face of traditional reservations. China is an aid provider to Afghanistan and has started to think of aid in Development Assistance Committee terms in some of Afghanistan’s neighbours. With the creation of a new aid-focused agency in China, the China International Development Cooperation Agency, it is possible that this topic might lend itself to future development as a specific recommendation for UK and
China cooperation. However, the discussion in Beijing reflected to some degree the relative immaturity of this opportunity in an Afghan context, but left this potential space open for future engagement.

Finally, there was a need for all powers involved to ensure that a focus on Afghanistan has a practical and long-term view in mind. While there was acceptance that the current global geopolitical environment complicated opportunities for engagement and cooperation, all powers involved in the discussion have a long-term interest and commitment to Afghanistan’s stability and prosperity. Small steps building on existing activity offered the best way to start closer cooperation and enhance the benefits for Afghanistan.

Conclusion

The second UK–China–Afghanistan seminar on cooperation, with participation from Pakistan and Uzbekistan, was in some ways more downbeat than the previous one. While there was a great deal of positive energy and optimism around the format and eagerness that it was further developed to help Afghanistan, there was an acknowledgement that more progress needed to be made and greater engagement from senior officials was required. Many of the conclusions and findings from the first year still held, with a general agreement that while large infrastructure development was necessary, consideration should be given to focusing on cooperation on lower-level, job-creating enterprises and projects which will create immediate opportunities and ‘quick wins’.

The broader political context also provided an additional layer of complexity to the conversation. The US–China trade war and wider confrontation plays into the geopolitical context around Afghanistan, while tensions between the West and China over issues like Hong Kong and Xinjiang cause political friction.

Some key ideas developed during the first iteration of the project also still bear consideration. The idea was proposed to establish a multi-disciplinary research hub that incorporates think tanks and academic research centres specialising in a range of fields, including financial studies, economic development models, infrastructure planning, building and management, and geopolitical and security studies. The aim would be to create a place where Afghans can work with external partners to identify what projects can be feasibly undertaken, and help the government prioritise which projects it should first focus on. Although the topic was not touched on in this discussion, the broad strokes of the idea remain relevant in terms of helping Afghanistan develop institutional capacity to plan for its future.

Participants also noted some major positive changes in the regional environment around Afghanistan which the country needed to find greater ways of tapping into. For example, the opening up of Uzbekistan, and the clear push by Tashkent to incorporate Afghanistan into its regional thinking and planning, was an opportunity for Kabul. Tashkent was playing an increasingly prominent role in discussions around Afghanistan – whether they were related to infrastructure development or peace discussions. The opening up of Uzbekistan has also
transformed regional relations with Tajikistan, another border country with Afghanistan, further supporting the broader opening up of Central Asia to Afghanistan.

This was mirrored in a different fashion in Pakistan where the investments under the auspices of CPEC were changing Pakistan’s economic context. The full benefits have clearly not yet been realised domestically, but this provides an opportunity for regional connectivity that Afghanistan needs to find ways to connect with. This is clearly not something Afghanistan could achieve bilaterally. There continue to be problems in the bilateral relationship, but it was also clear that outside powers like China and the UK are keen for greater cooperation, suggesting that focused attention on this might help foster actionable ideas and movement.

Finally, the challenges presented by the security situation in Afghanistan must be conveyed honestly. The country is not yet in a post-conflict situation and a sustained long-term effort towards a negotiated peaceful political settlement continues to be required. The current discussions driven by Washington appear to be creating some movement, but there is a danger of unintended consequences, and new security issues and threats might arise. Paying close attention to these remains important, as well as accepting the backdrop they pose.

At the same time, there was optimism around the format of UK–China–Afghanistan cooperation, and eagerness for the format to continue. The UK and China are both key partners with a determination to help Afghanistan move to a stable and prosperous future. Both have good relations with most of Afghanistan’s neighbours, and between them are able to ensure that they are onside to help with their contribution towards Afghanistan’s development. Afghanistan is rightfully discussed as being at the heart of Eurasia. The UK and China are both partners who can play an active role in helping it achieve its full potential in this role.

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