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by Adam Simpson

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Policy Update

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A British-Afghan team recently revived a 1970's Soviet geological survey on Afghanistan that details an untapped "trillion-dollar" mineral play including copper and iron ore worth hundreds of billions of dollars, in addition to gold, silver, and other exotic materials. These reserves could be the key in a global jigsaw puzzle of critical resources essential to a sustainable development strategy for Afghanistan's war-torn economy. However, mining valuable metals – particularly in a developing country – requires a degree of stability, stringent governance, and large amounts of supporting infrastructure.

As Afghanistan wrestles with democratic reform, weak legal and regulatory constructs pose significant risks to the sector's growth. Mining revenues, if they materialize, will carry political and economic risks, particularly if they are poorly managed or suffer from transparency concerns or inadequate governance (Hogg, Nassif, Gomez, Byrd & Beath, 2013).

Development in Afghanistan remains plagued by corruption, patronage, poor governance, a complex narco-economy, fragile rule-of-law and rampant civil insecurity; all of which threaten attempts to effectively exploit natural resources. Failure to systematically overcome these constraints could lead to further destabilization in Afghanistan. The "Paradox of Plenty" theory claims that some countries with a history of conflict experience perverse effects from mineral wealth. China, the United States, India, Pakistan and Russia further complicate Afghanistan's future as potential investors and players in the resurgence of Afghanistan's "Great Game", a popular narrative where the country's long history of conflict is blamed, in part, on the relentless posturing of vested external powers.

Afghanistan's Economic Fragility

There are currently two major resource flows in Afghanistan. The first stems from international donors and is intended to support state-building: since 2002, the average flow of donor money has amounted to approximately US$1.7 billion per year (Koehler & Zuercher, 2011). The second is based on the drug economy. The drug trade is integrated within nearly all levels of society and is the major source of funding to insurgent groups. Estimates state that 20% to 40% of the Taliban's income comes from the drug trade (Felbab-Brown, 2009). The link between Afghanistan's economy and the drug trade will continue to destabilize the country until legitimate economic opportunities are pursued. The mining industry has the potential to create thousands of jobs, expand networks of vital infrastructure, and pave the way for sustained development. In the longer term, investing in mining to help stabilize Afghanistan both politically and economically could reduce the capability and will of the Taliban-led insurgency.

Industry Potential

Afghanistan's mineral production is currently limited to small-scale operations, largely consisting of coal, limestone, slate, and semi-precious stones (Hogg et al, 2013). In 2010 Afghanistan's GDP was only US$15.9 billion (Hogg et al, 2013), but investment in the mining sector could grow Afghanistan's economy exponentially. A surge in development of large-scale mines and infrastructure, driven by foreign direct investment, could support long-term economic growth in Afghanistan.

Only two large deposits in the country are in the late stages of actual mine development: a copper deposit at Aynak south of Kabul, and an iron ore deposit at Hajigak, in Bamyan province. In 2011, the World Bank published a quantitative analysis of the potential economic impacts of these deposits and attempted to quantify the obtainable benefits, as well as discuss policies and programs – based on the experience of other countries – that would tend to maximize the benefits from these and other mines (McMahon & Tracy, 2011). The analysis suggests that the economic returns to Afghanistan could be significant. The report states

> the richness of the deposits and the current high metal prices combined with the relatively high sector taxes and large infrastructure needs of the mining operations means that the country could benefit from a large increase in fiscal revenues, substantial new power and rail investments, and, if the necessary policies and programs are implemented, a sector large enough to be a driver of growth of the industrialization process in the country. (McMahon & Tracy, 2011)

The quantitative data is encouraging: in 2010/11, Afghanistan's domestic revenue was approximately 11% of its GDP (Hogg et al, 2013). The World Bank calculates that over a period of several years, the Aynak and Hajigak mines could contribute 2–2.5% of GDP to domestic revenues, and add 2–3 percentage points to annual GDP growth (Hogg et al, 2013). Eleven other prospective mines have been identified across the country. When these mines were included in growth simulations as part of the World Bank study, GDP growth could potentially increase from 4.9% (which includes only development of Aynak and Hajigak) to 5.8%, with annual growth increasing up to as much as 7% (McMahon & Tracy, 2011). However, the mining sector is certainly not the "silver-bullet" that will solve Afghanistan's economic woes; there are no guarantees that such growth will be realized.

Risks Overview

The threat of failure hangs over Afghanistan's future. Identifying and analyzing the challenges to sustainable development is central to ensuring results-oriented and industry-specific solutions. At the crux of the issue is the failure of intervention efforts to democratize the country. As it stands, Western-style democracy has not emerged, but neither has autocracy. Afghanistan's complex, informal governance structures operate outside of a liberal, democratic model and have weathered external influences for centuries. The majority of the country's rural populations continue to rely on these structures for security, livelihood, and local leadership. Democratization efforts have increased the presence of development officers who are encouraging local populations to embrace democratic reforms, but the most successful outcomes have come from "co-opted" approaches where community leaders are leveraged to ensure government stability, while the donor community continues to support development initiatives.

The mining sector comes with its own set of problems, including legal and regulatory risks, as well as balancing the interests of foreign investors. The Aynak mine bid, for example, was awarded to the China Metallurgical Construction Corporation (CMCC) – a corporation that does not have significant experience in operating a large mine in a low income country (McMahon & Tracy, 2011). The World Bank has concerns about Chinese mining companies in general. China's recent entry into the global mining industry means they have relatively little experience in managing environmental and socio-economic challenges that typically surround mining operations (McMahon & Tracy, 2011). Currently, the construction of CMCC's Aynak mine is experiencing delays as Buddhist archaeological sites were identified and now require excavation. Unexploded ordnances have not yet been cleared from the land, and hundreds of families require relocation to accommodate the mine (Handelsman, 2012). The bid was awarded to CMCC in 2007, although the decision has been criticized for a lack of transparency, and commercial production is expected to start at Aynak by the end of 2017.

Peacebuilding and Economy Modernization, Industrialization and Corruption

Two of the challenges Afghanistan will face as it pushes for modernization will be first, the ongoing process of industrialization, and second, the role of transnational companies (TNC's). When considering the role of industrialization and TNC's, one cannot ignore the effects of corruption on both.

Entrenched corruption

In Transparency International's Corruption Perception Index, Afghanistan ranked 179th out of 180 countries in 2009 (Lambsdorff 2007, TI 2009, cited in Handelsman, 2012). Reports estimate that half a billion dollars were paid in bribes during 2006. This wanton corruption has become a staple of Afghan life, affecting the legitimacy of state building, deteriorating state-to-state relations and the rule of law, while increasing human rights violations, and overall negatively impacting economic development (Torabi 2010, cited in Handelsman, 2012).

The connections between corruption, industrialization, TNC's and the future development of Afghanistan's mining industry have become clear. Corruption will likely never be eradicated, instead it will remain embedded in the fabric of society, particularly as the country and its external supporters push development agendas that require buy-ins from various key stakeholders. However, Afghanistan must develop a plan to combat corruption in order to best facilitate growth and encourage foreign investment.

Corruption and graft will always involve the tactics of marginalization and control, but not all forms of corruption are equally harmful. The Afghan population will continue to tolerate corruption if the state continues to deliver tangible benefits to families including public goods, security, law and order, justice and private goods. Additionally, the drug economy will continue to thrive as long as it remains the backbone of the market-less rural economy, providing a safety net for households struggling with poverty.

Conclusion

Afghanistan is unique in comparison to other post-Cold War peacebuilding interventions. It has suffered a transnational war, lacks a unified state and defies traditional connections between natural resource development and conflict. When assessing the development potential of Afghanistan's natural resources the mining sector must consider the holistic operating environment and reflect on the societal, political, geo-political, environmental, cultural, and ethnic variables at play that may impact development efforts and influence governance structures in the country.

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About the Author

Adam Simpson is a doctoral student at Royal Roads University in the School of Peace and Conflict Studies. He is currently a regional advisor for the United Nations Office for Project Services in Amman, Jordan, and has worked extensively in the Middle East and South Asia. His research interests include state-building, foreign policy and sustainable development in failed and fragile states.

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