



## Afghan Minerals -- Cure, Curse, or Hype?

Posted by [jeffvail](#) on June 18, 2010 - 10:25am

Topic: [Policy/Politics](#)

Tags: [afghanistan](#), [geopolitical feedback loops](#), [geopolitics](#), [mercantilism](#), [minerals](#) [[list all tags](#)]

The Pentagon [revealed last week](#) that Afghanistan has as much as \$1 trillion in mineral wealth, a potential game changer in the ongoing conflict there. Many news outlets have picked up this story, with some simply [repeating the official talking points](#), while [others raise serious concerns](#). Is this 'discovery' just hype, or will this truly alter the landscape of the Afghan war? Perhaps more importantly, can this mineral wealth (whether real or illusory) pave the way to a peaceful and prosperous Afghanistan, or is it more likely to drive geopolitical feedback loops that plunge the region further into turmoil? Below the fold is a quick look at the as-of-yet unasked questions about Afghanistan's buried treasure.

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### Are Afghan Minerals Economically Recoverable?

While not a new discovery (it was 2007 and 2009 USGS surveys building on exploration done as early as the 1970s), the recent tabulation of \$1 trillion in mineral wealth has caught the media's attention. Pentagon releases suggest that Afghanistan may have \$400 billion in iron ore deposits, nearly \$300 billion in copper, and billions more in minerals like gold, molybdenum, niobium, lithium, and assorted rare earth elements that are key components of the global economy, and especially important in the development of renewable energy generation. The unanswered (and largely unasked) question, however, is whether these resources are economically recoverable.

In its simplest form, economic recoverability simply requires that a resource can be produced and exported for less money than its sale value—sufficiently less to provide enough return on investment to investors to account for associated risks. This is rarely an easy calculation, but in Afghanistan it is especially problematic. While our financial sector is (only comparatively) adept at pricing the “risk” component (normally consisting of only regulatory, operational, and geological risk) of an investment in, say, an oil well offshore Brazil, or a gold mine in Nevada, there is very little experience or confidence in our ability to account for risk where there is an active insurgency and significant geopolitical complications. Can an investor count on the US military succeeding in securing their site and supply lines, or even that they will still be in country in ten years? Additionally, the near total absence of infrastructure in Afghanistan—from roadways and manufacturing facilities to a stable system of laws and a ready pool of trained personnel—means that the scale of investment involved is extreme. Consider the simple mechanics of export: the road network is entirely inadequate, requires defending a potentially thousand-plus mile long passage, and will need to cross one or more international borders that are anything but sure to remain friendly and open five, ten, or twenty years from now when exports begin.

It's far too early to reach any conclusions about economic recoverability, but the huge investment requirements and highly unstable security environment means that the risk premium paid to

investors (or accepted by national resource companies) will be extremely high. This suggests that the purely geologically-driven cost of recovery will have to be far below the cost of recovery elsewhere (and far below the projected market price) in order to spur actual investment and production. For that reason I am very skeptical about whether even a portion of Afghanistan's reputed mineral wealth is economically recoverable.

Additionally, economic recoverability may be an all or nothing issue. For example, the investment required to build a stable government, fund development projects to placate the populace, build and secure transportation infrastructure, etc., may only be viable if carried by companies pursuing all of these minerals simultaneously—this means that, even if 25% of the mineral wealth discussed by the pentagon would otherwise be economically recoverable, there is a very real possibility that none of it will be recovered because the other 75% isn't economical, and therefore won't be contributing to the cost of these massive shared investments.

### **Mineral Wealth, Conflict, and Geopolitical Feedback Loops**

I've discussed [geopolitical feedback loops in resource production](#) before as a global phenomenon. In Afghanistan, the potential vast mineral wealth (or even the illusion of such wealth) will likely have a very real impact on the conflict there. Below I've outlined just a few of the factors that may exacerbate or complicate the situation:

- Self-financing insurgency: while the insurgency in Afghanistan presently funds itself through opium production and charging protection rents on transport corridors, there is huge potential for increased protection rents on much more valuable mineral exports, through graft and corruption related to mineral concessions, through increased kidnappings (as in Nigeria), and through outright theft of valuable minerals. Unlike opium production that is tied to the land and subject to territorial exclusivity of certain warlords, there is the potential for much more widespread and overlapping insurgent groups and criminal enterprises feeding off the wealth of mineral exports—something that can dramatically degrade the security situation.
- Export route issues: exports from Afghanistan must transit through a neighboring country over very rough, long, and poorly policed/defended roadways. Rail is essentially non-existent. Not only are these export routes easy targets, but this process may sequentially destabilize the surrounding countries due to the incentive to continue the protection rackets, kidnappings, and thefts beyond Afghan borders.
- China/US resource mercantilism: especially with Chinese (or Russian) state-run companies more willing to tolerate the kinds of risks associated with operations in Afghanistan, and possibly also more interested in locking down long-term supplies for domestic consumption, the potential for conflict spawned by resource mercantilism between China and the US is significant. While certainly more likely to be played out by proxies, the dissimilar interests of China and the US regarding Afghan minerals may truly live up to the recent headlines of a “game changer.”
- Pakistan/ISID/Taleban issues: The existing proxy battle being fought by the Taleban through Pakistan's intelligence services against Pakistan's nominal ally, the United States, is incredibly nuanced. This will only become more complicated if Pakistan hosts a major ground export route (which the US must facilitate, as the other options are either blocked by poor relations with Iran or “point the wrong way” and result in resource mercantilism victories for Russia or China).
- Internal governance/graft issues: Afghanistan is arguably the world's most corrupt government at present, and the potential dramatic increase in the scale of corruption and graft due to valuable mineral concessions and operations will only exacerbate this problem. Whatever investment

would today be sufficient to stabilize the government and legal system will certainly be far too little once the incentive toward corruption and graft increases by an order of magnitude.

- Foreign exploitation (or perception thereof): Finally, there is the perception of the US/Nato as an occupying force that is exploiting Afghanistan for its own selfish aims. Whether this is truth or propaganda is largely irrelevant—the perception alone is one of the foundations of support for the Taleban and can only be (partially) countered by massive and effective spending on the development of resilient communities in Afghanistan. If the amount of value being extracted from Afghanistan in the form of mineral exports is not closely in line with the amount being paid to Afghanistan *and effectively distributed to its populace* through taxes or production sharing agreements, then the support to the Taleban will only swell.

Of course, these factors do not exist in a vacuum. Rather, each is a contributor to a system of positive feedback loops: higher security costs/lower production alters the global supply and demand picture, increases prices, increases the incentive to further disrupt production, etc. If copper or lithium, for example, become increasingly critical and scarce to the global economy, then the value of their export increases, which in turn drives the incentive to control, exploit, or disrupt that export. Additionally, with the addition of new proxies and increased motivation of old proxies to the conflict (China, Iran, Russia, Pakistan's ISID, India out of concern for the Pakistan-China-Taleban connection, etc.), the situation is likely to evolve into a far more complex, widespread, and multi-modal insurgency. There is the potential that Afghanistan's mineral wealth will produce multiple, interconnected positive feedback loops, dramatically spread and diversify the conflict, and shift it into overdrive, much as oil exports have done in Nigeria.

## Conclusion

Afghan mineral wealth may hold great promise--that depends on the reality of economically recoverable reserves. However, the ability to deliver on this promise will depend on the development of a coherent strategy to short circuit these key geopolitical and security feedback loops before they spawn an even more intense cycle of violence and exploitation. As with the question of economically recoverable reserves, I am skeptical—there is no indication that the US is even aware of the extent of these potential complications, let alone that they have (as they already should have done) developed a plan to address it before unveiling this 'treasure' to the world. Even if no mines are ever opened, the lure of this wealth may exacerbate the conflict. And, in the end, the only lasting contribution of this 'discovery' may be that production from other potential sources of copper, lithium, and other minerals is delayed or cancelled as the potential for Afghan supplies to 'flood the market' makes those investments less attractive.



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