

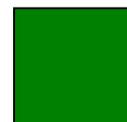
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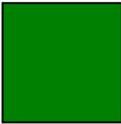


**From Land Mines
 to Copper Mines**

by Michael L. Ross

Will Afghanistan's mineral wealth rescue the country from decades of instability and poverty? It just might -- and here's how.





Geologists have discovered vast deposits of iron, copper, gold, and other minerals in Afghanistan, according to a **front-page story** in Monday's *New York Times*. Worth an estimated \$1 trillion, these resources -- if exploited -- could fundamentally transform the country.

Afghanistan has plenty of both, but that doesn't mean the country is irrevocably doomed to fall prey to what academics have dubbed "the resource curse" -- the idea that natural riches often create more problems than they solve.

But for better or for worse? Countries with extraordinary mineral wealth -- think of the Democratic Republic of the Congo, Bolivia, and Iraq -- often have extraordinary economic and political ailments. Afghanistan has plenty of both, but that doesn't mean the country is irrevocably doomed to fall prey to what academics have dubbed "the resource curse" -- the idea that natural riches often create more problems than they solve.

Nor should we expect changes overnight. Large mining projects can take years -- sometimes more than a decade -- to develop even under peaceful conditions. True, mineral companies today are so eager to develop new finds that they are willing to work under astonishingly difficult conditions. In the last few years, companies from around the world have been bidding for the right to exploit some of Afghanistan's more modest deposits. But many of the newly reported finds appear to be in zones that are dominated by the Taliban and have little infrastructure. Afghanistan has a long way to go before it can take advantage of its geological wealth.

Billions have gone missing from the treasuries of Angola, Cameroon, the Congo, Nigeria, and other African countries that have considerable mineral wealth but weak and ineffective governance.

Yet when it does, the government will reap a considerable revenue windfall. In Afghanistan -- and virtually all other countries in the world, except the United States -- everything beneath the soil is the legal property of the central government. Companies must buy their mining rights from the government, and the signing bonuses, royalties, and other payments can add up. The China Metallurgical Group, which won a bid in 2007 to develop a relatively modest copper mine south of Kabul, agreed to pay the Afghan government \$400 million per year -- a substantial sum for a government whose annual revenues -- not counting foreign aid -- are just under \$1 billion.

Unfortunately, governments that resemble Afghanistan's -- where corruption is high, and the rule of law and government performance are weak -- typically squander a large portion of these windfalls. Billions have gone missing from the treasuries of Angola, Cameroon, the Congo, Nigeria, and other African countries that have considerable mineral wealth but weak and ineffective governance.

Mineral revenues will fill the government's coffers and may ultimately free it from foreign aid, but what matters is how wisely this new money -- which unlike foreign aid, comes with no strings attached -- is spent.

Some is lost to corruption, some to political patronage, and some to well-intentioned projects that are poorly planned, poorly built, or poorly maintained.

The Afghan government is already among the world's least effective. Since 2007, it has only managed to collect about 7 percent of GDP in revenues, one of the lowest rates in the world, according to the **IMF**. This also indicates how fragile its powers are over the population. It has largely survived thanks to foreign aid, which covers about 70 percent of the government's budget. Mineral revenues will fill the government's coffers and may ultimately free it from foreign aid, but what matters is how wisely this new money -- which unlike foreign aid, comes with no strings attached -- is spent.

Whether or not it helps the Afghan people, a flood of mineral revenues will almost certainly bring political benefits to Karzai -- or whoever holds office when the money starts to flow. Leaders in resource-rich developing countries stay in power a lot longer than their counterparts in resource-poor states. Mobutu Sese Seko controlled the Democratic Republic of the Congo for more than three decades, despite his country's descent into chaos; Libya's Muammar al-Qaddafi has held power for more than four, with no end in sight. Politicians with lots of cash make lots of friends. That doesn't necessarily mean they are more effective, or popular -- only more durable. In the developing world, more mineral wealth typically means less democracy.

A boom in mining should lead to a lot of new jobs for unskilled male workers -- jobs for exactly the kind of young men who might otherwise fight for the Taliban.

Yet there are also reasons to be modestly optimistic. Even if it boosts corruption and entrenches the government in Kabul, Afghanistan's mineral riches could also lift the economy enough to promote peace. One reason poor countries are so prone to insurgencies is that joining a rebel army gives impoverished peasants a way to earn a living. When civilian wages rise, studies suggest, rebels become harder to recruit and violence subsides. A boom in mining should lead to a lot of new jobs for unskilled male workers -- jobs for exactly the kind of young men who might otherwise fight for the Taliban.

True, resource wealth -- especially from oil and gemstones -- can sometimes trigger violence instead of ending it. But this typically happens when oil wealth is concentrated in a region dominated by an ethnic minority that seeks independence,



Some mining-based economies have thrived: Diamond-rich Botswana has been Africa's fastest-growing country for decades, and Chile -- which produces about one-third of the world's copper -- boasts one of Latin America's richest and most successful economies.

In January, Finance Minister Omar Zakhilwal delayed the awarding of iron and petroleum concessions, evidently to thwart corruption.

unlike Afghanistan, where minerals are scattered around the country; or if it comes in a form that can be easily looted and smuggled abroad, like diamonds. Afghanistan's resource base might be sufficiently diffuse -- both geographically and geologically -- to keep it from fueling further conflict. And the more jobs it creates, the less fighting there should be.

Mineral wealth does not necessarily lead to either ruin or prosperity. Some mining-based economies have thrived: Diamond-rich Botswana has been Africa's fastest-growing country for decades, and Chile -- which produces about one-third of the world's copper -- boasts one of Latin America's richest and most successful economies.

One of the keys to successful mineral development is a strong government that can negotiate a favorable agreement with mining companies and properly regulate their activities. Afghanistan's Mines Ministry has long been perceived as one of the government's most corrupt departments, but this should be no surprise. Even the United States has a mixed record of managing its resource industries -- as the BP disaster illustrates. Regulating a large mining industry is hard work under the best conditions.

At least some members of Hamid Karzai's government seem to be taking these problems seriously. In January, Finance Minister Omar Zakhilwal delayed the awarding of iron and petroleum concessions, evidently to thwart corruption. In February, the government signed on to the **Extractive Industries Transparency Initiative**, an international agreement that encourages companies to publish what they pay, and governments to reveal what they collect, in the mining business. It is a modest start on a treacherous -- but not impossible -- journey.

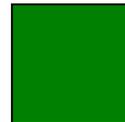
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