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View Point

Mining Projects in Afghanistan: Challenges for India

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In the last four decades, Afghanistan has witnessed invasion, occupation, feuds among warlords, Taliban rule, and now extra regional military presence to fight the Taliban/al-Qaeda. This instability has resulted in lack of infrastructure, poor industrial base and inadequate transportation network. Further, the continuing strife in Afghanistan has held back international efforts at reconstruction and development. According to the International Monetary Fund (IMF), since 2006-07 the foreign direct investment in Afghanistan has been low, peaking to nearly \$300 million in 2008-09. The future investment outlook is bleak which could adversely impact economic development.

However, despite the above projections, there is a silver lining for Afghans who are the second-most impoverished people on the globe. According to the World Bank, in 2009-10, Afghanistan's GDP was pegged at US \$ 14.5 billion and was estimated to grow at 22.5%, a record since 2003-04. This was led by agriculture (wheat production nearly doubled to 5 million tonnes) and the mining sector grew at 30% in the last two years.

Afghanistan is known to possess vast resources of metals (copper, iron, gold, rare-earth metals), precious and semi-precious stones (emerald, ruby, lapis lazuli) and a variety of other industrial materials (limestone, sand and gravel, clay, potash). The hydrocarbon potential is low : 100 million barrels of medium-gravity recoverable oil and 5 trillion cubic feet (Tcf) gas.

According to the United States Geological Survey (engaged in survey of the mineral resources in Afghanistan since 2003), Afghanistan is endowed with mineral

wealth and can offer lucrative mining projects to prospective developers. Early this year, President Hamid Karzai noted “The initial figures we have obtained show that our mineral deposits are worth a thousand billion dollars -- not a thousand million dollars but a thousand billion,”

Several countries are making a beeline for mining opportunities in Afghanistan. Among these, China appears to have taken the lead and emerged as the single most enterprising investor and stakeholder in the economic development of Afghanistan. President Hamid Karzai has so far made four successful visits to China and during his last visit in March 2010, President Hu Jintao assured President Karzai of China's support for the reconstruction of Afghanistan. He also noted that China and Afghanistan must explore vistas for deepening economic ties and “China is ready to discuss new cooperation programs with Afghanistan based on the already-implemented cooperation projects, increase mutual investment, maintain steady trade growth and promote bilateral cooperation in the [sic] areas such as agriculture, water conservancy, mining and infrastructure construction so as to enhance the quality and level of the cooperation.” Further, “China is ready to train more professional and technical personnel for Afghanistan’s peaceful reconstruction.” Since 2002, China has provided over US \$130 million as reconstruction support. In 2008, the bilateral trade was US \$155 million and in a short span of time touched US \$200 million in 2010. In essence, Sino-Afghan relations are witnessing a higher trajectory.

In 2007, the Metallurgical Corporation of China (MCC), a Chinese state-owned enterprise was awarded US \$3.4 billion contract for the development of copper mines in Aynak in Logar Province that is estimated to contain nearly US \$88 billion worth of ore. The MCC announced plans to develop the mines by 2016 and it is estimated that this venture would generate nearly US \$210 million annually for Afghanistan. It is hoped that the project would result in economic development, generate employment, and contribute to the dwindled Afghan economy.

The MCC has also agreed to build a 400-megawatt, coal-fired power plant, construction of a railway network from western China- through Tajikistan-Afghanistan and to Pakistan, that would augment existing Afghan trade network. This is bound to give fillip to regional economy.

There are several risks involved in any mining projects in Afghanistan that range from poor management of the project, lack of coordination among various departments of the Afghan government, and apprehensions about sustainable economic development. There are also fears that the mining project may invite disputes among the surrounding communities which “can be exacerbating factors that might create even more insecurity than what you already have in that area.”

However, the general view is that mining is a growth industry and has the potential to pull Afghanistan from its economic woes. The mining jobs and the revenue would reduce unemployment, overcome despondency and improve the economic wellbeing of its people. It is also hoped that mining projects such as the Aynak would bring peace and stability to the people of Afghanistan.

In 2009, the Afghan government announced plans to develop the 1.8 billion-ton iron ore mines at Hajigak and fourteen companies filed their interest. But amid reports of corruption, in 2010, the government cancelled the tenders and has invited fresh bids.

India’s experience in Afghanistan’s reconstruction process presents mixed bag of successes and failures. The local population is highly appreciative of Indian reconstruction initiatives in Afghanistan and also acknowledges the development projects such as repairs to schools and hospitals, building roads and providing medical assistance. India’s engagement in Afghanistan has continued despite attacks by militants and other interest based groups.

Afghanistan can emerge as a resource base for India’s growing need for metals. India companies such as the India’s Essar Minerals Ltd., Rashtriya Ispat Nigam Ltd., Ispat Industries Ltd., JSW Steel Ltd., and the Sesa Goa Ltd., have been in the forefront to develop mines in Afghanistan. Unlike China, India cannot overcome the tyranny of geography (transport route through Pakistan) and would need to transport the mine products through Iran. Besides, the long supply chains would be difficult to defend against attacks or hijacking. In summation, success of Indian projects would be determined by the security situation and if it gets worse, it might jeopardize these ambitious projects.

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