# Geopolitics
## and the strategic risks to mining

by Andrew C. Katen

Mine development is a decades-long process that binds companies to the land and makes changing course to avert emerging threats a difficult and costly option.

The mining industry faces increasing geopolitical risk in the coming decades. Constraints such as resource nationalism, corruption and social license could grow to outweigh fundamental limitations like geology or supply and demand (Ernst & Young, 2013; Verrastro et al. 2010). Lurking beneath these more immediate and palpable concerns, however, may be more significant risks entrenched in geography and history. Deep-rooted cultural and strategic forces that emerge slowly – or erupt suddenly and unexpectedly – can generate momentous and far-reaching political, social and economic changes. While multinational enterprises routinely assess for political risk, the nature of minerals extraction means long-term and systemic geopolitical conditions are especially important for mining companies to identify and understand. Mine development is a decades-long process that binds companies to the land and makes changing course to avert emerging threats a difficult and costly option. Consequently, geopolitical assessment is a pertinent and valuable tool that mining companies can use to more comprehensively evaluate strategic threats and opportunities.

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Geopolitics is the study of society, politics and strategy through the lens of geography (Gray, 1996). Its emphasis on relatively permanent physical features of the earth makes geopolitics a uniquely valuable tool for assessing political risk. Topography, climate and natural resources have shaped, constrained and motivated peoples and governments throughout history. These influences transcend regimes, policies and borders – and even states themselves – which, by contrast, change often and dramatically. Framing politics against mountains, deserts and rivers supports identification of historical patterns and forecasts of emerging trends. In other words, the physical map provides an objective and consistent model for studying a subjective and dynamic subject such as politics (Sloan and Gray, 1999). Consequently, geopolitical assessment can highlight threats and opportunities that go unaddressed by other risk methodologies that emphasize current conditions (Glancy, 2012). Taken together, the permanence of geography, hindsight afforded by centuries of political history, and interconnectedness of world events makes geopolitical assessment a valuable approach for conceptualizing strategic risk.

Mining inherently involves geopolitical concerns. After all, the locations of minerals are constrained by geology, which, in turn, is geographical. These resources are distributed unequally and irrespective of state borders and trade routes, obliging mining companies to go where minerals are and negotiate political and logistical risks as best they can. Moreover, exhaustion of the easiest mine deposits means more mining companies than ever are investing in emerging countries (PricewaterhouseCoopers, 2013; Cattaneo, 2006). These geographic challenges are exacerbated by the values of the minerals themselves. As essential ingredients of the global economy, demand for them will undoubtedly grow with technological advancements, swelling populations and emerging economies. Consequently, mining companies operate in an increasingly resource- competitive world in which governments may pursue more aggressive policies to expand and protect their access to critical supplies (Butts et al. 2011). The long-term nature of mining makes it especially vulnerable to geopolitical pressures and requires it to adopt a profoundly strategic approach. Mine development is typically a decades-long process, requires early and significant outlays of capital, and is undertaken based upon forecasts about future economic and political conditions (Eggert, 2010). Threats that emerge after breaking ground can significantly undercut investment models and make changing course a difficult and costly option. For these reasons – mining's connection to the earth, the economic and strategic value of minerals, and the protracted mine life cycle – long-term geopolitical conditions must be a central consideration of mining strategy.

Geopolitical forces can threaten mining operations in several ways. Nationalization, supply disruptions, social unrest, terrorism and war can result in losses of life, governance, equipment, funds and intellectual property. Failure to manage the concerns of local communities can lead to the withdrawal of a license to operate, and a damaged reputation incurred by one company can ripple worldwide to impact the industry as a whole. Logistics and supply chain threats may prevent extracted minerals from reaching market and, similarly, mine sites may not receive vital tools, food and power. Even perceptions of geopolitical instability (whether accurate or not) can deter investor financing and acquisition interests. However, these threats may unfold along different timeframes and have diverse consequences. Some threats can be managed with appropriate plans and capabilities, while others pose unacceptable dangers that should be avoided entirely. Understanding the probability and imminence of these threats – as well as how the risk environment may improve or worsen over decades – can allow mining companies to formulate strategies that minimize losses.

A comparison of the risks associated with two mineral producing regions is helpful for illustrating the advantages of geopolitical assessment. Turkey and Sub-Saharan Africa are both rich in natural resources but have very different levels of political risk. Turkey is presently considered less dicey because it is a constitutional democracy, modern and relatively secular, and has a strong legal framework. By contrast, Sub-Saharan Africa is regarded by Freedom House as "the world's most politically volatile region" owing to civil strife, corruption, authoritarianism and coups (Freedom House, 2013). When it comes to avoiding political risk, therefore, investing in Turkey appears to be safer than Sub-Saharan Africa.

Geography, however, paints a very different picture about the long-term risks for these areas. Turkey's location makes it a veritable geopolitical hotbed compared to Sub-Saharan Africa. The strategic value of the Anatolian Peninsula is demonstrated by thousands of years of invasion and occupation by foreign powers. Since the beginning of mankind, Anatolia has served as a land bridge and cultural fault line between west and east (Kaplan, 2012). Its position astride the Bosporus Straits affords whoever controls it the ability to regulate a critical maritime bottleneck. The Tigris and Euphrates rivers arise in Turkey, deliver life to conflict-ridden Mesopotamia and have already triggered transboundary conflicts with war-torn Syria and Iraq (Wolf and Newton, 2008). The state is crisscrossed by oil pipelines from the Caspian Sea to the Mediterranean, threatened by Kurdish secession, and is undoubtedly tangled in the grand strategy machinations of reemerging powers such as Russia and Iran. Turkey is also the geographic and cultural heart of the Ottoman Empire – an important consideration when assessing its own hegemonic aspirations (Friedman, 2007). Recent social unrest serves as a striking reminder of the deep-rooted cultural pressures that could erupt and tear apart the relatively young nation-state's veneer of political stability.

By the same token, from a geopolitical standpoint, Sub-Saharan Africa may be considerably less risky over the long term. After all, the lower continent is buffered by the Sahara Desert and two oceans, includes no major chokepoints to squeeze the flow of trade, and lies far from the borders (and spheres of influence) of any major power. Most importantly, these geographic realities will not change soon, if ever. Furthermore, the diversity of nation-states balances power in the region, encourages economic competition, and provides options to companies that wish to hedge country risk. While ethnic conflict has historically defined the region, in the future ethnic groups may overcome their differences. Among his prognoses for the Post-Cold War world, political scientist Samuel Huntington noted that, "Africans are increasingly developing a sense of African identity, and conceivably Sub-Saharan Africa could cohere into a distinct civilization" (Huntington, 1996). This possibility might relieve ethnic pressures and provide unprecedented stability to the region. Thus, despite the obvious political problems of today, Sub-Saharan Africa's potentially solid geopolitical foundation may ultimately lead to a more stable investing climate than Turkey.

As this comparison demonstrates, states and regions that are considered politically low-risk today may become more volatile as a result of their inherent geopolitical vulnerability, and vice versa. Mining projects commenced today with expectations that the status quo will endure – that constitutionalism, democracy, and rule of law will continue to characterize Turkey – may be surprised by the reemergence of another Arab Spring, spillover from the Syrian civil war, Kurdish secession, conflicts over water, or intervention by great powers who seek to control the geographic crossroads of the Old World.

At the same time, geopolitical assessment may foretell long-term stability and business booms that succeed current volatility, allowing savvy investors to plan ahead and beat competitors to the punch (PricewaterhouseCoopers, 2006). Mining companies that forecast improved conditions in Sub-Saharan Africa can prepare today by hedging short-term risks, creating healthy and meaningful relationships with local stakeholders, educating officials and labor about ethical mining practices, and helping governments design informed and sensible regulatory frameworks (Kogel, 2013). These efforts may, in fact, contribute to the future political and economic stability of a state. Aside from the circumstances of particular states, geopolitics can help forecast how global events may affect commodities prices. Blocked trade routes, nationalization and war can adversely impact the economy. But they may also increase the strategic value of certain resources to governments. Mining companies that anticipate these events and trends can take appropriate steps now to capitalize upon improved minerals prices and business environments.

Geopolitical risk assessment offers mining companies unique and important perspectives about long-term, strategic risks. In today's complex, dynamic and global political environment, geography is an especially valuable model for studying politics because it is objective and permanent. While politics and social concerns are fickle, the influence of geography upon grand strategies, culture, demography and global trade endures.

Geopolitics reveals macro political cycles and yields insight into how the associated risks change over time. Considering mining's inherent vulnerabilities – the locations and values of minerals, as well as the protracted process of extracting them – mining strategy must consider long-term threats and opportunities rooted in geography and history. ■

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