Natural Resources, Conflict and Globalisation

Alejandro Nadal
Science, Technology and Development Program
El Colegio de México

The relation between natural resource governance and violent conflict is a very important one. The high profile conflicts in Sierra Leone, Liberia or the Democratic Republic of Congo pose serious problems that demand our attention. The human tragedy and the environmental devastation that they generate are compelling arguments to carry out a detailed inquiry of their nature, genesis and dynamics.

However, natural resource governance issues cannot be restricted to those cases where civil war ensues. Human and social costs in terms of life and limb, as well as environmental degradation, are part of natural resource extraction, trade and transformation under “normal” conditions. It is important to note that corruption can take many shapes, and it is not always associated to civil wars. In other words, resource management issues that involve questions of fairness and sustainability arise even when we are not in the presence of the extreme cases of civil war.

In the statistical models developed by Collier and Hoeffler (2004, 1998) and cited in the draft memorandum, per capita income and GDP growth are of great significance as explanatory variables. Thus, it is not surprising that one of their central conclusions is that “[c]ivil war is overwhelmingly a phenomenon of low income countries”. This does not necessarily mean that civil wars are the exclusive feature of low income countries, but it does indicate that the economic environment surrounding natural resource governance is a critical dimension of the problem. It is ironic that the World Bank does not pursue this, although perhaps the explanation lies in the fact that important changes in the neo-liberal economic model are warranted and the WB simply balks at the idea of criticising what it has so fervently promoted over the past three decades.

In this context, three important issues are taken up in this brief presentation from the point of view of a Latin American country:

a) The economic atmosphere in which developing countries have been functioning over the past half century, and the impact that this has had on natural resource governance and on their growth performance.
b) The set of rules that govern public policy options for developing countries under trade, investment and financial multilateral regulations, and their implications for developing countries.

c) The need to transform the global trading system in order to enhance economic and social development and reduce inequality, with an emphasis on the question of special and differential treatment, and international commodity agreements.

A. Over the past thirty years, since the demise of the Bretton Woods regime of fixed exchange rates, economic performance for developing countries has been unsatisfactory. For the period 1975-2005 GDP growth rates are 45%-55% lower than for the period 1945-1975. There are of course some notable exceptions (the Asian Tigers and more recently China), but by and large the growth performance in most developing countries leaves much to be desired.

In addition, the terms of trade for developing countries have deteriorated over the past century (real prices of primary products have experienced a significant decline, see Ocampo and Parra, 2003). Indebtedness of developing countries increased during the past thirty years; in fact, the costs of the colossal debt crisis of the early 1980s continue to weigh heavily over many countries even today. The pressure to intensify exports of natural resources is fuelled by the vulnerability in a country’s external accounts which in turn increases through the combination of deteriorating terms of trade and growing indebtedness.

This is the case of Mexico’s oil resources. In the late 1970’s, vast oil fields were discovered offshore in the Gulf of Mexico. This brought about a typical cycle of “Dutch disease”, with an appreciation of the exchange rate and a deteriorating trade balance. In addition, as a surplus of financial capital was roaming the world searching for profitable investments, Mexico’s government increased its public debt and several large industrial groups increased their debt/equity ratios. During the period 1979-1981 the world’s most important economies entered into a recession, bringing oil prices in a downward spiral, and interest rates increased. In 1982 Mexico had the dubious privilege of detonating the international debt crisis with a unilateral payments’ moratorium. Since then, Mexico’s oil wealth has been used to pay for financial charges of external and domestic debt. Today, the plunder is near its end, but so are Mexico’s proven oil reserves which amount to a mere 9.3 years.
Globalisation (as a result of trade and capital account liberalisation) has forced people to rely more on external income sources and, as a result, long term sustainable management alternatives that are labour intensive are being abandoned. This is affecting things like agro-biodiversity, forest and water management schemes. This in turn leads to greater pressure for privatisation of natural resources.

At the macroeconomic level and as trade liberalisation proceeds, globalisation has unleashed forces that force countries to increase exports. This is required to attain a surplus in the trade balance and reduce current account deficits. If a country lacks a sufficient industrial and agricultural base, mineral and oil resources typically become lead exports.

Globalisation can also be seen as a process in which markets and legal systems lose their national base and become integrated into a global economy. People and communities typically lose control over resources. Legal systems are frequently superseded by supranational rules that are linked to agreements within the World Trade Organization. They have teeth and they embrace things that go beyond trade flows stricto sensu.

B. All of this has taken place as trade liberalisation and financial deregulation took a firm hold of the world economy. This was promoted by the agencies belonging to the World Bank Group, as well as by the conditionality regime imposed by the International Monetary Fund on many countries. Finally, through the grand bargain of the Uruguay Round (nailed down in Marrakesh in 1995) which led to the creation of the World Trade Organization, the trade regime was enlarged to encompass such things as intellectual property rights, investor rights, industrial and technology policies, and of course subsidies and other aspects of public policy.

Today, many talk about the “kicking away the ladder” syndrome (Chang 2002). This is a very important aspect of international relations, and one that has direct relevance to the theme of the memorandum. For example, it would be desirable to have African economies benefit from greater value added investments in their economic space. However, some of the policy options that could foster this, for example performance
requirements for foreign direct investment, are simply forbidden by WTO rules.\(^1\) It is important to bring this up in the memorandum.

Trade and investment flows, as well as the policy package recommended (or imposed) by the WTO, IMF and World Bank are having a vast impact on how people and communities engage in resource management. This is changing the way in which they define priorities, handle implementation of common resource usage rates and monitor access in order to prevent the tragedy of the commons. Frequently, migration due to trade liberalisation affects how people allocate their time and effort to resource management as more people look for external jobs to complement their income.

C. There is a clear need for reforming the world’s trading system. Three items that need to be discussed in the context of resource governance are special and differential treatment (S&DT), international commodity agreements and the monitoring of transnational corporations.

Special and differential treatment (SDT) is based on the idea that fairness should be an important guiding principle in international economic relations. It is also linked to the recognition of existing international asymmetries as elements of great distortions in the functioning of markets and generators of inefficiencies. In the context of WTO it is linked to the idea that developing countries are not obligated to reciprocate in full trade concessions because they need more time to adjust to the economic forces unleashed by trade liberalisation.\(^2\)

In practice, however, SDT has really not provided the conditions needed by developing countries to adjust. The lop-sided structure of world trade indicates that SDT has been a failure to establish a levelled playing field. Not only has SDT failed as a policy principle, it has been accompanied by a severe contraction of the policy space of developing countries. As a result of structural adjustment policies, several WTO agreements and some regional and bilateral trade agreements, the array of industrial and agricultural policy instruments has shrunk to the bare minimum. For example,

\(^1\) The same goes for some of the provisions in the ideal investment agreements such as the one proposed by IISD.

\(^2\) SDT is recognised by the original GATT in several of its articles, and these principles were picked up in various rounds of multilateral negotiations. The actual implementation of special and differential treatment relies on various types of mechanisms: limited time derogations; exceptions and preferences in disciplines; lower commitments in tariff reductions; technical assistance commitments; etc.
performance requirements are being curtailed by the agreement on Trade-Related Aspects of Investment Measures (TRIM’s), government procurement policies are frowned upon and are now the target for destruction, direct government support mechanisms are also forbidden in many cases because it is assumed they imply unfair competition, etc.

The first component of a new S&DT framework is recognition that developing countries need more policy space. Under the principles of S&DT the world’s trading system must open for developing countries (especially African countries) the possibility of using all the industry policy instruments that developed countries used at one point and that late-industrialisers also used. These are especially important for accessing dynamic competitive advantages which are skill and technology based. Without these policy instruments, developing countries run the risk of remaining forever in the low-productivity trap of natural resource exporters.

In this context, it is also important to observe that financial assistance is essential to get to the level playing field. Today we are far from the required levels of development aid. It is sometimes argued that foreign direct investment (FDI) flows have picked up and that they are preferable to aid. This is misleading because FDI is heavily concentrated in a few developing countries, and because a significant portion of total FDI is made up of mergers and acquisitions (M&A) of already existing companies. It is estimated that up to 44% of total FDI is really M&A and therefore, not an investment in new productive assets. Financial assistance is a different instrument with a rationale of its own, oriented towards long term investments under preferential conditions and should be part and parcel of trade agreements. No new round of trade negotiations should take place without having S&DT at its core. The need to make this principle operational is probably one of the most urgent cross-cutting chores of the WTO system today.

International commodity agreements (ICA’s) are an important component of the road to greater market transparency and less volatility. In the past, UNCTAD’s mandate was to use them to arrest the deterioration of terms of trade and to stabilize markets whenever there were large fluctuations. Several agreements were set up (coffee, cocoa, rubber, sugar, tin and tropical timber) but this role was destroyed in the 1980’s in the aftermath of the debt crisis and was never restored.

Over the past century, real prices of primary products have experienced a significant declining trend (Ocampo and Parra 2003). The vulnerability of many countries that rely
on one or a few basic products for exports puts undue pressure on people and the environment. ICA’s could help change this situation. The need for the reinstallation of ICA’s as a relevant policy mechanism stems from the presence of market failures as a result of price volatility and long-term trends of declining prices for many primary commodities.

In addition, ICA’s can reduce market distortions due to market concentration and reinstate more transparency in trade through the supervision of operations where giant corporations control more than 20% of the market. They can stabilise prices at levels that are fair for consumers and producers and dovetail certification and other resource management schemes with commercial trends. Producers that receive a fairer deal through ICA’s can be more easily persuaded to improve quality and adopt cleaner process and production methods without exacerbating tensions between trade partners.

ICA’s can also blend trade concerns with technical and financial assistance that help improve standards while restoring some sense to the notion of special and differential treatment. The example of the International Tropical Timber Agreement (ITTA) should be carefully analysed in this context. New agreements should learn from the experiences of the ITTA, enhancing its virtues and mitigating its errors. The main objective of new multilateral agreements should be a combination of sustainable management of resources, social responsibility and recognition of the legitimate rights and interests of indigenous peoples and other local communities.

A new generation of international commodity agreements could explore ways and means to increase value added of raw commodities, providing developing countries assistance to take advantage of new economic opportunities, from processing to packaging. Adding value to these commodities will create forward and backward industrial linkages that generate more employment opportunities and have healthy multiplier effects in commodity production chains. The initiatives highlighted in the Memorandum should be a complement to these international commodity agreements.

Given the importance of G8 countries in the consumption of the world’s natural resources, it is important to address these issues in the Memorandum.
References

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