Many developing countries suffer from the same malaise, i.e. the paradox of plenty, where abundant endowments of natural resources, including minerals, are not translated into equivalent levels of prosperity, broad-based development and resource-based industrialization. As with many other resource-rich countries, Indonesia wants to realize and maximize local retention of its mineral wealth, including through the enhancement of local processing of its raw materials. The recent ban of exports of raw materials could have therefore been introduced as part of an effort to scale-up local resource-based industrialization (RBI) and value addition, a legitimate aspirational goal. However, international investors view such practices as a form of resource nationalism or intrusive policy reforms bordering “creeping expropriation”: Managing the tension between the need to maximize the development outcomes of the extractive industry in benefit of host countries and the profit motivation of mining investors is not an easy proposition. Indonesia’s ban of exports of raw materials and the African Mining Vision’s (AMV) call for greater value addition of Africa’s mineral resources are part of this same narrative. Regional and global organizations, in particular the European Union, would be well advised to support these efforts.

Resource nationalism on the rise?

Indonesia’s ban did not come as a surprise and it is not the first example of state intervention in the minerals sector on a global level. Evelyn Dietsche from the Centre for Energy, Petroleum and Mineral Law and Policy (CEPMLP) of the University of Dundee, in Scotland, divides the reform process in the extractive sector in three periods. These are (i) the 1980-1990, where the focus of mineral policy and reforms was to provide attractive legal and fiscal conditions to attract foreign direct investment through stable propriety rights regimes and favourable legislation; (ii) the 1990s-2000s, where the key preoccupation was to design mechanisms to improve the management of mineral resources and avoid the resource curse; and (iii) the 2010s forward, where there are greater domestic pressures for broader benefits and the policy focus is on how to build linkages in the extractive industry and beyond through local content and industrial policy. In its “tracking the trends 2013” report, Deloitte identified resource nationalism amongst the top 10 issues mining companies would face in 2014. It noted that governments were eyeing the mining prize and “would continue attempts to increase control over their national resources”. They further observed that “while not all countries are moving toward privatization and expropriation, many are exercising their own forms of resource nationalism”, in different formats, including windfalls taxes in South Africa, Ghana, the Ivory Coast, and Zambia; resource tax in China; export controls in Argentina; or raising taxes and royalties in Chile and Peru.

In discussing resource nationalism, it is important to note that this is not a developing country syndrome. Instead, we should recognize that where national interests are at stake, both rich and less endowed countries apply some form of it. In this respect, the decision by the Canadian government to reject the takeover of Potash Corporation of Saskatchewan...
(PotashCorp) by Australian mining giant BHP Billiton (BHP) is quite telling. In evaluating BHP’s bid, the Canadian government considered Potash a strategic resource, which could not be under foreign ownership and deemed BHP’s offer insufficient in terms of the net benefit to Canada. Equally revealing was Australia’s opposition to Chinalco’s takeover of BHP.

The spectre of insecurity of access to resources (especially the so-called “strategic or critical minerals”) and increasing competition for resources among countries are also a feature of current times. Clear manifestations of this insecurity abound. Amongst them, the US Rare Earths and Critical Materials Revitalisation Act and the US Critical Minerals Policy Act of 2013 designed to boost the country’s domestic supply and reduce the dependence on foreign suppliers of critical minerals, as well as the European Raw Materials Initiative, which makes specific recommendations to, among other strategies, use “raw materials diplomacy and international cooperation”, international investment, trade and regulatory policies (including enforcement of WTO rules) and development policy to secure access to raw materials on the world market without market distortions.

Divergence in expectations and in the definition of what constitutes value or resource-based benefits are, according to the World Economic Forum Responsibility, what constitutes value or resource-based benefits are, according to the World Economic Forum.

The AMV is based on the following pillars:

1. Optimizing knowledge and the benefits of finite mineral resources at all levels of mining and for all minerals;
2. Harnessing the potential of small-scale mining to improve livelihoods and integration into the rural and national economy;
3. Fostering sustainable development principles based on environmentally and socially responsible mining, which is safe and includes communities and all other stakeholders;
4. Building human and institutional capacities towards a knowledge economy that supports innovation, research and development;
5. Developing a diversified and globally competitive African mineral industry which contributes to broad economic and social growth through the creation of economic linkages;
6. Fostering a transparent and accountable mineral sector in which resource rents are optimized and utilized to promote broad economic and social development and
7. Promoting good governance of the mineral sector in which communities and citizens participate in mineral assets and in which there is equity in the distribution of benefits.

The Africa Mining Vision: A quest for equity

In tandem with Indonesia, the African Union also strives towards more local processing and value addition of raw materials. Through the Africa Mining Vision, adopted in February 2009, the continent has a blueprint to ensure that its rich mineral resources catapult the region towards greater prosperity and development. As an aspirational framework, it is therefore an attempt at formulating a pathway to enhance development outcomes in the extractive sector in Africa. It calls for a structural transformation of the minerals sector through enhanced linkages with the local economy, increased value addition, and promotion of local content and empowerment. It is not a vision about mining, as the name would suggest. It is a vision about integrated, harmonious, inclusive and sustainable development, where mineral resources are harnessed judiciously to build other forms of capital that can outlast the currency of mining. This entails a multi/cross sectorial approach to mineral development policy, with greater policy coherence and institutional cohesiveness in the government complex, especially to ensure a good link and fit with trade and industrial policy as well with the development of local enterprises and skills and empowerment of local communities to participate in the decision chain and benefits sharing. The AMV does not favour “first and foremost foreign investors”. Instead, the AMV is a quest for equity and win-win outcomes.

The local level matters

The realization of a resource-based industrialization agenda requires carefully designed policies and strategies embedded in comprehensive industrial
policy and local content programmes. Thus, the AMV’s successful implementation will depend on the degree to which the Vision’s key tenets are domesticated at country level and customized accordingly, for there is no size that fits all. To this end, the African Mineral Development Centre (AMDC) - the one stop facility charged with the responsibility to coordinate the implementation of the Africa Mining Vision - is pioneering the formulation of country mining visions (CMV) in selected African countries. The CMV process is therefore an attempt to ensure that the AMV is mainstreamed at country level and included or referred to in relevant national vision statements, development plans, policies, laws and regulations. The design process starts with high-level multistakeholder dialogues to understand and align national aspirations and views on how the extractive sector can contribute to a country’s development. Inspired by the Africa Mining Vision, the outcome of the dialogue(s) contribute(s) to the formulation of a shared long-term vision and pathways to a resource-driven development and economic transformation. If well designed and as both a bottom-up and top-down process, the CMV can generate a solid and credible social compact between the intervening stakeholders that can contribute to managing expectations better, aligning views on how benefits can be generated and distributed for mutual gains, diffusing tensions, and overcoming political and electoral “short-termism”.

Managing the tensions

However, effective policy implementation and delivery also requires a good understanding of behavioural economics, mapping of the strengths and capacities of business operators, and factoring in of the expectations of different stakeholders. This must be supported by an effective institutional analysis aimed at identifying business drivers, barriers, and incentives for change. The outcome must be captured in actionable business plans with clear targets and milestones, timelines and allocation of roles and responsibilities.

Government action matters, but it is not sufficient to promote effective linkages and mineral cluster development. To promote a successful and well developed resource-based industrialization (RBI) programme, it is important to create an enabling environment for business and entrepreneurship development; harness the potential of public-private partnerships; speed up human resources development and technology acquisition; establish knowledge networks and platforms for science and technology innovation and for the promotion of research and development as well as fora for permanent dialogue involving academia, the private sector and the government; and address infrastructure bottlenecks.

For a mineral linkages programme and RBI to succeed it is important to align mineral policy with industrial and trade policy. It is equally vital to be aware of the obligations of international trade regimes and bilateral investment treaties. Reckless policies can harm nations’ hopes and aspirations to maximize local retention of mineral wealth. Good public policy requires visionary leadership, which through transparent consultation and dialogue, including with international investors, create win-win partnerships and value chain coalitions to enable mutually beneficial solutions and outcomes.

Where should Europe and the rest of the world stand?

Europe’s long-term interests and the value of its companies would be better served if they accompany the times and the new paradigm. Consequently, the 1st pillar of the EU Raw Materials Pillar Initiative on “access to raw materials on world markets at undistorted conditions” should be aligned with frameworks such as the AMV. The initiatives’ development policy sub-pillar on “strengthening states, sound investment climate and sustainable management of raw materials” and the overall EU trade and development policies should be used to reposition Europe’s approach in the extractive industry with the view to supporting host countries to develop their own capacities to create decent jobs and generate and retain more wealth locally. That is my understanding of sound investment climate.

While continuing their legitimate efforts to secure raw materials for further beneficiation in Europe, through business to business platforms and smart joint ventures, the EU should encourage its leading European firms to rethink their growth strategies with the view to capturing locational advantages and value in the higher levels of the minerals value chain in the host countries. This could contribute to a fairer and more equitable division of value and benefits across regions and potentially eliminate negative resource nationalism.

Also the power of dialogue should not be underestimated. Thus, to start with it is important to create platforms for stakeholders in Europe and host countries to engage in high-level dialogue to discuss which dimensions in the extractive industry value chain generate value for all stakeholders. As articulated in the World Economic Forum Minerals Value Management Framework (MVM), increasingly this definition of value would be broader than just economic dimensions and would include environmental, social and other forms of capital. After all, many stakeholders are calling for natural resources accounting as a better form to calculate the true costs and benefits of the extractive industry. All have a stake on how the extractive sector is managed. All can contribute views and suggestions to ensure that value is not a “zero sum game” of losers and winners. At a higher level, platforms such as the EU-Africa Summit should be equally used as a collaborative process for high-level
stakeholder engagement to promote a shared understanding of the costs and benefits of mining, manage divergence in expectations and create a better understanding of what constitutes value, how to create it and maximize it for the benefit of all.

The future we shape

Indonesia’s ban on the exports of raw materials should serve as a wakeup call. It is not an isolated phenomenon. It is a reflection of our times. The conversation in the extractive industry is no longer a business between investors and governments alone. Governments’ interest do not automatically equate with the interests of the citizens they serve. The latter may have different expectations and perceptions of value, which must therefore be considered in decision-making.

We build tomorrow’s world on the actions we take today. Accordingly, it is important to establish new forms of dialogue aligned to today’s world and development paradigms.

Author

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Further information


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