Exploraciones/Explorations

The New Left and Mineral Politics: What’s New?

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Abstract: After the rise of the left in the region and some years of booming global commodity prices, a post-neoliberal debate on Latin America’s primary commodity sector has come about. The control over and revenues from hydrocarbon and mining exports are a spearhead in the discourses and policies of the region’s many leftist political regimes. This ‘Exploration’ discusses recent political and policy changes, the new role of the state, relations between the public and the private sector, and Latin America’s prospects of resource-based development. Key words: commodities, new left regimes, international political economy, transnational companies, state companies.

To most Latin American countries, the turn of the century brought long awaited economic relief as the prolonged ‘lost decade’ came finally to an end. Central elements in this shift were the rising global demand and prices in one of the region’s key export sectors: minerals. After two decades of bad terms of trade, these markets boomed and extractive industries became extremely profitable. Oil prices started to rise again in 1999, and the prices of metals began to increase in 2004. Even though the global financial crisis that began in 2008 made prices fall deeply, this boom has been important for Latin America: exports multiplied and investments expanded. This was good news for the countries with large oil reserves, especially Venezuela (80 billion barrels), but also Mexico and Brazil (about 12 billion barrels each), and Ecuador (4.6 billion barrels) (Campodónico 2008). The region is also the world’s leading source of metals: iron ore (24 per cent), copper (21 per cent), gold (18 per cent), nickel (17 per cent), zinc (21 per cent), bauxite (27 per cent) as well as silver. La otra cara of this mineral wealth is a high dependency on these exports: from 2000 to 2004 oil made up 83.4 per cent of Venezuela’s total exports, copper represented 45.0 per cent of Chile’s exports, nickel 33.2 per cent of Cuba’s exports, and gold, copper and zinc 32.9 per cent of those of Peru (WIR07, 87). In addition, there is the notorious environmental record of extractions, which have triggered many local communities to protest against these investments that give a little (few jobs and development) but take and/or damage a lot (land, water, air).

Latin America’s new left and centre-left governments have been operating most actively with regard to extractive industries, giving way to changes in the interactions between politics and economy that deserve special attention. What are the economic, political and social effects of the new views and policies on extractive industries of Latin America’s new left regimes? This exploration comes up with a provisional analysis of the shifting relations between state, market and society in Latin America with respect to oil, gas, metals and other minerals. Particularly interesting are the adapted views and practices on the relation between international economic insertion and redistribution. Contrary to the neoliberal goal of free markets and a small state to advance economic growth, leftist presidents and parties
emphasize the need for an active role of the state in poverty alleviation, redistribution and economic development. In their anti-neoliberal discourses, they have stressed that the state has to control market actors and balance markets. This idea of the supremacy of the state over the market is shown by a shift away from previous policies, including several cases of reregulation and ‘nationalization’ of extractive industries. On the other hand, not even the most revolutionary and socialist expressions that nowadays govern Latin America have opted for an economic restructuring as profound as the neoliberalization process in the 1980s and 1990s. This triggers the question whether, contrary to their anti-neoliberal discourse, the New Left is simply focussed on social policies while continuing most of the previous economic policies. And could this also be true for their policies on extractive industries, or do these reflect a genuinely new attitude towards mineral-based development and insertion into global markets?

The new left regimes and neoliberal legacies

The Latin American left made a surprising and region-wide comeback, starting with the electoral victories of Hugo Chávez in December 1998 and Lula da Silva in October 2002. The emphasis of the new left leaders on poverty alleviation, redistribution and sovereignty captured the imagination of large segments of the population that had become highly frustrated by neoliberalization and the lack of ‘deep democracy’. This regional political trend coincided with globally booming commodity markets (partly due to the ‘China effect’), which in various ways enabled the leftist regimes to implement their new policies. First, rising export volumes and prices resulted in higher public revenues that could be spent on social programmes. Second, the extra resources helped Latin America to become liberated from the galling bonds of the main international financial institutions and their neoliberal policy agenda. Third, the sector’s increased profitability gave the governments an extra incentive to reconsider the balance between public and private gains and control, while rendering transnational corporations more willing to negotiate about higher taxes and greater state intervention. Furthermore, the additional public resources and economic upturn eased regional cooperation and both public and private investments in regional integration, particularly infrastructure.

A priority of all the new left governments in the region was to end their dependency on Washington-based (international and U.S.) institutions, in order to be liberated from their neoliberal policy conditions and interventions motivated by U.S. interests. Helped by high commodity prices, countries such as Brazil and Argentina paid off their remaining IMF debts before the deadlines. And President Chávez used a share of Venezuela’s large public oil revenues for regional support through the Bolivarian Alternative for the Americas (ALBA), but also by turning Venezuela into a new creditor and lender of last resort. Among other things, it provided a $2.3 billion credit to Argentina when that country paid off its remaining $9.8 billion IMF debt in 2005. This led Mark Weisbrot (2007, 481) to conclude that although the weakening of the IMF started with the financial crisis in Asia, ‘it was in Latin America that the IMF was reduced to a shadow of its former self’.

The end of the Washington Consensus implies, next to more sovereignty, an end to the era of market fundamentalism in Latin America. This fundamentalism,
or naïve neoliberalism, reflected ‘an extreme faith in the efficiency of the traditional private sector and mistrust for the public sector and non-traditional forms of private organization’ (French-Davis 2005, 9). As José Antonio Ocampo (2005, 294) notes, there were four profound problems with the Washington Consensus: ‘its narrow view of macroeconomic stability […] ; its disregard for the role that policy interventions in the productive sector can play in inducing investment and accelerating growth; its tendency to uphold a hierarchical view of the relation between economic and social policies […] ; and, finally, a tendency to forget that it is citizens who should choose what economic and social institutions they prefer’. With this last problem Ocampo stresses the huge ‘democratic deficit’ in Latin America’s neoliberal democracies.

Under the Washington Consensus, policies on extractive industries were among the most deeply reformed. In the ISI era, oil and other minerals had been regarded as strategic materials that were regulated and taxed more heavily than other commodities. Many Latin American countries had nationalized part of their minerals and created large state companies to explore, extract and/or refine them. In effect, neoliberal policies to attract foreign direct investment in this then declining sector implied a rigorous dismantling of the established system through privatization, deregulation, and liberalization. The reforms of the 1980s and 1990s were positive for transnational oil and mining companies as they involved lower taxes, freeing capital flows and more flexible labour. In addition, to further convince foreign investors, these new policies were locked into fiscal stability clauses (for example, in Chile and Peru), and in bilateral investment treaties, offering them national treatment with respect to mining rights, and protection by granting them the right to be compensated for new policies that might be less favourable to their (future) investments.

Even though neoliberal reforms attempted to depoliticize mining policies by picturing extractive industries as a normal instead of a strategic sector, many Latin American citizens still considered ‘their’ minerals as something special. Evidently there had been (serious) problems with large state-owned oil and mining companies, including bad management, corruption and low revenues. Historically, however, the nationalization of minerals that had previously been controlled by transnational corporations was widely perceived as a highlight of independent national development, sovereignty and anti-imperialism, and received widespread popular support. Examples are the nationalization of oil in Bolivia (1937) and Mexico (1938), and of tin in Bolivia (1952), the creation of Petrobras in Brazil (1953), the nationalization of copper in Peru (late 1960s) and in Chile (1971), and of oil in Venezuela (1976, and previously in 1943). The (re-)privatization of minerals was seen by many as a loss of their nation’s ‘crown jewels’ or a loss of ‘the commons’, and perceived as unfair since this natural wealth should benefit the people instead of (foreign) corporations. The oftentimes non-transparent and probably corrupt privatization practices increased the sense that the new policies served transnational capital and the national elite. In addition, contrary to orthodox theory saying that state companies were corrupt and inefficient, and citizens would be much better off with modern and competitive private companies, in several cases consumers were shocked by post-privatization price raises, or disappointed by the corporate services.
Another reason why the policies on extractive industries remained politically important was the increasing incidence of local protests against large private (privatized) mining and oil projects since the 1990s. Due to privatization and liberalization policies, mining had become more concentrated into a small number of large companies while the various stakeholders in local communities (workers, landowners, farmers, indigenous groups, small-scale miners, and citizens affected by environmental damage) experienced that their benefits of mining diminished and the negative effects increased. Throughout the region there have been numerous mobilizations against extractive activities (cf. North, Clark and Patroni 2006; Bebbington 2007), in particular those employed by transnational corporations, ranging from the well-known protests of farmers and other citizens against a gold mine in Tambogrande, Peru; resistance against oil companies by indigenous people in the Amazon region of Peru and Ecuador; and the mobilization of Mayan communities against silver and gold mines in Guatemala. Many of these protests identified with the rising indigenous movements (cf. Yashar 2005) and the increasing popular resistance to neoliberalism and globalization in Latin America (cf. Harris 2003); while vice versa the mining projects and local mobilizations fuelled these social movements and popular resistance.

Despite this liberalization of extractive industries and these protests against transnationals, in resource-rich Latin American countries the public sector’s share of mining revenues remained substantial, as did the contribution of these revenues to the public sector’s budget. Apart from the well-known case of Venezuela, where oil revenues accounted for 65.8 per cent of fiscal income in 2005, in Mexico the share of oil revenues was 36.8 per cent in 2006, while in that same year copper revenues in Chile accounted for 33.3 per cent, and copper and gold revenues contributed 10.8 per cent to Peru’s fiscal income (CEPAL 2008a).

Changing policies

The quest for supremacy of the state over the market and of politics over the economy is a key coinciding characteristic of the many new democratic ‘lefts’ in Latin America, which is evident in the debate on hydrocarbons and other minerals as well as in the debates on land and water. As the neoliberalized relations between state, market and society with regard to these primary commodities gave cause to multiple mobilizations, these commodities have become a spearhead in Latin America’s post-neoliberal development debate and economic policy reforms. And the international rise of oil and metal prices formed a (political and economic) window of opportunity for the region’s new regimes to take some steps away from the previous policies on extractive industries. The various leftist governments seek to combine capitalist development with democracy, and aim at a larger role of the state in the formulation of the social agenda as well as the globalization of the economy (cf. Rodriguez-Garavito, Barrett and Chavez 2008). Raising the state’s share in the increasingly profitable minerals seemed not only fair, it was also necessary to pay for the expansion of social programmes.

Simultaneously, the market conditions and huge corporate profits also made transnational corporations more willing to renegotiate their position. These positive conditions started with the rise of oil prices from the end of the 1990s and of metal
prices since 2004 and lasted until the international financial crisis kicked in, in 2008. The high world market prices were due to the rapidly increased global demand, in which the rise of China (‘the factory of the world’) was an important factor. Due to its large imports of commodities such as metals and soy, in 2007 China became the second largest export destiny of several Latin American countries (Brazil, Argentina, Peru, Costa Rica and Cuba), and for Chilean exports China was even the number one destination (CEPAL 2008b).

The UNCTAD’s *World Investment Report 2007* indicates that in the current context of globalized markets and low transport costs it is hard for developing countries to reproduce the kind of successful mineral-based development that was previously achieved in developed countries like Australia, Canada and Norway. Large-scale extraction of minerals is capital-intensive, which implies that major public and/or private resources are needed whereas job creation is limited. Developing countries need an overall development strategy in order to use non-renewable mineral wealth to improve their present situation and ensure sustainable development through building ‘a diversified economy through investment in human capital, infrastructure and productive capital’ (*WIR07*, 93). Local refining activities will raise the positive effects on local employment, revenues and technological development. A country’s mineral wealth thus ‘needs to be transformed into a broader industrial base. Transnational corporations can be a driving forces behind the emergence of independent suppliers and industrial clusters only if host countries are able to develop their domestic capabilities’, which requires proactive policies and supporting institutions (*WIR07*, 141, italics added).

Latin America’s ‘New Left’ has indeed opted for strengthening the state’s capacity to give direction to the international insertion of it’s national economy, particularly in the sector of extractive industries where governments have been reregulating (through reforms of legal codes, laws and constitutions), ‘retaxing’ and sometimes also renationalizing. President Chávez’s new policies towards transnational oil corporations operating in Venezuela where at first internationally viewed as radical, but since then other governments in the region have also started to reform policies (and constitutions) to increase the public share of mineral revenues and enlarge state control in the extractive industries. In 2001, Venezuela adopted legislation on hydrocarbons that established a majority share for state-owned company PDVSA in oil extraction. In effect, 33 joint ventures with transnational corporations operating in the Orinoco basin had to be renegotiated. Only ENI and Total decided to end their investments, and Exxon-Mobil en ConocoPhillips protested against the government’s decisions and made international complaints. Venezuela also raised the royalties for foreign oil companies from 1 per cent to 30 per cent, and taxes from 34 per cent to 50 per cent. And through a presidential decree in 2007, the share of PDVSA in joint ventures in the Orinoco basin was raised further to 78 per cent.

In Bolivia, hydrocarbons have also been a very political issue, especially since the mass mobilizations in 2003 against reforms of gas policies (the ‘gas war’ or *guerra de octubre*), which forced President Gonzalo de los Sánchez to leave the presidential palace and contributed to the election of Evo Morales in 2005. On the symbolic date of 1 May 2006 Morales announced that the new legislation on hydrocarbons would increase the public sector’s take of profits from 18 per cent to 82
per cent, thereby turning the balance between public and private sector upside down. The state-owned company YPFB regained many of the tasks it had had until privatization, and ‘production-sharing’ contracts with transnational corporations were turned into ‘servicing’ contracts. In 2008, an elected constitutional assembly formulated a new constitution that aims at redistribution and better living standards for Bolivia’s poor majority, increases the central government’s power, and grants indigenous peoples more control over the natural resources within their territories.7

Together with the new policies on the ownership and distribution of land, the new gas policies have been a source of resentment among groups within the more developed media luna provinces that has caused serious political conflicts. In particular, Tarija and Pando fear of losing their privileged position under the previously decentralized system (half of the state’s gas revenues flow to local prefectures, municipalities and universities); in 2007 the per capita hydrocarbon revenues in the gas-producing province of Tarija were $491, and in the non gas-producing province of Pando $751, while those in La Paz with its poor equalled $27 (Weisbrot and Sandoval 2008).

Next to these two cases of relatively drastic policy reform, more moderate changes of extractive industry policies have been started in several other countries (which we can not all review here). Currently Ecuador seems to have the political conditions to implement far-reaching reforms, too. Its new constitution (approved by 64 per cent in a referendum in January 2009) and the re-election of President Rafael Correa (with 52 per cent) form the democratic basis for more state control over strategic sectors (mining, oil and gas, and agriculture). In contrast, Brazil is opting primarily for policy continuity, but in October 2008 President Lula said he would aim at reforms that would allow the revenues from future deep-sea oil drilling to be put ‘into the hands of the Brazilian people’ in order to pay off ‘the debt of 500 years owed to the poor’, using the resources for education, health care and technological development. Petrobras will play a key role in this major project (that requires $600 billion in ten years). Nevertheless, the Brazilian government recently announced that it wants to better protect the public sector’s control over oil reserves and revenues, and will also create a new state company called Petrosal.8 Furthermore, there are interesting cases of limited political regime and mineral policy change, especially Chile and Mexico, where despite profound liberalization, the state-owned companies Codelco en Pemex have remained, and continue to be, a primary source of the government’s budget.

Interestingly, most transnational corporations have accepted the new policies. The large majority have continued operating under the new laws and tax systems, and there have been remarkably few complaints and disputes. There are several possible explanations for this. First, as mentioned above, in the context of the high demand and prices during global commodity boom the interests in exploitation and profit expectations were high. Therefore receiving a lower share of highly increased revenues would render investing still worthwhile. Second, the hydrocarbon sector has known a large share of state control and ownership regionally and internationally (for example, in Mexico as in Saudi Arabia, no foreign direct investment is allowed in hydrocarbons), and possibly it was foreseen that the policy ‘tide’ was gradually changing after the privatization hype of the 1990s. Third, some of the negotiations and actual deals may have been rather profitable to the transnational
corporations, and may in practice be far less revolutionary than the images created in the media, and political discourses (of both proponents and opponents). For instance, Morales’ 1 May ‘nationalization’ of Bolivia’s gas was followed by renegotiations with the producing private companies, which resulted in the public sector taking only half (instead of four-fifths) of the profits.

Discussion: prospects for mineral-based development and regional integration

It is important to study what is happening beyond the first steps of using mineral wealth as the basis for a new development model. Finding the right balance between attracting foreign direct investment and ensuring a fair share of revenues for the public sector is hard, especially since mineral prices are very volatile as recent market swings have shown. In addition, the high rents of many minerals easily give way to rent-seeking behaviour, corruption and conflicts, which stresses the need for policies and institutions based on rule of law. Another imbalance that needs to be addressed is that of the distribution of revenues between the central government and local governments and communities. And of course local communities and natural environments need to be well protected or compensated for pollution or other damage by extraction (WIR07, 152-3; 158; 173-4). A study on Canadian mining and oil companies in Latin America argues convincingly for bringing not only the state but also civil society back into development. Without a modern legal framework for mineral extraction that includes social and environmental concerns, mining activities will continue to produce the opposite of sustainable development in Latin America. ‘A revised agenda for the future should include not only state regulation, taxation, and management of the region’s extractive export industries but also policies and practices that empower rural peoples to determine the terms of local development and to participate in the broader national and international processes’ (North, Clark and Patroni 2006, 15). Let us conclude this Exploration by pointing at four major issues for further analysis and discussion:

a) How are the new political regimes dealing with the ‘resource curse’? Countries with extensive natural wealth have relatively low levels of economic growth and modernization as a result of the volatile markets, limited economic diversification, corruption and rent-seeking behaviour, and weak development of human resources. In Latin America’s history there are many examples of huge oil and mining rents gone wasted or ‘lost’, instead of being used for redistribution. Which political, economic and social conditions and institutions are required to turn Latin America’s mineral wealth into a foundation for economic modernization and diversification? Studying recent experiences and policies and comparing them with other developing countries are important in finding answers to these questions.

b) Has the role of civil society in deciding about and profiting from mineral wealth improved? Although the behaviour of private companies is of some influence, governmental policies and the relations between state and civil society are crucial. And how are the conflicts that arise over minerals dealt with under the current regimes? There are many ‘old’ local conflicts concerning extractive industries with (organized) communities, indigenous peoples, workers, or farm-
ers that still need to be settled. In addition, new policies and new concessions give rise to new conflicts, including conflicts about local versus central control, and claims of indigenous peoples that are contested by other groups or interests.

c) What are the effects of recent global changes? First, the global financial and economic crisis has hit Latin America’s commodity markets (although prices remain higher than in the 1980s and 1990s) and government budgets are heavily affected. Fortunately, this time Latin America has high reserves, not in the least part thanks to the commodity boom. And politically, this crisis of globally liberalized financial markets that needs to be rescued by the public sector is supportive of new attitudes towards the balance between states and markets. Second, the global crisis of climate change is posing both problems (for oil producing countries) and possibilities (such as for biofuels and the mining of lithium). Third, the growing South-South trade flows have been very profitable for Latin American resource-rich countries. However, the manufacturing sector is hurt by the increasingly competitive global markets, and a lack of regional integration. While Latin America has succeeded in putting an end to the Washington Consensus and the ALCA, the question remains: what is needed to start a coordinated process towards creating a regional economy?

d) More fundamentally we wonder what is really new about the policies of the new political regimes. It seems that the primacy of politics in development is back, but even under the revolutionary and socialist governments an important part of the neoliberal policies have remained in place. Thus, to what extent has the relation between the public and the private sector shifted, and can we speak of a new development model? And where does civil society stand in this?

By answering these questions, a political economy analysis of Latin America’s mineral wealth may also help us to better understand the nature of the region’s various post-neoliberal regimes.

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Notes

1. Here we follow the UNCTAD’s World Investment Report 2007 (WIR07) that defines extractive industries as ‘primary activities involved in the extraction on non-renewable resources’ (thus excluding agriculture, forestry and fisheries), and minerals as ‘those that can be marketed for productive purposes […]: energy minerals (oil, gas, coal and uranium), metallic minerals, and non-metallic minerals (industrial and construction minerals and precious stones)’ (WIR07, 84). This re-
2. All Latin American countries have been affected by the rise of China, which has both a huge and rapidly growing internal market, and has become the world’s largest exporting nation. China’s increasing demand for minerals and agro-commodities forced global market prices up (until 2008), and gave way to a major expansion of trade flows from Latin America to China. In addition, there has also been an intensification of political South-South relations (see Fernández Jilberto and Hogenboom, forthcoming).

3. These figures do not show the different national systems for the government’s collection of its share of the mining rents, which includes a mix of various types of taxation for private companies, and in several countries also some large state-owned companies. In Chile, for instance, state company Codelco generates 43 per cent of the government’s revenue from copper, while the rest comes from taxing the country’s private mining sector consisting of ten large (transnational) companies (Campodónico 2008; UNCTAD 2005, 117-27).

4. As a result, for instance, copper production expanded enormously, and from 1999 to 2006 the revenues of the extracted copper increased twelve times in Chile, and even 46 times in Peru (Campodónico 2008).

5. It is noticeable that in oil and mining, ‘northern’ transnational corporations have weaker local linkages than state-owned companies, domestic private companies, and ‘newcomers’ such as Chinese oil companies.

6. Brazil requires oil companies to purchase 40 per cent of their investments from domestic firms, and has a minimum local content requirement for offshore and onshore projects (30 per cent and 70 per cent respectively) (WIR07, 168).

7. The preamble of this constitution of October 2008 mentions ‘Un estado basado en […] equidad en la distribución y redistribución del producto social’, and: ‘Dejamos en el pasado el Estado colonial, republicano y neoliberal.’

8. Petrobras is officially state-owned, but in the 1990s part of it was privatized by selling bonds to private shareholders, and private investors today hold 44 per cent of the company (WIR07, 117).

References


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