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The impact of commodity-based economies on developing countries

Hearing held by the Committee on Economic Cooperation and Development on 20 September 2006

The **global trend of uninterrupted growth in the use of energy and raw materials** is at the root of dramatic changes. Besides economic and fiscal policies, these changes also affect foreign, development, environment and security policies. They affect not only every tier of political decision-making but also a large percentage of the world's population. As a result of structural change in China, India and other newly developed countries, more than half of the global population is playing a part in the increase in demand for natural resources.

The predicted **demand for energy and raw materials in newly developed countries**, not to mention rising demand in the industrialised countries, especially the United States, will have dramatic effects on commodity markets throughout the world. It is evident that more and more governments throughout the world are using commodity policies as a strategic tool. Commodity policies are often connected with various forms of government support activity, such as bilateral framework agreements, loans from national banks, guarantees or support from international organisations, such as the World Bank.

The discussion of commodity issues in the field of development policy

Questions relating to the use of natural resources have shot towards the top of the agenda in discussions on development policy. The fact that many countries will serve as commodity exporters for the foreseeable future and that such countries have frequently made little headway in diversifying their export products confronts almost all commodity-dependent developing countries with serious problems. The economists Jeffrey Sachs and Andrew Warner, for example, observe in a study that "one of the surprising features of modern economic growth is that economies abundant in natural resources have tended to grow slower than economies without substantial natural resources."

Countries that are not major commodity exporters, for instance, may find their quest for stability being undermined by high oil prices, which act as a drain on their currency reserves. In some cases, the benefits of debt cancellation have been effectively wiped out by the rising cost of oil imports. But even the possession of raw materials is no guarantee of a robust national economy and sustainable development. Countries that export substantial volumes of natural resources face other problems, namely a lack of transparency in the use of funds, institutional shortcomings, problems in other sectors, distribution issues, civil war, corruption, neglect of productive sectors of the economy and environmental pollution, which turn the blessing of natural resources into a curse for their population.

The harvesting or extraction of raw materials often has an adverse **environmental impact**. This is clearly indicated both by contributors to the current debates on the worldwide protection of global public assets such as biodiversity and water resources and by the Global Environment Outlook reports compiled by the United Nations Environment Programme (UNEP).

Human-rights issues also play a particularly significant role in the context of commodity-based economies, whether they relate to compulsory resettlement and the need for compensation, to fair shares of export revenue, to public consultation or to consideration of indigenous peoples.

Can resource extraction in developing countries contribute to sustainable development?

There is a disproportionately high potential for the discovery of deposits of natural resources in the countries of Africa, Asia and Latin America because of the fact that these parts of the world contain more geologically unexplored territory. Companies are becoming increasingly active in African countries where

conditions have not hitherto been noticeably favourable. There is no shortage of the necessary venture capital for exploration purposes. This fact, along with the emergence of new players such as China and India, is creating pressure to disregard **social and environmental standards** as well as human rights in the drive to exploit natural resources.

In the face of the trends described above, the key efforts in the field of development cooperation to improve the organisation and monitoring of the extractive industries through initiatives such as *Publish What You Pay* or the *Extractive Industries Transparency Initiative* (efforts which have yielded success in the realm of diamond mining, for example, through the Kimberley Process) are coming under pressure. Moves to promote the establishment of human-rights standards for multinational companies through a UN negotiating process are being sabotaged by the reluctance of certain players to engage in this debate.

Key questions for the hearing

To save time, the **Federal Government** should make written information material available to the committee in advance of the hearing. In this material, it should outline its commitment in the domain of natural resources and its political approach to the global commodity situation. It should also deal with current developments in commodities markets (energy sources, mineral resources and tropical timber) and their main players and describe the role played by German companies in these markets. Such a report should also describe the experience of the Federal Government with the *Extractive Industries Transparency Initiative*, which it is backing, and explain how the Federal Government is making its views known in the context of the World Bank and of the international development banks.

Questions to the experts:

Potential of commodity-based economies and risks facing them

- What do commodity-based economies contribute to sustainable development and to the achievement of the Millennium Development Goals?
- Where have substantial deposits of raw materials been used successfully in pursuit of sustainable economic growth and sustainable development in a given country? What specific examples illustrate these successes?
- The need for diversification within national economies has long been a subject of discussion. Has this diversification been taking place in commodity-exporting countries, or has it remained a pipe dream?
- What lessons have been learned in the past with regard to developing countries which depend entirely on natural resources for their national income? What can be done in the future to help ensure that a wealth of natural resources creates real sustainable development?
- How can German development cooperation contribute more effectively to the sustainable economic and social development of resource-rich partner countries? How can existing approaches be optimised? How can we learn the right answers from past disappointments?

Extraction of natural resources and environmental and social standards

- What role does development cooperation play in the context of raw-material harvesting or extraction? Do the World Bank and the regional development banks have any scope to exert influence in this field? Should they be actively involved at all in the domain of resource extraction?
- Are approaches such as *Publish What You Pay* and the *Extractive Industries Transparency Initiative*

proving to be effective instruments for better distribution and scrutiny of revenue from commodity exports? What efforts has civil society been making in resource-rich countries to contribute to these countries' sustainable development (transparency, use of revenue, accountability)?

- Is the emergence of new players, i.e. China, India and the newly industrialised countries, applying downward pressure on established or desirable standards? Does the fact that badly governed states can earn additional income from annuities without any "interference in their internal affairs" reduce the scope for the exertion of influence on such states?

Experts

1. The view of companies/the private sector

Jürgen W. Cuno, BP Germany.

2. The view of civil society

Global Witness (London): Patrick Alley, founder and director of the non-governmental organisation, which focuses especially on conflict commodities and which was co-nominated for the Nobel Prize for Peace in 2003 for its work on blood diamonds. It is a member of the *Publish What You Pay* campaign.

3. The view of the research community

Enno Harks, Foundation for Science and Politics (Stiftung Wissenschaft und Politik, SWP) in Berlin.



Ute Koczy and Patrick Alley (Global Witness) in the German Bundestag, September 2006.