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### The Limited Resilience of South America's Commodity Boom

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# ECONOMY: The Limited Resilience of South America's Commodity Boom

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High commodity prices and mineral royalties increased government revenue. Extra money was invested in education, healthcare, and social-assistance programs. Photo (c) Shale Seguro 207

**POSTED BY: GUEST WRITER PULSAMERICA** APRIL 7, 2017

(By Barbara Hogenboom and Marjo de Theije) – In the last decade, South America has seen substantial economic growth combined with impressive social progress. While the surge in social spending was possible because of a large-scale commodity-driven boom, the benefits of small-scale mining for local development were largely overlooked by central governments. And now that the boom is over, the question is what those bonanza years did for the sustainable development of the region.

In most South American countries, progressive governments followed a development model in which extractive industries played a central role. Mining, oil and gas exploration were faced with new regulations, higher taxes and partly nationalised in some countries. With the extra income from this policy and the commodity boom, social spending expanded and benefitted large groups of people, resulting in a better standard of living.

Since 2015, there has been a sharp decline in the price of minerals, consequently reducing exports, investment and economic growth. The fact that the mineral rich countries in the region obtain nearly a third of their tax revenues from the extractive industry demonstrates the vulnerability of this development model. This dependence leads to reduced revenues due to falling market prices and forces governments to cut their social spending.

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These government cuts result in less money for poverty reduction and the region faces growing inflation and social decline. Countries such as Venezuela and Suriname have severe shortages in food and medicines. In addition, a series of recent corruption scandals demonstrates the institutional weaknesses of depending too heavily on the extractive industry, especially in Brazil and Venezuela. These developments contribute to the growing social discontent and political unrest.

## Prioritising Large-Scale Projects

 Photo (c) Ceticismo Politico 2016

Moreover, in the oil and gas sector state companies became more influential. Extra money was invested in education, healthcare, and social-assistance programs (conditional cash transfer programmes), such as *Bolsa Família* in Brazil. Photo (c) Ceticismo Politico 2016

Progressive policies were, for a large part, based on skimming the profits of large-scale commercial extraction, such as “mega-mining”. South America has large reserves of important minerals, such as oil and gold (approximately 20% of global reserves), copper and silver (45%), but also the lesser-known lithium, which is used in the batteries of electric cars. About 60% of the world’s reserves of lithium are in South America.

High commodity prices, increased taxes and royalties on minerals increased government tax revenue. Moreover, in the oil and gas sector state companies became more influential. Extra money was invested in education, healthcare, and social-assistance programs (conditional cash transfer programmes), such as *Bolsa Família* in Brazil and *Juancito Pinto* in Bolivia. Between 2002 and 2014 the share of social spending expressed as a percentage of total public spending increased on average in South America from 61% to 66%. This policy contributed to a substantial decline in poverty and inequality. Between 2002 and 2008, the **region’s poverty rate** fell from 44% to 34%, and decreased further to 28% in 2014.

Political support and foreign investment during the boom focused on large-scale projects, which have become more streamlined and significantly larger over

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time. The mines rely on (mainly foreign) technology, knowledge and capital. In the oil and gas sector, a start was made with shale gas (Argentina) and deep sea oil drilling (Brazil). By prioritising large extractive projects governments could make social progress. However, this came at a cost: communities are forced to deal with pollution and loss of territory, while large scale, industrial mining provides only few direct and indirect **employment opportunities**.

### Small-scale Mining in the Background



Small-scale mining makes use of simple, domestically obtained technology, unskilled labour and does not require a large capital injection. Photo (c) Colombia.com 2011

Is it right to make poverty reduction dependent on large-scale mining projects? International research coordinated by the Centre for Latin American Research and Documentation (CEDLA) in the Netherlands shows that small-scale mining is much more effective in the fight against poverty, since it provides greater employment levels and income. Small-scale mining makes use of simple, domestically obtained technology, unskilled labour and does not require a large capital injection. In other words, the ordinary man or woman can often find an income in small-scale mining, making it much more effective in fighting poverty because the jobs and income generated.

In many cases, small-scale mining is an additional source of income for local communities that already depend on agriculture or trade. Moreover, small-scale mining generates significant (indirect) employment,

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such as the supply of fuel, food products and services such as transportation. For example, in Suriname an analysis has **calculated** that small-scale gold mining is the second largest employer after the government, which makes it a vital sector in the local economy.

Small-scale gold mining activities have increased all over the continent, especially after the rise in the gold price since 2008. The importance of the sector has not been recognised by governments and potential revenues generated through small-scale gold-mining have not led to public investment in the sector. Instead, its activities are often discouraged or criminalised. Hence, the contribution to the national income in the form of tax payments is weak.

The sector is characterised in most countries by a high degree of informality, where remote gold-mining settlements in the jungle rely on self-regulation. Governments often fail to organise the production and trade, because the activities are taking place outside their sphere of influence. Furthermore, there are environmental concerns for unregulated small-scale gold mining activities due to the use of mercury and cyanide.

### Central Governments' Failure

Large-scale mining projects also have strong territorial and environmental implications and are important contributors to conflicts, especially with local communities. Central governments barely recognise that small-scale mining activities already take place in newly assigned concession areas for large-scale mining. The prospectors are then excluded from the concession, but break the barriers and continue with their traditional gold mining in the vicinity of the mine. This often leads to dangerous working conditions and a prolonged cat-and-mouse game between the indigenous people, miners, and mining corporations.

Central governments do not want to be involved in such conflicts and allow mining companies and local authorities to intervene. A well-known case is that of the Canadian Iamgold mine in the territory of the Ndyuka Maroons in Suriname, where the foreign



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company and local miners are in a cat-and-mouse game since the large scale mine started producing in 2004.

Despite increased corporate social responsibility and national and international regulations on impact assessment and consultation, **local communities** have little say on large-scale mining in their vicinity.

Reporting and consultations are generally performed top-down, by external experts commissioned by the central government or by the investor. There is often not enough consideration given to local knowledge, culture, needs and expectations.

Since the turn of the century, local opposition against large-scale mining has **increased** considerably. Because there are substantial interests at stake, responses to acts of resistance are disproportionate. Human rights violations are common. Latin America is notorious as the most **dangerous region** for environmental protection; many local leaders and activists who oppose plans for major mining projects have been threatened and killed.

### Positive Steps

On the other hand, there are positive steps to achieve shared ownership of mega-projects. The strategy of self-organised local groups is not only protest but they are also involved in the negotiation process, legal procedures and collaboration with other groups – nationally and internationally. For example, they have established new approaches of self-organised community consultations. Often social pressure groups work together with the local governments to find solutions.

Local governments play a key role in resolving and preventing conflicts and also ensure participation and bottom-up strategies for local development. In practice, however, this level of government usually is not well equipped for these tasks, especially in the remote areas where the expansion of mineral extraction often takes place.

The collapse of the South American commodity boom and the negative impact of large-scale mining as well as

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oil and gas exploration require a reconsideration of policy. The structural problems resulting from large-scale extraction are substantial – socially, economically, politically and environmentally – and need to be addressed. And recognition should be given that improvement of the small-scale mining sector, which is now often criticised and criminalised, provides a route to local development and a fairer distribution of revenue from natural resources.

It is critical that the problems facing both sectors are addressed effectively. This requires institutional strengthening at all levels. The local government is ill equipped for the public responsibilities that come with large-scale and small-scale mining, while central governments close their eyes for local realities.

### **A Role for the International Community**

The international community has a role to play in the reform of mining in South America. Many countries, including the United Kingdom and the Netherlands, stimulate private sector involvement in partnership relations with the region. The emphasis of development policies has shifted to trade and investment, particularly in South America. However, companies and researchers must make sure that international trade and foreign investment in mining and oil and gas exploration contribute to sustainable and inclusive land and water management.

Cooperation is necessary in the challenging area of institutional reinforcement to tackle corruption and inadequate supervision, and the irregularities and inaccuracies regarding local communities and interests. Besides researchers and companies, overseas governmental institutions and civil society have useful knowledge and experience.

Given the common interests of international development, peace and sustainable production chains, it is important to facilitate the deployment of that knowledge and experience and at the same time being open to the local reality and initiatives in South America itself. A more positive evaluation of small-

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scale mining and smaller development projects should be part of the commodity use in the region.

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*This article has also been published in Dutch in Internationale Spectator. It is based on a presentation by the authors for the Western Hemisphere Department of the Dutch Ministry of Foreign Affairs as part of its knowledge development programme, which was conducted by the University of Amsterdam's Centre for Latin American Research and Documentation (CEDLA).*

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**Marjo de Theije** is an anthropologist working at the Department of Social and Cultural Anthropology, Vrije Universiteit Amsterdam. She conducts research on small-scale mining in Suriname and Brazil and coordinated the research project on small-scale gold mining (GOMIAM) in five Amazonian countries, which was funded by NWO CoCooN research fund. See [www.gomiam.org](http://www.gomiam.org).

### Suggested Streamers:

Small-scale mining is much more effective in the fight against poverty because it provides work and income to much larger numbers of civilians.

Small-scale mining has a bad press and is often confronted with criticism and criminalisation in policy, rather than been recognised for its positive economic contribution.



Written By: **Guest Writer Pulsamerica** on April 7, 2017.

Last revised by: [Ailana Navarez](#), our reviewer, on April 10, 2017.

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