

## **Extractivism and neoextractivism: two sides of the same curse**

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*“Would you tell me, please, which way I ought to go from here?” asked Alice.*

*“That depends a great deal on where you want to get to,” said the Cat.*

*“I don’t much care where –” said Alice.*

*“Then it doesn’t matter which way you go,” said the Cat.*

Lewis Carroll, *Alice in Wonderland*

### **Caught in the trap of the curse of plenty**

Although it seems hard to believe at first, on the basis of recent evidence and many accumulated experiences it is possible to state that poverty in many countries around the world is related to the existence of significant natural resources wealth. The countries that are rich in natural resources, and whose economy is based primarily on extracting and exporting those resources, find it more difficult to develop. In particular, those that have an abundance of one or just a few primary commodities seem to be condemned to underdevelopment. The situation becomes even more complicated for those economies that are dependent on oil and minerals for their income.

These countries appear to be trapped in a perverse state of affairs known in the specialist literature as “the paradox of plenty” or “the resource curse.” In this context, there are even some who have accepted this curse as the (almost) inevitable fate of tropical countries: the Inter-American Development Bank (IDB),<sup>2</sup> in several of its annual reports and technical studies, has argued that “development is determined by geography: the countries that are richest in natural resources and closest to the equator are condemned to be more backward and poor. (...) This suggests a tropical fatalism, whereby nations near the equator seem destined to be poor. (...) In the IDB’s judgement, the richer a country is in natural resources, the slower it will develop and the greater its internal inequalities will be” (Gudynas, 2009c).

It would seem that the only option is to resign ourselves to this geographical and environmental determinism. But the IDB does offer a way out. As Gudynas sums it up in his analysis of the IDB’s proposals, this way out “is the market and even greater emphasis on the [neoliberal] reforms.”

From this point of view, the problems and conflicts that arise from extractivism would be solved with proper “governance” of how natural resources are used. The ways to achieve this are orthodox and conservative economic policies, increasing civil society participation in the oversight of extractive industry projects, more social investment in the areas where extractivism takes place to reduce social protests, and transparent information about the income obtained by the extractive enterprises, local governments and central government. Environmental destruction is accepted as the inevitable cost of achieving development. Since this is not questioned, these approaches are weakly analytical, lacking in historical analysis and unconnected to the underlying problems.

There is no doubt that audacity, with a large dose of ignorance and well-programmed amnesia in society, goes hand in hand with arrogance.

It is worth saying right from the start that this double curse of natural resources and ideology is not inevitable and can be overcome.

### **What do we understand by extractivism?**

Extractivism is a mode of accumulation that started to be established on a massive scale 500 years ago.<sup>3</sup> The world economy – the capitalist system – began to be structured with the conquest and colonisation of the Americas, Africa and Asia. This extractivist mode of accumulation has been determined ever since by the demands of the metropolitan centres of nascent capitalism. Some regions specialised in the extraction and production of raw materials – primary commodities – while others took on the role of producing manufactured goods. The former export Nature, the latter import it.

In an attempt to arrive at a comprehensible definition, we will use the term extractivism to refer to those activities which remove large quantities of natural resources that are not processed (or processed only to a limited degree), especially for export. Extractivism is not limited to minerals or oil. Extractivism is also present in farming, forestry and even fishing.<sup>4</sup>

Today, the question of “renewable” natural resources must be approached in the light of recent developments and trends. Because of the huge scale of extraction, many “renewable” resources, such as forests or soil fertility, are becoming non-renewable. This is because the resource is depleted when the rate of extraction is much higher than the rate at which the environment is able to renew the resource. Thus, at the current pace of extraction, the problems of non-renewable

natural resources may equally affect all resources, renewable or not.

In practice, extractivism has been a mechanism of colonial and neocolonial plunder and appropriation. This extractivism, which has appeared in different guises over time, was forged in the exploitation of the raw materials essential for the industrial development and prosperity of the global North. And this took place regardless of the sustainability of the extractivist projects or even the exhaustion of the resources. This is compounded by the fact that most of what is produced by the extractive industries is not for consumption in the domestic market but basically destined for export. Despite the scale of this economic activity, it generates very few benefits for the country concerned. Likewise, most of the goods, inputs and specialist services required for the extractive industries to operate rarely come from national companies. And in the countries whose economies are based on extractivism it seems that there has not been much interest in the way the income obtained is used.

Extractivism has been a constant in the economic, social and political life of many countries in the global South. Thus, with differing degrees of intensity, every country in Latin America is affected by these practices. Dependency on the metropolitan centres via the extraction and export of raw materials has remained practically unaltered to this day. Some countries have managed to change a few relevant aspects of traditional extractivism by bringing about increased state intervention in these activities, but that is all. Therefore, beyond a few differences of greater or lesser importance, the extractivist mode of accumulation seems to be at the heart of the production policies of both neoliberal and progressive governments.<sup>5</sup>

### **Some of extractivism's ills**

The starting point for looking at this issue<sup>6</sup> is, to a great extent, the way in which these resources are extracted and used, as well as how their fruits are distributed. Of course, there are other elements that cannot be corrected. There are certain extractivist activities, such as large-scale ore mining for example, that can never be made “sustainable” because their very essence is destructive. Furthermore, a process is sustainable when it can be maintained over time, without outside assistance and without creating a scarcity of the resource in question.<sup>7</sup> To argue the contrary – although some do, from a blind faith in technological advances – is to propagate a discourse that distorts the facts.<sup>8</sup>

The region's history tells us that this extractivist process has led to widespread

poverty, caused recurrent economic crises, and consolidated “rent-seeking” mentalities. All this aggravates the weakness and scarcity of the region’s democratic institutions, encourages corruption, breaks up societies and local communities, and seriously damages the environment. And this is complicated still further by the commonplace practices of patronage and clientelism, which hamper the construction of citizenship.

The truth is that the abundance of natural resources that characterises primary commodity export economies – especially if the commodities in question are minerals or oil – tends to distort the structure of the economy and the allocation of production factors: income is redistributed regressively and wealth is concentrated in just a few hands. This situation is aggravated by a series of endogenous “disease-like” processes that go with the abundance of these natural resources.

We will start with “Dutch disease,”<sup>9</sup> a process that infects a country that exports raw materials when their high price or the discovery of new deposits triggers an export boom. The distortion in the economy is revealed in the relative price structure. Investment flows into the sectors benefiting from the bonanza, including the non-tradable goods sector (non-tradable on the international market) – the construction sector, for example. At the same time, there is a swift fall in the production of those tradable goods that are not benefiting from the export boom, because they can be imported, and in fact it becomes cheaper to import them because the national currency has increased in value. After the boom, as a consequence of the lack of flexibility for amending prices and wages, the adjustment process turns out to be very complicated and painful – another manifestation of this disease.

Specialisation in the export of primary commodities in the long term has also turned out to have negative consequences, as a result of the tendency for the terms of trade to deteriorate. This process acts in favour of the industrial goods that are imported and against the primary goods that are exported. Among other factors, this is because the latter are characterised by low income elasticity as they can be replaced by synthetic substitutes, because they do not hold a monopoly (they are commodities, meaning that the logic of the world market is what mainly operates to determine their price), because their level of technology and innovative development is low, and because manufactured products contain increasingly fewer raw materials. This last statement does not fail to acknowledge the massive increase in the extraction and export of primary commodities in absolute terms, caused, for example, by the spiralling increase in demand in countries such as China and India.

In addition, the high profit margin, due to the substantial ricardian rents<sup>10</sup> involved, encourages over-production when world market prices are high. Even in times of crisis there is still a temptation to increase the rates of extraction. Excess supply, in the attempt to compensate for the fall in price, leads to a reduction in the value of the product on the world market, and this ends up benefiting the industrialised countries.<sup>11</sup> This process results in what is known as “inmiserizing growth” (Bhagwati, 1958).

All this explains why countries with extractivist economies have been unable to benefit fully from the gains arising from global economic growth and technological progress. This is aggravated still further because the countries that extract primary resources usually do not process them. We even find such aberrant situations as countries exporting crude oil and importing petroleum products because they have not developed sufficient refining capacity. To cap it all, a large proportion of these costly imported refined products are destined for electricity generation, even when other sources of renewable energy – such as hydro, solar or geothermal – are readily available, as in the case of Ecuador.

Another feature of these extractivist economies is the structural heterogeneity of their productive apparatus. In other words, highly productive production systems coexist alongside others that are backward and subsistence-based. This is compounded by the lack of connections in their economic structures, as shown by the fact that exports are concentrated in just a few primary commodities, the absence of a suitably dense horizontal diversification in industry, almost non-existent complementarity between sectors, and practically nil vertical integration.

This type of extractivist economy, with a high demand for capital and technology, often functions with an enclave logic: in other words, without a proposal for integrating the primary export activities with the rest of the economy and society. Consequently, the productive apparatus remains vulnerable to the vicissitudes of the global market.

These conditions lead to a dead end. It is impossible to believe that all the countries producing similar primary commodities – and there are many of them – can grow and expect the international demand to be sufficient and sustained enough to guarantee that growth for any length of time.

The worrying thing is that the countries exporting primary commodities, which should have built up similar experiences over time, have usually been incapable of coordinating the management of quantities and prices. The exception that proves the rule – though with all the constraints and contradictions that can be

identified in the way it works – is the experience of the Organisation of Petroleum Exporting Countries (OPEC).

The volatility that characterises the prices of raw materials on the world market means that an economy based on the export of primary commodities will suffer recurrent balance of payments and fiscal deficit problems. This creates a dependence on the financial markets and exposes national economic and socio-political activities to erratic fluctuations. All this is aggravated when world prices suddenly fall and the consequent balance of payments crisis is made worse by the flight en masse of the speculative capital that flowed into these economies during the fleeting boom. In this situation, their mass exit is soon followed by equally flighty local capital, thus aggravating the balance of payments squeeze.

The primary export boom also attracts the ever-alert international banks, which lend large sums of money as though this were a sustainable process; of course, this finance has always been welcomed with open arms by the governments and large companies who also believe in permanent splendour. In these circumstances, the overproduction of primary resources is impelled even more strongly, with the corresponding sectoral economic distortions. But, above all, as historical experience shows, the future of the economy is mortgaged when the time inevitably comes to service the weighty external debt resulting from the huge loans accepted during the usually brief euphoria caused by the export boom.<sup>12</sup>

The abundance of external finance, fed by the influx of cash from oil exports, leads to a consumerist boom that may last as long as the bonanza does, and is a psychological matter of no little importance in political terms. This increase in the consumption of goods is confused with an improvement in the quality of life. In such circumstances, the consumerist logic – which is neither environmentally nor socially sustainable – may give the government the legitimacy to continue to push back the frontiers of extractivism.

This generally leads to resources being wasted. National products tend to be replaced by imports, and this is often encouraged by the over-valuation of the currency. Unless the proper steps are taken to avoid it, even an increase in public investment and expenditure may provide an incentive to increase imports rather than boosting national production. In short, it is difficult to use the plentiful funds available appropriately.

The experience of the region's oil and mining economies shows us that these extractivist activities, as mentioned before, do not generate the dynamic linkages

that are so necessary to achieve coherent economic development, and what is going on today confirms this. The essential integrating and synergetic linkages – forward, backward and to the final demand (fiscal and consumer) – are not guaranteed. And this does nothing to facilitate or ensure technology transfer and the creation of externalities that benefit other branches of the country's economy.

This gives rise to an additional classical characteristic of these primary product exporting economies, ever since colonial times, which is that they are enclaves: the oil sector or the mining sector, as well as many export-oriented farming, forestry or fishing activities, are usually isolated from the rest of the economy. Nuclear energy<sup>13</sup> and the production of biofuels must also be included in this category (Houtart, 2011).

The huge differential or ricardian rents produced by these activities lead to excess profits that distort resource allocation in the country. As a result of the revenue from the export of primary goods, the concentration and centralisation of income and wealth – together with political power – in just a few hands is consolidated and deepened. The accumulation of these rents is overwhelmingly concentrated in a small number of economic groups, many of which neither find nor create incentives to invest in the domestic economy. They prefer to encourage the consumption of imported goods. They often take their profits out of the country, and many run their businesses through companies registered in the places known as tax havens.

As a consequence of this, the companies that control the exploitation of non-renewable natural resources, operated on an enclave basis due to their location and form of exploitation, can become powerful corporations within relatively weak national states.

The major beneficiaries of these activities are the transnational enterprises, which are lauded for their “commendable” decision to take the risk of exploring and exploiting the resources in question. No mention is made of how these activities lead to a further “de-nationalisation” of the economy, partly because of the quantity of finance necessary to get to the point where the resources can be exploited, partly due to the absence of a strong national business community and, no less importantly, because of government unwillingness to forge strategic partnerships with state enterprises of their own or even with the national private sector. Furthermore, some of these transnational corporations have unfortunately taken advantage of their contribution to the balance of trade to influence the balance of power in the country, constantly threatening governments that dare to go against the tide.

Foreign companies have often enjoyed – and in many cases continue to enjoy – a favourable regulatory framework and, on not a few occasions, their own directors or lawyers hold key posts in government. They are also backed by powerful law firms and often have the support of the media, and can thus act directly to ensure that policies or changes to the law are advantageous to them. This situation – which is encouraged by organisations such as the IDB and its big brothers, the World Bank<sup>14</sup> and the International Monetary Fund – has occurred time and again in the oil and mining sectors in Latin America.

These highly transnationalised arrangements have given rise to an extremely complex process: the “deterritorialisation” of the state. The state takes a relatively hands-off attitude to the oil or mining enclaves, leaving the responsibility for addressing social demands, for example, in the hands of the companies. This means that management of the regions in question is disorganised and unplanned; in practice, these regions are often left outside the remit of national laws altogether. All this exacerbates a situation of widespread violence, growing poverty and exclusion, leading ultimately to short-sighted and clumsy responses by a police state that does not meet its social and economic obligations.

The weak capacity to create employment and the unequal distribution of income and wealth lead to an impasse with no apparent way out: the marginal sectors whose capital productivity is higher than that of the modern ones, are unable to accumulate wealth because they do not have the means to invest; and the modern sectors, where labour productivity is higher, do not invest because there are no domestic markets that would guarantee them attractive profits. This in turn worsens the shortage of technical resources, skilled labour, infrastructure and reserve currency, which discourages investors, and so it goes on.

Added to this is the quite obvious fact (which is unfortunately also necessary, and not just for technological reasons) that, in contrast to other branches of the economy, mining and the oil industry generate little direct and indirect employment – although the jobs they do create are often well paid. These are capital- and import-intensive industries. They hire highly skilled workers and managers (who are often foreign). The inputs and technology they use are almost exclusively imported. The consequence of these practices is that the “internal rate of return” of the primary export sector (equivalent to the added value that stays in the country) is derisory.

In these oil and mining enclave economies, political structures and dynamics are characterised by “rent-seeking” practices; the greed and authoritarianism that

drive decision-making lead to a disproportionate increase in public spending and discretionary revenue distribution, as we will analyse later on.

Due to these conditions and the technological characteristics of the oil and mining sectors, they do not generate direct employment on a large scale. This would also explain the contradiction of countries rich in raw materials where, in practice, the vast majority of the population lives in poverty.

In addition, the communities in whose territories or neighbourhoods these extractivist activities take place have always suffered the effects of a series of social and environmental problems arising from this type of resource exploitation. The destitution of large sectors of the population would therefore seem to go hand in hand with the presence of huge quantities of natural resources (with high differential rents). This mode of accumulation does not require a domestic market and does not even need it, since it operates with falling salaries. There is not enough social pressure to oblige these industries to reinvest in productivity increases. Rent-seeking determines productive activity and, of course, the rest of social relations. As a corollary of this, these extractive industries – oil or mining – encourage clientelist social relations, which benefit the interests of the transnational companies themselves but impede the implementation of appropriate national and local development plans.

Extractivist economies of this type cause serious and irreversible damage to the natural environment. Studies of mining or the oil industry around the world have found evidence of the innumerable ways in which Nature is damaged and irreversibly destroyed. The human tragedies are equally uncountable, and the cultural assets of many peoples have been destroyed. Neither is the situation any better in the area of the economy. The countries whose exports depend essentially on mineral or oil resources are economically backward, and their environmental problems grow in tandem with the expansion of the extractivist activities.

Let us focus our attention for a moment on mining. Modern industrial mining involves extracting the largest possible quantity of mineral resources in a very short time. The deposits of these minerals built up over very long, tectonic-scale periods of time. Today, the deposits with a high concentration of minerals are becoming exhausted. The high world market prices, however, mean that mining can still be profitable even in deposits where the mineral content is low. To make these deposits productive, it is necessary to practice large-scale industrial mining, involving the use of large quantities of chemicals that are sometimes highly toxic (cyanide, sulphuric acid and others) and vast amounts of water, as well as the accumulation of enormous quantities of waste.

The gigantic scale of these operations causes huge environmental impacts. The harmful effects not only arise in the exploration and exploitation phases, when gigantic holes are dug in Mother Earth or when toxic chemicals are used to process the minerals extracted, but also when the material dug up is moved around, affecting large swathes of territory.

Since it accumulates over many years, mining waste can leak out and pollute the environment, particularly with heavy metals or acid rock drainage. This latter phenomenon, which can carry on for dozens and dozens of years, occurs when rainwater, or even air, comes into contact with the rocks that have been moved from underground to the surface and piled up on slag heaps or in the mine's waste pit or dyke. There is usually a high risk that the sulphurised minerals will be oxidized by rainwater or damp air, and this ends up causing a high level of acidification of the water running over these rocks. In Ecuador, many mining deposits are particularly exposed to this problem because they have sulphurous rocks which are known to cause acid drainage.

This type of pollution is particularly devastating for water. On numerous occasions, the water ends up being unusable for human consumption or for agriculture. The contamination of water sources also causes a host of public health problems, including degenerative and skin diseases, among others. And all this does not even begin to take into account the serious social impacts caused by these mega extractive industries.

The different extractive activities have a long and well-known history of pillage all over the world. Today, however, as the exhaustion of natural resources becomes evident, especially in the industrialised countries, there is a growing pressure on the under-developed countries to hand over their mineral or oil deposits. Even the increasing defence of the environment in the societies considered developed is creating pressure on the impoverished countries to open up their territory to satisfy the world economy's demand for minerals.

It is necessary to remember that the transnational companies and their government accomplices usually only highlight the "enormous" quantities of mineral and oil reserves they have found, turned into monetary value. With these figures, which are usually greatly exaggerated, they seek to influence public opinion in support of mining. However, this view is incomplete. The figures should also take into account the so-called hidden social and environmental costs, including, for example, the economic cost of pollution. These are economic losses that do not usually appear in extractive projects and are transferred to society; remember the social and environmental devastation in Ecuador's north-east Amazon region,

which later led to a lawsuit against the Chevron-Texaco company. What also ought to be included in the list of costs are the so-called “perverse subsidies” in the form of the cut-price energy, free or cheap water, and even transport infrastructure given to the extractive industries (Gudynas, 2011c). Have such cost assessments been presented? No. Probably because acknowledging these costs would significantly reduce the profitability of these companies and reveal the meagre benefits that accrue to the state.

These extractivist activities also create serious social tensions in the regions where the extraction of the natural resources takes place, as there are usually very few local people who are able to get a job in the mining and oil companies. The economic and social impacts create divisions in communities, leading to fights between them and within families, domestic violence, the violation of community and human rights, an increase in crime and violence, land trafficking, etc.

Over decades, the extractivist mode of accumulation in the region’s primary export economies has created high levels of underemployment, unemployment and poverty, while the distribution of income and wealth is becoming even more unequal. This shuts off the opportunities for expanding the domestic market because not enough jobs or income are being created (there is no “trickle-down effect,” nor will there ever be). Nevertheless, there is continuing pressure to orient the economy more and more toward the export market because “there is no-one to sell to in the domestic market,” as the defenders of this model never tire of arguing.

This “export mono-mentality” inhibits the creativity of the national business community and reduces incentives for it. The borderline-pathological “pro-export mentality,” based on the famous slogan “export or die,” is also present at the heart of government and even in broad sectors of society; as a result, the huge capacities and potential available inside the country are wasted.

### **Neextractivism: a contemporary version of extractivism**

Ever since they were founded, Latin America’s primary export republics have failed to establish a development model that would enable them to escape from the traps of poverty and authoritarianism. This is the great paradox: these are countries very rich in natural resources, and they may even be receiving significant quantities of cash revenue, but they have not managed to lay the foundations for their own development and they continue to be poor. And they are poor because they are rich in natural resources, because they have prioritised the extraction

of this natural wealth for the world market and sidelined other forms of value creation based more on human effort than on the merciless exploitation of Nature.

In recent years, several of the region's countries with progressive governments have become aware of some of the ills described above and have made some important changes to certain elements of the extractivist model. Beyond the official discourses and plans, however, there is no clear sign that they are genuinely seeking to overcome this mode of accumulation. By making these efforts they hope to be able to address many of the long-postponed social demands and, of course, consolidate themselves in power by resorting to clientelistic and even authoritarian practices.

As Eduardo Gudynas (2009b and 2010c) points out, "the importance of the extractive industries persists as a key cornerstone of development policies" under the progressive governments in South America. Gudynas goes on to say that although South America's progressive governments are "creating a new type of extractivism, both in terms of some of its components and in the combination of old and new attributes," there are no substantive changes in the current structure of accumulation. Thus, neoextractivism maintains "involvement in the international market in a subordinate position that serves the globalisation" of transnational capitalism. It not merely maintains but increases "the fragmentation of territories, with relegated areas and extractive enclaves linked to global markets." The social and environmental impacts of the extractive industries remain unaltered, and "in some cases have even got worse." Staying with Gudynas, "beyond the ownership of the resources, the rules and operations of productive processes that focus on competitiveness, efficiency, maximising profits and externalising impacts are the same as before." One of the noteworthy aspects is "the state's increased presence and more active role, with both direct and indirect actions." What this nationalist stance is mainly trying to achieve is greater state access to and control of natural resources and the benefits that their extraction produces. From this point of view, the control of natural resources by transnational corporations is what is criticised, rather than the extraction itself. Some damage to the environment and even some serious social impacts are accepted as the price to be paid for the benefits that are obtained for the population as a whole. To achieve this, "the state collects (or tries to collect) a higher proportion of the surplus generated by the extractive industries." Furthermore, "some of this revenue is used to finance significant and massive social programmes, thus ensuring new sources of social legitimacy." And extractivism is thus seen as indispensable for combating poverty and promoting development.

There is no doubt, Gudynas concludes, "neoextractivism is part of South

America's own contemporary version of developmentalism, whereby the myth of progress and development is maintained under a new cultural and political hybridity" (Gudynas 2009b and 2010c).

While greater state control of these extractivist activities is important, it is not sufficient. The real control of national exports still lies with the rich countries, even when the extractivist activities do not always receive significant amounts of foreign investment. Perversely, many state-owned enterprises in the primary export economies (with the consent of their respective governments, of course) seem programmed to react exclusively to triggers coming from abroad. At home, their actions abide by a rationale similar to that of the transnationals: destruction of the environment and a lack of respect for society are not absent from their practices. In short, the evolution of these primary export economies is characterised by the fact that their production is subordinated to and motivated by external demand. When all is said and done, neoextractivism maintains and reproduces key elements of the extractivism that dates back to colonial times.

Thanks to oil or mining, or rather to the vast revenues produced by exporting these resources, progressive governments often assume that they are enacting the people's will and try to speed up the leap forward to the longed-for modernity. In the words of Fernando Coronil (2002), what flourishes in economies of this type is a "magical state" with the ability to deploy the "culture of the miracle."<sup>15</sup> This is precisely what we have been seeing in Venezuela, Ecuador and Bolivia in recent years.

In these countries, the state has recovered its strength. Instead of the minimalist state of the neoliberal era, attempts are being made – quite justifiably – to rebuild and expand the state's presence and actions. But, for the time being, these countries are showing no serious sign of wanting to introduce profound structural changes. The structures and fundamental features of production and exports remain unaltered. Under these conditions, the powerful business sectors, despite being attacked by the "revolutionary discourses," have not ceased to rake in vast profits by taking advantage of this renewed extractivism.

In these countries with progressive governments which have installed neoextractivist arrangements, the traditionally excluded sectors of the population have so far at least experienced a relative improvement in their situation thanks to the better distribution of the growing income from oil and mining. What has not taken place, however, is a radical redistribution of income and wealth. This situation can be explained by how relatively easy it is to reap profits from Nature's

generosity, without getting into socially and politically complex redistribution processes.

As in the past, the lion's share of the benefits of this economic orientation goes to the rich countries, the importers of Nature, which profit still further by processing and selling it in the form of finished products. Meanwhile, the countries that export primary commodities only receive a tiny percentage of the revenue from mining or oil, but they are the ones who have to bear the burden of the environmental and social costs.

In the absence of suitable institutional structures to deal with the environmental, social and political costs involved in the conflicts around these extractivist activities, even the economic cost of controlling potential protests by deploying the security forces is far from negligible. In addition to this, we need to consider the effect of this almost inevitable social instability on other productive activities in the extractive industries' areas of influence, as, for example, when mining ends up driving smallholder farmers away from the affected area.

The effects of these conflicts and this violence also have an impact on local governments. They may be attracted by the siren song of the companies involved in large-scale extractivism and their central government accomplices, which may offer them some financial contributions. Nevertheless, in the end, societies will have to bear the costs of this complex and conflictive relationship between communities, companies and the state. Local development plans will be placed at risk, because mining or oil extractivism will take precedence over any other activity. In the end, the plans drawn up in a participatory way and with informed consent by the local community will be torn to shreds. The environmental liabilities will be the most painful and costly inheritance of the extractivist activities, because these liabilities are not usually assumed by the companies exploiting the resources.

Clearly, if the economic costs of the social, environmental and production-related impacts of the extraction of oil or minerals are calculated, many of the economic benefits of these activities vanish.<sup>16</sup> But, as we mentioned before, these full costs are not calculated by the various progressive governments because of their blind faith in the benefits of these primary export industries.

In short, many of traditional extractivism's greatest and most serious ills are maintained in neoextractivism.

## Authoritarianism and the dispute over the profits from Nature

This curse of abundant natural resources often comes with the curse of authoritarianism attached. The exploitation of non-renewable natural resources on a massive scale in these countries has led to the emergence of paternalist states, whose influencing capacity is tied to their political capacity to negotiate a greater or lesser share of the rents from mining or the oil industry. These are states that have added a monopoly on political violence to the monopoly on natural wealth (Coronil, 2002).

Although it may seem paradoxical, a state of this type, which often delegates a substantial part of its social obligations to the oil or mining companies (this is starting to change in the countries with progressive governments), abandons vast regions in development terms. And under these conditions of *deterritorialisation*, when companies take over the tasks that should fall to the state, the latter consolidates itself as a police state that represses the victims of the system while refusing to meet its social and economic obligations. Even the judicial system ends up enmeshed in the interests and pressures of the private or state-owned extractive enterprises.

In these enclave economies, the political structures and dynamics that have taken shape are not only authoritarian, but greedy. During the boom years in particular, this greed takes the form of an often disproportionate increase in public spending and, above all, a discretionary distribution of public funds. This type of political practice is also explained by governments' determination to remain in power and/or by their intention to speed up a series of structural reforms which, from their own particular perspective, seem essential for transforming society.

The increase in public spending and investment is also the result of the growing conflict over distribution that breaks out between the most disparate powerful groups. This situation, which becomes most visible in boom times, has been clearly described by Jürgen Schuldt (2005), who says that "it is thus a dynamic, limitless power-play that arises endogenously from the boom. And public spending – which is discretionary – increases more than the revenue attributable to the economic boom (pro-cyclical fiscal policy)."

This "greed effect" leads to a desperate pursuit – and even abusive appropriation – of a significant proportion of the surplus generated in the primary export sector. In the absence of a broad national agreement on how to manage these natural resources, and without solid democratic institutions (which can only be built with widespread and sustained citizen participation<sup>17</sup>), various uncooperative

powerful groups appear on the scene, desperate to grab a slice of the mining or oil rents.

Thus, those embroiled in this dispute over natural resource rents are, above all, the transnational corporations directly or indirectly involved in these activities, and their allies: international banks, broad business and financial sectors, even the armed forces, some local governments co-opted by the lucrative rents, and some politically influential sectors of society. Trade union groups linked to this type of extractivist activity, known as the “labour aristocracy,”<sup>18</sup> likewise obtain significant benefits. And, as it is easy to understand, this struggle over the distribution of rents, which may be more or less conflict-ridden, provokes new political tensions.

All this helps to weaken democratic governance, as it ends up establishing or facilitating the perpetuity of authoritarian governments and greedy and clientelistic enterprises which are equally prone to authoritarian practices. Indeed, these countries do not offer the best examples of democracy – rather the opposite. In addition, the often wasteful use of the revenue obtained and the absence of stable policies ends up weakening existing institutional structures or impeding their construction.

Latin America has accumulated ample experience in this area. Several of the region’s countries have governments that display clearly authoritarian features as a result of this primary export mode of accumulation, particularly when it is based on a small number of natural mineral resources.

This complex reality also exists in other parts of the world, particularly in oil- or mineral-exporting countries.<sup>19</sup> Norway would be the exception that proves the rule. The difference between Norway and the cases described earlier lies in the fact that oil industry operations there began and expanded when solid democratic political and economic institutions were already in place, and the level of social inequality was very low in comparison to the oil- or mining-based economies in the impoverished world. In other words, Norway incorporated the oil industry into its society and economy *when it was already a developed country*.

We cannot conclude our reflections without mentioning another feature of these countries trapped by the curse of plenty: violence, which seems to go hand in hand with a model that damages democracy. This violence may be practised by the state itself, even with governments considered progressive, as they criminalise popular protest against the extractivist activities with the sole purpose of keeping them going.

The violence unleashed by the extractivist enterprises themselves, often with government backing, has taken the form of varying degrees of repression. The list of these repressive and even genocidal actions is long and only too well known in Latin America.<sup>20</sup> There have also been civil wars,<sup>21</sup> open wars between countries, and imperial aggression on the part of certain powers determined to guarantee their supply of natural resources – especially oil and gas – by force if necessary.<sup>22</sup>

These conflicts, which take place in an atmosphere of constant instability, carry economic costs for a series of reasons. We might think, for example, of the distorting effects caused by the absence of solid institutions: the undervaluing of exports or the overvaluing of imports by the mining or oil companies to reduce the amount of taxes and royalties they pay; the unpredictable and sometimes sudden reductions in production by the transnational enterprises to force their profits higher; the growing presence and interference of intermediaries of all kinds who make production more difficult and transactions more costly. Eventually, problems of this type – which are not the only ones on what could be an endless list of aberrations and distortions – may even cause a reduction in investment in the sector, at least by the most serious companies.

Furthermore, such a high dependence on Nature's generosity sidelines productive innovation and even marketing initiatives, and consolidates oligopolic, patrimonialist and rent-seeking practices. And as we well know, these practices, together with the extractivist enterprises' growing interference in government, strengthen small but powerful oligarchical groups.

In addition, spending more public money on clientelist activities reduces the latent pressure for greater democratisation. This is a sort of "fiscal pacification" (Schuldt, 2005), aimed at damping down social protest. The government's large revenues enable it to prevent the formation of opposition or independent groups or powerful factions that would be able to demand political and other rights (human rights, justice, shared government, etc), by displacing them from power. The government can even allocate large sums of money to the reinforcement of its internal controls, including the repression of opponents.

A situation of relatively abundant financial resources may allow for an expansive economic policy, complemented by external indebtedness. The constant search for more money to finance the economy leads to foreign borrowing.<sup>23</sup> Here, once again, we see the greed effect, manifested in the desire of banks – especially international ones, whether private or multilateral – to participate in the bonanza of copious income; these banks are therefore jointly responsible for the resulting external indebtedness.<sup>24</sup> Recently, China has been awarding an increasing

number of loans to several underdeveloped countries, especially in Africa and Latin America, with the aim of gaining control of mineral or oil deposits or large areas of land for agriculture, as well as building major works of infrastructure.

As a consequence of the vast revenues from the exploitation of natural resources and the ease of foreign borrowing, governments tend to relax their tax structures and practices. They often reduce the tax burden to a minimum and may even stop collecting tax altogether, especially income tax. (Apart from that, the curse of neoliberal ideology also discourages any increase in the tax burden.)<sup>25</sup>

On this point it is worth highlighting the efforts made by some progressive governments, such as those in Ecuador and Bolivia, to improve tax collection, including introducing more progressive and fair tax systems.

In any case, as Jürgen Schuldt (2005) points out, lax management of public finances gets citizens into bad habits. Worse, “what this means is that the public does not demand transparency, justice, representation and efficiency in spending from the government.” The maintenance of costly and inequitable subsidies, on fuel for example, can be explained by these bad habits, although they are mistakenly seen as an “achievement by the people.”

The demand for democratic representation in the state, Schuldt reminds us, usually arose as a consequence of tax increases – in Britain more than 400 years ago and in France at the beginning of the 19<sup>th</sup> century, for example. The mindset of rent-seeking and clientelism is quite the opposite of citizenship, and may even hamper and impede its construction.

The governments of these primary export economies not only have quite enough funds – especially in the boom times – to carry out the necessary public works; they can also afford to deploy measures and actions aimed at co-opting the people, in order to ensure a sufficient level of governance to enable them to introduce the reforms and changes that they consider to be necessary. Clientelism suffocates the consolidation of citizenship. Worse still, when these clientelist practices encourage individualism, with social policies that focus on the individual – such as those introduced under neoliberal governments that have been continued under progressive governments – they may even manage to defuse collective proposals and action. This ends up having a negative effect on civil society organisations and, more serious still, on the sense of community.<sup>26</sup>

These actions often lead to authoritarian and messianic forms of government which, in the best case scenario, may hide behind what Guillermo O’Donnell

termed “delegative democracies,” or what are known today as plebiscite democracies.

Furthermore, hyperpresidentialist governments of this type (whether neoliberal or progressive), which address social demands in a clientelist fashion, are a breeding ground for new forms of socio-political conflict. This is because the structural causes of poverty and exclusion do not get addressed. Some of the surplus revenue from oil or mining is redistributed, but there is no in-depth income and wealth redistribution process. Equally, the significant environmental and social impacts of these large-scale extractivist activities, which are likewise unequally distributed, lead to an increase in ungovernability which in turn calls for new authoritarian responses.

Following Anthony Bebbington’s recommendation, though without meaning to suggest that this will resolve the intrinsic unsustainability of the exploitation of non-renewable natural resources, an idea of sustainability should be democratically constructed – at least for the transition. The limits to development should be linked to civil society itself and its participation, rather than being circumscribed to models where the most powerful players – the transnationals and the state, often in that order – are those who decide. Thus, the use of natural resources would be put up for discussion and this would be a way out of the anti-democratic atmosphere that surrounds extractivism itself.

In short, the dependence on non-renewable natural resources often consolidates autocratic – even authoritarian – governments due to the following factors:

- State institutions too weak to enforce laws and unable to control government actions.
- Absence of rules and transparency, which encourages discretionality in the use of public funds and common goods.
- Conflict over the distribution of rents among powerful groups which, by consolidating rent-seeking and patrimonialism, reduces investment and rates of economic growth in the long term.
- Short-termist government policies that are not well planned.
- The illusion of easy and abundant wealth coming from the large-scale exploitation and export of natural resources, which becomes part of the DNA of broad sectors of society and governments.

## **From senile developmentalism to post-extractivism**

Whether in bad faith or from ignorance, an exotic idea may occur to someone: if the primary export economy generates underdevelopment in perpetuity, the solution would be to stop exploiting natural resources. Obviously, this is a fallacy. The resource curse is not a fatal destiny but a choice. The challenge lies in finding a strategy that will enable “living well” to be constructed by taking advantage of non-renewable natural resources, turning them into “a blessing” (Stiglitz, 2006).

Thus, the task is to choose a different path that will move us away from the resource curse and from the curse of orthodox views that keep us subordinated to transnational power. One of the most complex tasks is therefore to design and implement a strategy that will lead to a post-extractivist economy.

This new economy will not come about overnight. It is also difficult to imagine the possibility of a sudden shut-down of the oil fields or mines that are operating at the moment. But this transition will never be a reality if extractivist activities continue to expand and if there are no specific alternatives for gradually cutting them back by means of a properly planned process of change. Of course, this transition will not be easy in a capitalist world that is unthinkable without extractive industries like oil, mining and forestry. Building this transition is today’s vital task, and it will require all the capacities for critical thinking, inventiveness and creativity in society and its organisations. Efforts to move toward post-extractivism in the global South should go hand in hand with economic degrowth<sup>27</sup> or, at least, stationary growth in the global North. This is an issue of growing concern in many industrialised countries.

The way out of an extractivist economy, which will have to carry on with some activities of this type for a time, must take into account a key point: the planned degrowth of extractivism. This option would promote sustainable activities, which may take place in the sphere of manufacturing, agriculture, tourism, and especially knowledge. Nature must definitely not be damaged any further. The success of strategies of this type in ushering in a social, economic, cultural and ecological transition will depend on how coherent they are and, above all, the level of social support they have.

The idea is to consign dependent, unsustainable extractivist economies – those that are based on the export of primary commodities, excessively oriented to the export market, unindustrialised, with high levels of poverty and exclusion, concentrating income and wealth in the hands of the few, and destroying and polluting the environment – to the past. The aim is to build sustainable economies,

meaning diversified economies with a range of products and markets that are industrialised and service-oriented, with the capacity to create good quality employment, equitable, and respectful of cultures and Nature. On this point it is advisable to take forward a re-encounter with indigenous worldviews in which human beings not only coexist in harmony with Nature but form part of it.

To be able to launch this transition, which will necessarily be plural, it is essential to put in place new and vigorous state institutions and a new way of organising the economy, as well as having a strategic idea of how to participate in the world market. This therefore requires regulatory arrangements and organisations, as well as properly established mechanisms that will enable these transitions to be taken forward.<sup>28</sup>

What we are looking at, then, is a new type of productive specialisation to enable countries to be internally sustainable, based on a broad consensus between different interests. To achieve this, it is necessary to strengthen the domestic market and the productive apparatus within the country, as well as designing transition strategies for production that will lead to the extractive industries becoming increasingly less important to the economy.

The re-encounter with Nature is another of the priority points on the agenda, and this means doing away with models and practices centred on the exploitation and appropriation of Nature. We should bear in mind that all humanity is obliged to preserve the integrity of the natural processes that guarantee flows of energy and materials in the biosphere. This implies maintaining the planet's biodiversity. To achieve this civilising transformation, the deccommercialisation of Nature would seem to be essential. Economic objectives must be subordinate to the laws that determine how natural systems operate, without losing sight of respect for human dignity and the need to improve the quality of life of people and communities.

This makes it obligatory to maintain (avoid destroying) those territories that possess a wealth of environmental and social values, where the highest levels of biodiversity are concentrated: the Yasuní-ITT Initiative in Ecuador is a global example.<sup>29</sup> It also leads to establishing the concept of strong sustainability (economic capital must not wholly replace “natural capital”), as a new paradigm for how to organise society. And it also implies replacing conventional macroeconomic calculations with new indicators and indices of sustainability.

Likewise, it requires widespread and genuine social participation to confront the challenge of large-scale extractivism. This necessarily implies taking forward a profound and radical redistribution of the revenue from mining and the oil

industry, as well as other income and assets present in an economy. Inequalities<sup>30</sup> must be done away with, since they are the basis for all sorts of authoritarianisms in every sphere of human life.

It is essential to start by halting the continued expansion and intensification of an extractivist economic model, meaning one based on the export of primary commodities. Attempting to develop by prioritising this primary-export mode of accumulation, which overvalues profits from Nature and undervalues human effort, systematically destroys the environment and has serious negative effects on social and community structures, gives priority to the export market and neglects the domestic market, fosters wealth concentration and sidelines equality, has not been the path to development for any country. Therefore, neither will it be the path to building a post-developmental option such as living well, *buen vivir* or *sumak kawsay*.<sup>31</sup>

Conceptually at least, living well emerges as an option that moves beyond development “alternatives” and seeks to offer an “alternative to development” – in short, an option that is radically different to all development ideas. It even dispenses with the concept of progress in its productivist version. Therefore, living well offers an opportunity to construct another society characterised by human coexistence, in diversity and in harmony with Nature, based on the recognition of the range of cultural values that exist in each country and the world as a whole. The vital element in this proposal, which may even be rolled out globally, lies in taking a great revolutionary step forward that will encourage us to make the transition from anthropocentric visions to socio-biocentric ones, with all the concomitant political, economic and social consequences.

By taking the route of “senile developmentalism” (Martínez Alier, 2008), maintaining or – worse – intensifying extractivism, we will definitely not find the way out of this complex dilemma of societies rich in natural resources that are at the same time impoverished.

## Notes

1. Ecuadorean economist. Lecturer and researcher at the Latin American Social Sciences Faculty (Facultad Latinoamericana de Ciencias Sociales - FLACSO), based in Ecuador. Former Minister of Energy and Mines. Former member and president of the Constituent Assembly. Note: In this chapter, the author draws on and summarises several of his previous works.
2. Several scholars have built up this “tropical fate” theory, from different perspectives. We can mention Michael Gavin, Michel L. Ross, Jeffrey Sachs, Ricardo Hausmann, Roberto Rigobon and Ivar Kolstad, among others.
3. Despite having such a long history as a mode of accumulation, the word “extractivism” does not appear in the dictionary of the Royal Academy of the Spanish Language.
4. It is a mistake to assume that extractivism only exists when mineral or hydrocarbons resources are exploited. There are many experiences of equally extractivist practices in logging or monocrop agriculture. On the case of coffee in Colombia, for example, see Oeindrila Dube and Juan Fernando Vargas (2006).
5. Raúl Zibechi (2011) sees a second phase of neoliberalism in the extractivism of these progressive governments.
6. See the valuable contribution made by Schuldt (2005). See also Schuldt and Acosta (2006), and Acosta (2009).
7. Sustainable development is a process that enables current needs to be met without compromising the chances of future generations. To practise the concept of living well, it is necessary to go much further than sustainable development, and accept that Nature is a holder of rights.
8. One contribution suggesting ways to dismantle the myths of transnational mega-mining is the work produced in Argentina by Colectivo Voces de Alerta (2011).
9. The term “Dutch disease” was coined in the 1970s in – as its name suggests – the Netherlands, where the discovery of natural gas deposits led to a huge increase in the country’s foreign exchange reserves. This caused the value of the Dutch currency, the florin, to appreciate, damaging the competitiveness of the country’s manufacturing exports.
10. It should be recalled that ricardian rents are those derived from the exploitation of Nature rather than business activity, in contrast to profits that result from the effort and

creativity (“productivity”) of the workforce.

11. At the start of the first major global crisis of the 21st century, when the prices of oil and minerals fell, there was a marked tendency in many countries to increase the quantity produced and offer compensation to companies for the reduction in their revenue.

12. The list of texts on these processes of indebtedness and crisis is long, but it would be sufficient to look at Ugarteche (1986), Vilate (1986), Calcagno (1988), Marichal (1988) or Acosta (1994).

13. Nuclear energy does not imply an escape from the extractivist model. Firstly, the raw material – uranium – must be obtained, and secondly, this energy is used to maintain and increase the same extractive activities. This is what usually happens with the building of large hydroelectric dams and, of course, the industries that use fossil fuels.

14. The World Bank promoted large-scale mining as a source of revenue during the neoliberal era, and still maintains that the extraction of natural resources on a massive scale is positive. See Sinnott, Nash and de la Torre (2010).

15. This author discusses events in Venezuela starting from the government of General Juan Vicente Gómez and prior to the government of Colonel Hugo Chávez Frías.

16. On the oil industry’s liabilities see, for example, the work of Fander Falconí (2004).

17. This does not mean exclusively individual/liberal citizenship because, from the standpoint of collective rights, forms of collective citizenship or community citizenship can be accommodated. Equally, the rights of Nature require and also give rise to another type of citizenship, which is constructed in the individual, the collective, and also the environmental sphere. This type of citizenship is plural, because it depends on histories and environments, and takes up the criteria of environmental justice which go beyond the traditional idea of justice. Eduardo Gudynas (2009) calls these forms of citizenship “ecological meta-citizenships.”

18. In the terms proposed by Eric J. Hobsbawm (1981).

19. By way of an example, it is enough to analyse the situation in the countries of the Persian Gulf, which may be considered very wealthy in terms of their accumulation of huge financial reserves and their high levels of per capita income. Nevertheless, there is no way they can be included in the list of developed countries: their levels of inequality are aberrant, the lack of freedom is notorious, and political and religious intolerance is the order of the day. Many of their governments are not only undemocratic, but characterised

by deeply authoritarian practices; Saudi Arabia, a monarchy with medieval features, would be the paradigmatic example on quite a long list.

20. In the mining regions of Peru, a country often cited as an example of openness to mining, human rights violations have multiplied exponentially. In this country, the conflicts related to mining and the oil industry, but particularly mining, account for more than 80% of all recorded social conflicts (De Echave, 2008, 2009). What happened in Bagua in June 2009 is just one well-publicised episode in a lengthy series of acts of repression and systematic human rights violations. In Colombia, a country lashed by a long and bloody civil war, about 70% of the forced displacements that took place between 1995 and 2002 occurred in mining areas. In Ecuador, the most serious cases of human rights violations in recent years are related to transnational mining companies and, of course, the oil industry.

21. Nigeria confirms this statement: the country underwent a long and painful civil war over the control of oil, followed by vicious repression against the Ogoni people. Since the collapse of the Soviet Union, violence has not ceased in the countries of the Caucasus, rich in oil and gas: Turkmenistan, Kazakhstan, Azerbaijan, Georgia, Ossetia, Dagestan and Chechenia.

22. To illustrate this last case, it is sufficient to mention the US military aggression against Iraq and Afghanistan, with the aim of controlling these countries' oil and gas reserves. The NATO intervention in Libya in 2011 may also be categorised as an act of imperial aggression with the aim of controlling oil and, in this case, one of the largest reserves of fresh water in the world.

23. Thus, for example, as a newly rich oil-producer, Ecuador was able to obtain loans more easily than when it was merely a poor banana-producer. In the middle of the economic boom of the 1970s, Ecuador's public debt, and its external debt in particular, grew out of all proportion to the oil boom (it is true that it also grew due to external conditions arising from the demand for capital accumulation).

24. See Osmel Manzano and Roberto Rigobon (2001), as well as the list of authors mentioned before, who address the issue of external debt.

25. In Ecuador, one of the leaders of the military governments during the 1970s oil boom, General Guillermo Rodríguez Lara, boasted that one of his government's achievements was to stop collecting taxes.

26. Consciously or unconsciously, the various Socio País projects of the government of the "citizen revolution" in Ecuador seem to be having these effects. In addition, it is worth mentioning that this government is openly attempting to weaken and divide the

major social movements, especially the indigenous movement, which fiercely oppose the expansion of extractivist industries.

27. There are also thinkers in the global South who are making proposals for contracting the economy – see Leff (2008).

28. How to take forward these transitions has increasingly been the subject of discussion in recent years. Several authors have contributed various ideas and suggestions to the debate, including Eduardo Gudynas, Joan Martínez Alier, Enrique Leff and Roberto Guimarães. For a concrete example, see the contributions of several authors edited by Alejandra Alayza and Eduardo Gudynas in Peru (2011). Some suggestive ideas for how to build these transitions can be found in the report on the subject produced by Oxfam (2009). I have also offered some thoughts on how to build a post-oil economy (Acosta 2000 or 2009). It is also worth noting that several proposals for building a “post-oil Ecuador” were published by various authors in 2000.

29. See Martínez and Acosta (2010). This initiative arose from a proposal for a moratorium on drilling for oil in the centre-south of Ecuador’s Amazon region, formulated in the year 2000 in the book by various authors, *El Ecuador Post Petrolero*.

30. Especially economic, social, inter-generational, gender, ethnic, cultural and regional inequalities.

31. Two suggested works in the increasingly ample literature on the subject are Acosta and Martínez (2009) and Acosta (2010). Another text that sets this debate in a wider context is the work by de Tortosa (2011).