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Introduction
Resource-Seeking FDI: Birth, Decline and Resurgence

As the industrialisation of the Western world proceeded in the nineteenth century, there was an increasing demand for additional or new sources of raw materials to those that were available locally. Concomitantly, innovations in the late nineteenth century resulted in the use of different kinds of minerals and materials – for example, oil, rubber and bauxite – than those required previously. Further, as income rose in advanced temperate countries, consumers began to demand tropically produced food and drink. These factors precipitated the emergence of the multinational enterprise (MNE) seeking to engage in resource-seeking foreign direct investment (FDI) (Dunning 1992). Indeed, the majority of the FDI carried out by MNEs from Europe and the United States during the nineteenth century focused on mining, agricultural and forestry activities in Australia, Canada and the developing countries (McKern 1993). Interestingly, several of the mineral and oil MNEs which currently dominate their respective industries, such as Rio Tinto, de Beers and Royal Dutch Shell, emerged during this period (Dunning 1992).

Not surprisingly, during this period, resource-rich developing countries accounted for a disproportionately high share of resource-seeking FDI globally. This period also witnessed the emergence of an international system of industrial organisation, which was greatly encouraged by colonial and other metropolitan powers: Limited processing of the exploited resources was undertaken in resource-rich developing countries. Instead, most of the higher value-added processing activities were performed in advanced industrialised countries. In fact, while the resource-seeking MNEs earned extraordinary profits from their operations in developing countries, their host countries were relegated to enjoying limited fiscal benefits from their activities (for example, Girvan 1967). However, this state of affairs was soon to be challenged.

By the 1960s, many resource-rich developing countries had attained political independence. Political independence was quickly followed by a quest for economic emancipation (for example, Moran 1974; Radetzki 1977; Shafer 1983; Wälde 1991). Resource-seeking FDI, especially petroleum
and non-fuel minerals, was perceived to be an encroachment on national sovereignty and an instrument of foreign domination. In addition, resource-seeking FDI was believed to lead to an excessive outflow of scarce foreign exchange, to impede industrial development and as a source of price distortions (Wålde 1991). Hence, these newly independent resource-rich developing countries sought to gain greater control of their non-renewable natural resources. Nationalisations, the formation of producer associations and restrictions, most characteristically expressed in Decision 24 of the Andean Pact of 1974, were the preferred tools used to achieve this objective (Wålde 1991). Consequently, the late 1960s and early 1970s were marked by a wave of nationalisation that swept throughout the resource-rich developing world (for example, Shafer 1983).

As the bargaining power of the resource-rich developing countries increased, the share of investment in the mineral industry allocated by the MNEs to developing countries plummeted from 20 per cent in 1970 to a mere 6 per cent in 1977 (Radetzki 1982). However, many governments in resource-rich developing countries quickly realised that state ownership of the resource sector was not the economic and social panacea they had expected. Indeed, with the exception of a few instances such as Venezuela’s C. V. G. Ferrominera Orinoco, the Copper Corporation of Chile and the Malaysia Mining Corporation, the nationalisation of the mining sector was unsuccessful (McKern 1993; Shafer 1983). By the 1980s, the movement towards nationalisation of the resource sector was reversed. The new emphasis was on private sector-led development of the resource sector. There were several reasons for this reversal: The debt burden of many resource-rich developing countries (Sohn 1988) and the collapse of commodity prices with the attendant decline in mining revenues and increased risks of state-owned mineral investments (Blitzer et al. 1984) all resulted in the inability of developing country governments to engage in a strategy of state ownership of the resource sector. Despite this, the 1990s witnessed a shrinking share of resource-seeking FDI in global FDI inflows with oil and metals now being treated as simple commodities (UNCTAD 2007). But this situation was not to last.

**Resurgence in resource-seeking FDI and the rebirth of resource nationalism**

The pendulum has swung. The revival of commodity prices that began in 2004 is driven by very strong growth coupled with initial supply constraints. However, unlike the nineteenth century, this growth is coming from developing countries, especially China, which is currently experiencing a resource-intensive growth process. Yet, like the earlier period, the resource-seeking MNE is currently earning extraordinary profits. During the period 2003–2012, the financial performance of the mining industry significantly outpaced the broader market. For example, from January to April 2013,
mining stocks increased by 235 per cent while the Dow Jones and the FSE 100 increased by 82 and 78 per cent, respectively (PwC 2013).

Significantly, resource nationalism has resurfaced. However, it has assumed a new form. The wave of resource nationalism which occurred in the late 1960s and early 1970s was limited to resource-rich developing countries. But resource nationalism in the twenty-first century embraces both ‘mining-friendly’ countries such as Australia and Canada and ‘frontier locations’ such as Indonesia and Vietnam (PwC 2013). These countries are currently changing their policies towards the resource-seeking MNE with the aim of increasing their share of the windfall revenues created by the commodity boom. To this end, they have increased taxes and royalties, restricted foreign ownership and in some locations – significantly those of resource-rich developing countries – engaged in beneficiation. South Africa, Indonesia, Brazil, the Democratic Republic of Congo and Vietnam have announced plans to require a form of in-country processing of their exploited resources (PwC 2013). As the second decade of the twenty-first century unfolds, these resource-rich developing countries are attempting to capture a greater share of the value chain by implementing policies of beneficiation.

More than two decades ago, Wålde (1991) prophesied that resource nationalism is likely to reappear as long as wealth and economic power are distributed unequally. This seems to be the present situation in several resource-rich developing countries, which are still consigned to the lower value-added segments of the value chain, enjoying limited fiscal benefits from the operations of the MNEs in their resource sector. However, the experience of the late 1960s and early 1970s demonstrates that nationalising the resource sector does not result in economic development. The issue is ensuring that resource-seeking FDI results in FDI-facilitated development.

This issue, which has continuously confounded policy makers in resource-rich developing countries, is the subject of this book. Its thesis, which draws on the work of Evans (1995), argues that resource-driven, FDI-facilitated development occurs when the industrial policy process is conducted in an institutional environment characterised by embedded autonomy. This is the institutional setting in which highly efficient and autonomous bifurcated bureaucracies are embedded with an entrepreneurial and capable private sector. This thesis is tested by examining the case of four resource-rich developing countries in the Caribbean Community (CARICOM).

This study examines the bauxite industry of Jamaica, Guyana and Suriname, and the proposed aluminium investments of Trinidad and Tobago. This book is the first of its kind to examine the issue of embedded autonomy for the resource sector of small, developing countries. The other works on this subject have focused on the manufacturing industry in Japan and the South East Asian newly industrialised countries (NICs) (for example, Johnson 1982; Amsden 1989; Wade 1990).
The organisation of the book

Following this Introduction, Chapter 1 links the literature on resource-seeking FDI and economic development with the concept of embedded autonomy. This is followed by Chapter 2, which introduces the four countries that are the focus of this study. In so doing, this chapter examines the political and socio-economic conditions prevailing in these countries over the last two decades. It also analyses the role that the resource sector has played in these economies over the same period. Chapter 3 uses the value chain framework to analyse the structure and dynamics of the international aluminium industry. Chapter 4 examines the issue of industrial upgrading in the value chain and links it to the concept of FDI-facilitated development. It also employs the value chain framework to articulate what constitutes FDI-facilitated development in the aluminium industry.

Chapters 5 to 8 are the case study chapters. They examine the extent to which resource-driven, FDI-facilitated development has occurred in the bauxite industry of Jamaica, Guyana and Suriname (Chapters 5 to 7) and in the proposed aluminium investments of Trinidad and Tobago (Chapter 8). Chapter 9 undertakes a comparative analysis of these four focus countries. Its main objective is to ascertain the extent to which the institutional framework they created for the industrial policy process has allowed them to achieve resource-driven, FDI-facilitated development.

Chapter 10 is the concluding chapter. It answers two questions that were posed at the conclusion of Chapter 9. These are:

1. Are the bauxite-rich CARICOM countries destined to remain passively incorporated in the international aluminium value chain?
2. Are they going to continuously deny themselves the privilege of reaping the maximum benefits of resource-seeking FDI?

In answering these questions, this chapter analyses the issues that the four focus countries and other resource-rich developing countries need to address when creating an institutional environment characterised by embedded autonomy.

Creating an institutional environment for resource-driven, FDI-facilitated development in small resource-rich developing countries: Lessons learnt

This study highlights the idiosyncratic nature of embedded autonomy. This institutional framework operated with relatively efficacy in Japan and the South East Asian NICs, which are culturally, economically and socio-politically different from the four focus countries. Thus, if the focus countries are to create this institutional environment for the industrial policy process for their strategic resource industry, they need to address several issues.
Firstly, the focus countries wisely created bifurcated bureaucracies to manage their strategic resource industry. However, with the exception of Trinidad and Tobago, their governments failed to endow these institutions with the requisite resources that allowed them to operate efficiently. Governments in developing countries, especially small ones, often lack the fiscal resources required to implement broad-based public sector reforms, as recommended by the multinational lending institutions. However, these fiscally constrained governments should not be greatly challenged to provide selected bifurcated bureaucracies within their public sector with the requisite resources (human, infrastructural and financial) that will allow them to operate efficiently. This certainly is applicable to the case of Jamaica, Suriname and Guyana.

Secondly, the industrial policy process needs to be supported by political will. Developing country governments, as the case of Guyana highlights, which have experienced frequent changes in policies for their resource sector, specifically the movement away from investor-friendly policies in the pre-independence era to nationalisation in the immediate post-independence era, to the return to investor-friendly policies in the 1980s and 1990s, seem to lack the political will to formulate and implement industrial policies that could result in the sustained development of their resource sector. Strictly following the tenets of their recently adopted neo-liberal policy stance, these governments often relegate the industrial policy process to their resident MNEs. Unfortunately, this posture does not result in resource-driven, FDI-facilitated development.

Thirdly, in the twenty-first century, the industrial policy process needs to be accountable and transparent to the general public. The institutional framework of embedded autonomy was created by Japan and the South East Asian NICs under specific socio-economic and political conditions. During the late 1950s and 1960s, several of these countries were economically improvised, lacked dynamic civil society organisations and were governed by authoritarian leaders. However, in the twenty-first century, the environment for industrial policy making and implementation has changed considerably for governments, institutions and firms. These entities are increasingly being called to be accountable to their stakeholders. Hence, developing country governments now need to ensure that the industrial policy apparatus is accountable to the general public. Indeed, as the case of Trinidad and Tobago’s venture into aluminium smelting vividly illustrates, issues of embedded autonomy as well as accountability and transparency are currently considered to be critical to effective industrial policy formulation and implementation.

A critical component of an institutional framework characterised by embedded autonomy is the presence of an entrepreneurial and capable private sector. Developing countries, which have undergone European colonisation and implemented a strategy of nationalisation of the productive sectors in their immediate post-independence era, often suffer from a
paucity of internationally competitive locally owned firms. Moreover, the highly profitable, relatively large locally owned firms in these economies are often not involved in the resource sector. Instead, they are engaged in less risky ventures such as retailing and distribution. The locally owned firms that are involved in the resource sector are often small and micro enterprises operating on the periphery of the private sector. Thus, governments in these resource-rich developing countries are challenged in their attempts to include the locally owned private sector in resource-driven, FDI-facilitated development. These governments need to develop a comprehensive programme that seeks to foster competitive locally owned firms which are capable of participating in resource-driven, FDI-facilitated development. The elements of this programme would include the provision of World Trade Organisation (WTO)-compatible investment incentives to these firms, the implementation of policies that encourage locally owned firms to engage in productive activities as well as engaging the services of entities like the International Finance Corporation, which has successfully implemented linkage programmes in the mining sector of developing countries.

Finally, Japan and the South East Asian NICs implemented several innovative and culturally appropriate mechanisms to facilitate private/public sector collaboration. Developing countries are currently being encouraged to create such mechanisms. However, as this study shows, they are likely to encounter several challenges when establishing institutions for private/public sector dialogue. The most critical challenge is preventing these institutions from being captured by segments of the private sector, which do not totally represent the interests of the private sector as a whole. This issue is especially critical in plural societies like those of Guyana, Suriname and Trinidad and Tobago, where the private sector has always been dominated by specific ethnic groups to the disquiet of the others. Hence, these governments need to devise socio-cultural mechanisms for private/public sector dialogue, which attempt to include the dominant as well as the peripheral groups of the private sector.
1
The Importance of Institutional Efficiency to Resource-Driven, FDI-Facilitated Development

Introduction

The last three decades have witnessed a resurgence of FDI into the primary sector (fuel, ores and minerals) of some resource-rich developing countries. This surge in resource-seeking FDI has been triggered by privatisation schemes implemented in the context of structural adjustment programmes; favourable price movements in some commodities, for example, oil; growing demand from rapidly industrialising countries such as China and India and technological developments (UNCTAD 2005). The statistics are illuminating; for example, during the period 1989–1991, FDI inflows into the primary sector of developing countries totalled US$602 million. However, a decade later, these inflows increased by more than 300 per cent; during the years 2001–2003, FDI inflows into the primary sector of developing countries soared to US$1,855 million, which was a little more than 75 per cent of the value of FDI entering into the primary sector globally (UNCTAD 2007).

It is noteworthy that these FDI inflows have been accompanied by high commodity prices. After decades of low prices, the phenomenal growth of emerging market economies has fuelled price increases (see Figure 1.1). Global prices in non-agricultural commodities began increasing especially after 2002. This increase in non-agricultural commodity prices was briefly interrupted by the financial crisis of 2008 while the pre-2008 upturn, the 2008 to 2009 downturn and the post-2011 upturn were compounded by the actions of speculative investors (Kaplinsky 2011). Interestingly enough, these price increases are likely to persist. The economic ascendancy of the emerging market economies, notably China and India, along with the resource-intensive stages of their current development could result in a long-running acceleration of commodity–demand growth that would translate into high commodity prices (UNCTAD 2007; Collier 2011).

Not surprisingly, the resource-rich developing countries are becoming increasingly dependent on these renewed FDI inflows. As Figure 1.2 illustrates, over the period 1995–2010, the primary sector played a critical
role in the economies of some developing countries: in notable cases such as Venezuela, Nigeria, Jamaica, and Trinidad and Tobago, mineral and fuel exports contributed more than 50 per cent of the total merchandise exports.

The 1990s have also seen a dramatic change in the development strategies pursued by many developing countries. Encouraged by the multilateral lending agencies, policy makers in most developing countries, including resource-rich ones, have abandoned dirigiste policies. The government’s role in most resource-rich countries is currently relegated to policy making and regulation. It is the private sector which is now bestowed with the task of economic transformation. Given the dearth of local entrepreneurs in many of these economies, it is the foreign firm, the MNE, which is currently operating in the non-fuel resource sector. Indeed, governments in many resource-rich developing countries are actively implementing investment promotion policies to attract these investors (for example, Wälde 1991). Thus, the engine of growth in many resource-rich developing countries is currently being manned by the MNE. Hence, it could be argued that the sustained economic development of resource-rich developing countries now partially rests on the activities of the resource-seeking MNE. This thus begs

Figure 1.1  Non-agricultural commodity annual price indices, 1980–2011
The question as to the role that the resource-seeking MNE could and should play in the economic development of these countries.

The resource-seeking multinational enterprise and economic development in resource-rich developing countries

The shifting focus from fiscal benefits to positive externalities

The resource-seeking MNE emerged in the late nineteenth and early twentieth century. By the 1960s, these MNEs, which often used and abused power, dominated the international resource industry (for example, Barnet and Müller 1974). During this period, the activities of the MNEs stimulated the interests of many researchers, who argued that these firms had the power, the resources and the global reach to hinder the territorial-based objectives of national governments in both developed and developing countries (Barnet and Müller 1974).

Hence, not surprisingly, much of the early literature that examined the relationship between the resource-seeking MNEs and their host developing countries focused on issues such as the distribution of power, costs and
benefits between the two parties (Penrose 1968; Girvan 1970, 1971a, 1971b; Mikesell 1971; Vernon 1971; McKern 1976; Radetzki 1977). This relationship was oftentimes perceived as being exploitative with several writers positing that the long history of the resource-seeking MNE’s operations in these economies had only resulted in their persistent underdevelopment (see, for example, Girvan 1970; Levitt and Best 1975). These academic concerns were reflected in the nature of the concession agreements that were concluded between the MNE and the resource-rich developing economies during the pre-1980 period. Most of these concession agreements tended to concentrate primarily on maximising the fiscal benefits from the MNE’s activities in the economy. Dissatisfaction with these concession agreements reached a peak in the 1960s and early 1970s, culminating in nationalisations and even expropriations (McKern 1993). While there has been a recent shift away from concession agreements that focus primarily on fiscal benefits to ones that attempt to capture both direct benefits and positive externalities of FDI, including improved technological skills, management and know-how, induced investment in other industries and the upgrading of the general skills of the workforce (McKern 1993), little attention has been paid recently in the literature to the role that the resource-seeking MNE currently plays in enhancing the development prospects of resource-rich developing countries.

The resource-seeking multinational enterprise and stunted economic development: academic explanations

Interestingly enough, with the exception of few countries, it appears that the characteristics of production in the resource sector of developing countries have generally remained unchanged for the past century. Many resource-rich developing countries are still engaged in low-technology activities such as resource extraction with very limited processing of the extracted minerals being conducted locally. Research conducted in the early 1970s attempted to advance explanations for this manner of production organisation. One such study is the seminal work of Vernon (1971), which claims that factors such as history, the scale of investment required, the complexity of technology and the importance of downstream markets played an important role in determining the production structures adopted by MNEs in the petroleum and hard minerals (copper and aluminium) industries in the early 1970s.

Another study adopted the innovative value chain approach to examine the factors determining the extent and form of the MNE’s involvement in the non-fuel primary industries of developing countries (Girvan 1987). This study identified the industry’s production and processing technology and its market characteristics as influencing the barriers to entry, investment opportunities and rates of return at different stages of activity in these industries. Girvan (1987) further posited that the economic and political environment
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