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**CONSIDERATIONS ON THE INFLUENCE OF THE
OVERRELIANCE ON NATURAL RESOURCES
EXPLOITATION ON ECONOMIC DEVELOPMENT**

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Abstract:

The reliance of a country's economic development on the exploitation and export of natural resources does not automatically generate problems, but a resource based development model does not promote sustainable development, as it generates a higher dependence of the economy on the exploitation of raw materials, with lower export values than manufactured and processed goods and higher price volatility. Although the exploitation of resources may support economic growth for a number of years, they may eventually be exhausted, or their exploitation may become financially unsustainable, with negative effects on a country's economic development.

Key words: primary commodities, natural resources, economic growth

1. Introduction

Although apparently countries endowed with plentiful natural resources should have an advantage on the route towards economic development, the economic data from the last half a century proved that for many of them that is not the case, leading some authors to designate the situation under the name of “commodity trap”. The reliance of a country on its primary commodities for achieving economic development is not by itself a generator of problems, as some developed countries such as Australia, Canada, Denmark, Finland, South Africa and others, owe their development (at least partially) to the exploitation and export of natural resources.

Still, the causes that differentiate this countries from those caught in the “commodity trap” are varied. A primary cause would be the reliance on the export of a few primary commodities, without making the translation to more technological intensive, higher value products. Other factors leading to the “commodity trap” may be the volatility of the prices of the primary commodities, the decreased demand for some primary commodities due to technological advances and increased production efficiency, the strong and uneven competition from the advanced countries regarding the manufactured goods and the difficult access to more advanced technologies, a narrow specialization on just a few primary commodities, the negative externalities generated by the excessive exploitation of natural resources, problems related to the weak governance and rule of law, corruption, social issues etc.

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2. Natural resources exploitation and economic growth

One of the main challenges to sustainable economic development of many emerging countries has been their reliance on the export of a few or even on a single commodity, many times raw materials. In recent years, although the negative effects of the economic crisis that started in 2008 were felt both by developed and developing economies, some of the emerging economies have been harder hit, due to the crisis effect on the commodity prices. This meant a drop in the commodity prices, especially for raw materials, which for many developing countries were the basis of their exports, leading to a decline in exports, diminished trade and investments, increased unemployment and slower economic growth. If the initial impact of the economic crisis took some time to propagate with some emerging economies remaining largely unaffected - as the economic growth in some developing states remained relatively untouched, such as China and India, which still had growth rates of above 5 % [1], its effects were soon felt. These effects derived from diminished market confidence, which contributed to the propagation of the crisis through diminished trade and an increased risk aversion, leading to a fall in the net capital flows to developing countries, from \$1.2 trillion in 2007 to \$363 billion in 2009 [2] and diminished investments (with cancelled infrastructure projects having a significant impact) and remittances. According to the International Monetary Fund [3] many of the poorest countries experiences the growth of incomes per head fall almost to zero, with the average real GDP/ per capita in countries from sub-Saharan Africa contracting for the first time after a decade of growth.

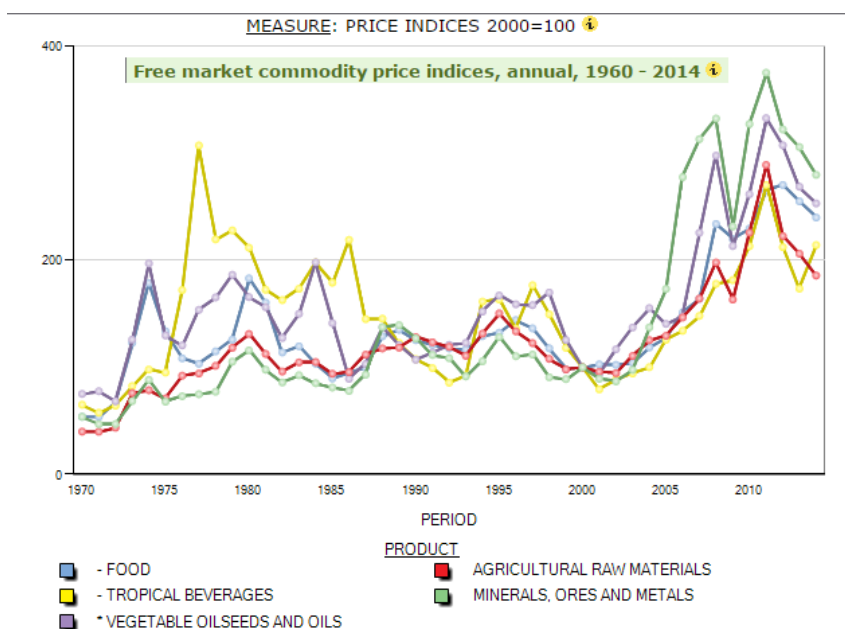


Figure 1 Free market commodity price indices

Source: <http://unctadstat.unctad.org/wds/TableViewer/chartView.aspx?ReportId=59954>

One of the results of the crisis and the subsequent economic problems was an increase in poverty, especially in countries already facing economic problems, social inequalities and a high poverty level, as many of the workers lost their jobs or have seen

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their working hours, wages and benefits reduced (in areas such as construction, trade, goods manufacturing). Among other effects was increased job insecurity, as a lot of people were forced to accept jobs in the underground economy, as the number of legal jobs available diminished and negative effects on small businesses and subsistence farmers. In this sense, a United Nations report of 2009 [4] estimated that the effects of the global economic recession have increased the number of people living under the poverty line with more than 100 million people especially in poorer countries already negatively affected by the increase of the food prices in 2008.

Besides the overreliance of a country's GDP on the export of raw materials, the unsustainable exploitation of natural resources generates further social and economic problems, leading to negative long term effects on the economic development. This type of exploitation may be the result of internal factors (high poverty, lack of education, corruption and poor governance, weak rule of law) or external pressures. One such external pressure may come from the restrictive legislation imposed in the importing countries on the exploitation of their own resources, with timber and fishing as notable examples. In many situations, restrictions imposed on forest cutting for timber or trade restrictions on tropical timber, promoted for the positive purpose of conserving the forests, have not generated only positive results, as timber companies from many countries in which such laws have been enacted (such as India, Pakistan, Malaysia, China, and many other countries from EU, North and Latin America etc) have moved to countries with less restrictive legislations, weaker governments or higher corruption which still have exploitable forests, with negative effects on the economies, environment and security of those countries. For example, India's growing economy has been dependent, among other imported natural resources, on wood products, among which timber logs, especially from Myanmar and Malaysia, which constitute up to 88% of the country's wood imports [5]. Myanmar is one of the countries most affected by deforestation, with timber and plantation companies from China and Malaysia controlling most of the sector. At world level, illegal logging has been estimated to represent from 10% to 30% of the global timber trade, with a value of 30 to 100 billion USD per year [6].

The risks to the local and national security of a country related to the unsustainable exploitation of timber may come in various ways. They may range from the illegal cutting of natural forests, some of them of high value and targeting rare species, to illegal cutting for building materials, furniture saw wood, pulp for paper industry to the use of the wood as fuel or for charcoal, with severe economic, social, environmental and even military implications.

The economic implications may be localized (for example loss of jobs and bankruptcies of local businesses under the pressure of large foreign companies) or of national importance (through extensive tax evasion, fraud and diminished legal production and trade of timber and wood products generated by reduced forest surfaces).

In Romania, the foreign companies involved in timber exploitation have registered significant increases in profit (even in recession conditions), through the exploitation and export of timber, with negative effects on the environment and the local population and businesses. The three main foreign companies controlling the market reap the benefits from their higher productivity and lower local wages export timber or selling the wood to local furniture producers. In 2014, the price for timber has risen, as a result, with 30%, while the price of furniture has risen only with 2-3%, pushing many of the small and medium local producers out of business (both due to unsustainable raw material prices, but

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also due to shortages of raw materials, as most of the timber is exported directly). The situation affects more than just the local communities, as the exported timber brings a lower added value than manufactured products to a country's GDP.

In respect to the military and security implications, logging has often been the center of a vicious circle, in which the exploitation of forests funded terrorist groups and military campaigns, followed by military campaigns being fought in order to gain control over more forest areas to be exploited. In many African countries with civil wars and conflicts (Somalia, Mali, Sudan, Democratic Republic of Congo, Central African Republic, Liberia etc), rebel and militia groups may extract from illegal charcoal trade resulting from heavy logging between 111 million and 289 million USD each year [7].

The situation is by no means restricted to the African continent, as the case of Cambodia is a reference example of the vicious circle of illegal exploitation of resources and conflict. After the cut in the Khmer Rouge financing from the communist block after the end of the cold war, both the group and the government forces found sources of financing of their operations, but also for personal gains, by the exploitation of natural resources such as timber and precious gems. The natural resources fueled the continuation of the conflict, resulting in devastating implications on the environment, not to mention the economic and social impact. For instance, the forest covered surface of the country decreased dramatically, from 73% in 1969 to 30% in 1995 [8] as a result of logging and destructive agricultural practices used by the impoverished population. Thai companies, though the official Thailand policy was of non-cooperation with the Khmer government, contributed to the conflict through the very lucrative timber trade, which supplied US\$10 million - US\$20 million per month [9] to the Khmer forces. Far from generating just an environmental disaster, the situation has significant social and economic implications, as the local population could no longer use the forest and nearby agricultural land due to fighting, armed rebels or landmines. The government armed forces gained almost complete control over the country's forests, leading to extensive logging operations for personal profit which increased insecurity and weakened the state budget revenues.

Deforestation and war create a vicious circle in which conflict and negative social and economic influence can be exported beyond the borders of a specific country. In Cambodia's case, Vietnam and Thailand had an important influence in deforestation, as due to their high rates of deforestation, they focused their attention on their neighbor, in order to satisfy their internal timber demand. In Liberia, the dictator Charles Taylor first funded the invasion of the neighboring Sierra Leone by the rebel group Revolutionary United Front (at some point, the rebel group gaining 125 millions USD annually from the illicit diamond trade), in order to control the profitable diamond fields, and after this source of financing ran out, he turned to another source of revenue, Liberian timber, which fueled a bitter internal civil conflict for a few more years, with devastating effect on the country's economy. Although accurate reports are difficult to obtain, according to some sources, the revenues from the exploitation of the country's timber were in 2000 of at least 106 million USD, with only 7 million USD registered as revenue to the state budget (a staggering 94% of the revenues from timber being diverted from the state's GDP).

Another issue related to the overreliance on natural resources to generate economic growth derives from the unequal allocation of the wealth resulting from the exploitation of the raw materials among the members of the society. As natural resources tend not to be distributed evenly over a country's territory, this leads to differences in economic development between various regions of a country, but also to differences in wealth

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allocation may arise between various ethnic groups, between people living in cities and in the countryside, between those with higher incomes and those with lower incomes etc. Regardless of the specific type of differentiation, the crucial issue in a conflict free and sustainable exploitation of natural resources is a correct estimation of both the costs and benefits of a decision in this respect, both on short term and long term, and also on how these benefits and costs are going to be spread between the components of the society, as the higher the disparities and the inequality, the higher the resentments and the probability for tensions and conflict. Obviously, cutting down on the social, environmental and economic costs of a decision regarding natural resources exploitation is the correct way ahead, but many countries (even in the situation when various interest groups are not influencing the decision for personal gains) are faced with the difficult decision of choosing between short term benefits and long term (sometimes huge, but more difficult to quantify) costs.

3. Conclusion

A resource based development model is not very beneficial for the long term economic development of a country, as it promotes a higher dependence of the economy on the exploitation of raw materials, with lower export values than manufactured and processed goods and higher price volatility. Also, although the exploitation of resources may support economic growth for a number of years, on the long run (or even medium run, for resources such as timber) they may eventually be exhausted, or their exploitation may become financially unsustainable.

Even in cases when the resource based development model is beneficial for the country (the case of powerful emerging economies such as China, India, Brazil etc), it may generate additional costs at even global level (through pollution, destruction of the environment, use of agricultural land for other purposes etc).

Nations need to realize that, beyond the measures that can be taken internally to diminish the dependence on natural commodities, global sustainable development also depends on their willingness to engage in international cooperation, as often countries lack the ability to achieve these purposes solely with its own resources, they need to reduce the costs, ensure the legitimacy of policies and share the responsibility with other countries [10].

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