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So Close Yet So Far: Contrasting Andean Attitudes towards Foreign Direct Investment

By: Daniela Peinado

ABSTRACT

Should a developing nation embrace foreign direct investment, or are such decisions more likely to result in a dependency that inhibits growth in the long run? The recently elected presidents of neighboring countries Bolivia and Peru have opposing attitudes in this regard, despite their analogous reliance on mineral exports and predominantly indigenous populations. I closely examine the impact of two lucrative mines—both in production for over one hundred years, privatized around the turn of the last century, and most recently owned by Swiss company Glencore. I find that Morales's choice to renationalize the mine in Bolivia is justified based on the perceived impact of foreign involvement, the desires of his constituents, and his overwhelming concern for the environment. However, though the country has made significant financial gains thus far, it is still too soon to fully realize the repercussions of his decision. On the other hand, as Peru enjoys a relatively prosperous economy, even a narrowly focused case study illustrates the merits and downfalls of neoliberal policies in Latin America.

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INTRODUCTION

Foreign direct investment is a divisive topic in the study of international political economy, and especially important as the world continues to grow interconnected. Opponents contend it is exploitative and leads to dependant development, while proponents suggest it might even be essential for economic growth, providing capital, technology, and employment. The current governments of Bolivia and Peru have contrasting attitudes towards foreign direct investment, exemplifying the two sides of the argument.

FDI is a “measure of foreign ownership of productive assets, such as land, factories and mines” (UCSC Atlas). I chose an extractive project in each of the Andean countries due to their

abundance of natural resources. Specifically, I examine the Colquiri mine in Bolivia alongside the Yauliyacu mine in Peru—both sold to Swiss company Glencore around the turn of the century—to analyze the relative impact of privatization.

I will seek to establish the policy positions of both governments by looking at what the recently elected presidents have said and done upon being inaugurated. I then closely investigate the two mines in order to determine whether the government's attitudes towards FDI are justifiable. In Peru Yauliyacu is expanding and thriving; meanwhile a year ago in Bolivia Morales chose to renationalize Colquiri. I look at Glencore's impact on the environment, employment, and standard of living in both countries in order to compare its performance. I find that the mine did relatively well in both neighboring states, but that Morales was willing to risk the mine's productivity in order to uphold his political promise of taking back full control of the country's mineral wealth.

POLITICAL POSITIONS

Bolivia and Peru share an intertwined history, culture, and even the Andes Mountain range. Though the lands bankrolled the Spanish empire, the countries are still trying to fully capitalize on their extensive mineral and energy wealth. In the 1980s there was a world-wide decline in mineral prices, so following the Washington Consensus, Western states and international financial institutions encouraged neoliberal structural adjustment policies in Latin America, including massive privatization. But a lack of success led to political upheaval, and today both countries have populist presidents.

Bolivia's Evo Morales was elected to presidency in December of 2005 (Encyclopedia of World Biography). Unlike most of his predecessors the president has made quite a few headlines. Morales is the first president of indigenous origin to be elected to the office, though an overwhelming 70 percent of the population is indigenous as well. He first ran in 2002 but lost by less than 2 percent. So he has remained true to his roots and extremely humble. For instance, just a few days after being sworn in as President, he pushed the government palace's starting time to 5 in the morning and cut his salary by almost half—down to 15,000 bolivianos or 2,140 dollars (Gutsch 2006). He owns one suit, no tie, and will not let anyone else wash his clothes.

Morales is also popularly considered a revolutionary. At a ceremony on March 20, 2006, the President said he would “give his life to accomplish the nationalization of Bolivia's natural resources,” a promise on which he has so far delivered (Bolivia Solidarity Campaign). Since coming to power he has nationalized more than 20 companies (Erquicia 2013). The shift started May 1, 2006, when Morales put forward Supreme Decree 28701, declaring all of Bolivia's oil and gas industry a patrimony of the state (Latham 2007). He believes exploitative Western countries desire to keep the country as merely an exporter of raw materials, but that it is time to take control of Bolivia's nonrenewable resources (Associated Press 2007).

There were also elections held recently in Peru; in 2011 Ollanta Humala was selected as President. Humala first ran in 2005, the same year as Morales, and was also extremely popular with Peruvians of indigenous descent. His anti-imperialist stance was well-liked, and earned him 47 percent of the vote, but in order to win in the next election he had to run as more of a moderate (Minster 2013). Some observers think Peru can be added to the Latin American countries that have turned left or joined the “pink tide,” especially since Humala was once allied with Venezuela’s late President Hugo Chavez (Cherian 2011). Humala’s platform of “integrated nationalism” puts him in step with Morales (Minster 2013). However, though he promised to redistribute gains from the successful mineral export industry to the poorer populations, unlike Morales, Humala’s policies have been decidedly more cautious.

According to the International Monetary Fund, Peru will be South America’s fastest growing economy in 2012 and 2013 (Quigley 2012). But the upturn has mostly affected those in the cities, leading to an increase in income inequality as well (Peruvian Times 2012). Thus, Humala rightfully wants to improve the lives of his indigenous supporters without stunting overall growth. Since taking office, he has tried to achieve this by increasing taxes on mining companies and giving indigenous communities the right to be consulted before facing development on their land (BBC News 2011).

BOLIVIA: COLQUIRI MINE

The Colquiri mine is located 160 km south of Bolivia’s capital of La Paz. Discovered in the sixteenth century and in production since 1939, it has never been known to incur losses (Bolivia Information Forum 2012). It principally produces tin and zinc.

The mine was privatized in 1999, sold to the mining company that belonged to former president Gonzalo Sanchez de Lozada, commonly known as “Goni.” (Achtenberg 2012). But after violent protests regarding the exploitation of the country’s gas reserves, Goni went into exile, and the mine was purchased by Glencore in 2004. Glencore is the largest company in Switzerland and the largest commodities trader in the world; its activities revolve around metals, minerals, energy, and agricultural products (Glencore International).

Following natural gas, mining is Bolivia’s second biggest foreign currency earner, representing about 40% of the country’s exports (Reuters 2012). Bolivia’s most important metal exports are silver, zinc, and tin, all found at the Colquiri mine. In 2011 alone the mine produced 2,200 tons of tin concentrate, or \$55 million worth of tin, about 15% of the national production (Reuters 2012). Bolivia is now the world’s sixth largest producer of tin, with 8% of the global total (Rossler 2012).

From 2005 until its operations in Colquiri ended in 2012, Glencore paid over 70 million dollars in royalties, taxes, and fees to the state (Glencore International 2012). The company’s capital investments in Colquiri were another 22 million dollars, and overall it has invested over 250 million dollars in the Bolivian mining industry and wider economy. The nationalization

happened just as Glencore was in its final stages of renegotiating its mining contracts; the new agreement would have given Bolivia 55% of the profits, and included further investment commitments.

ENVIRONMENT

Morales is infamous for his relentless defense of the environment. For instance, he refused to negotiate at the Copenhagen Conference on climate change, siding with late Venezuelan President Hugo Chavez, who stated “The rich are destroying the planet” (Broder 2009). In 2009, Morales presided over a new social-democratic constitution, saying this was the century of “the battle for the universal recognition of Mother Earth in all legislation, treaties, and national and international agreements” (Climate and Capital Monthly Review 2013). Moreover, he contended that “we cannot sell our sacred Mother Earth solely on the basis of false illusions that markets will promote some financing for our peoples. Our peoples and Mother Earth cannot now or ever be for sale.” The constitution passed and Morales was reelected with a large 64 percent, evidence of his strong public support.

The perceived impact of foreign investment on the environment alone is enough to get him involved. Furthermore, his public support depends on it. For example, when he agreed to allow a highway through an indigenous territory his approval rating temporarily plummeted from 70 to 35 percent (Webber 2012). In this case, in response to the government’s decision to nationalize the mine, the vice president said “We’re not going to hand our country over to foreigners who destroyed Bolivia and left it stagnating for 20 years.” This not only reverberates with the president’s constituency but reflects the administration’s biggest concern: protecting the environment while finding a way to boost the economy. The government did not state specific problems with Colquiri, but used the depletion of the environment as an overarching justification.

In general though, extractive projects have widespread consequences. Though they offer opportunities to generate economic development, they “threaten local livelihoods, require large volumes of energy and water, and produce large amounts of waste” (Centre for Economic Development 2013). This may be an issue whether the mine is privately or nationally owned, but the state inevitably has a greater interest in trying to circumvent the long-term effects of such projects.

EMPLOYMENT

Though Glencore’s operations span 33 countries, throughout these the company employs just 58,000 people. Its main concern is not employing miners as much as extracting resources as efficiently as possible. This is not an issue in Peru as it is for Morales.

Bolivian miners have also grown into a union with great political assertiveness. If the people are discontent they often erupt into strikes and riots. Last June, one set of clashes in the area hurt fifteen people.

Furthermore, this is the second of Glencore’s six mines to be renationalized in Bolivia, including the Vento tin smelter in 2007. As the only foreign company to date that has been hit

twice it is clear Glencore is not living up to Morales' standards. The President believes the state is more willing to help the local population than the Swiss company. In the last ten months alone he nationalized three Spanish-owned companies, leading some to inquire if he is completely unsympathetic towards European businesses.

STANDARD OF LIVING

Part of the problem is that up to 75 percent of miners that work for foreign-owned companies do not receive any health insurance or pension benefits whatsoever (Achtenberg 2012). The majority of the public has grown to resent foreign investment, viewing it as "capitalist exploitation and racial oppression" that is indifferent to their lives (Climate and Capitalism Monthly Review 2013). This growing sentiment has led to an unnerving number of riots over the last decade.

Seeing as the poverty level has yet to decrease, successful mines will continue to be targeted and reclaimed. Extractive projects in general are the country's main source of foreign currency, so it is easy to claim the investors are in fact being exploitative and not distributing a fair share. Colquiri itself is estimated to have 5 billion dollars in untapped mineral reserves. Bolivians and its elected officials want to benefit more directly from this vast wealth. With Glencore they were receiving about half of the mine's revenue. Though the company was spending a significant amount of time and money up front, Morales still saw this allotment as exploitative. He would rather risk consuming government money in order to put Colquiri back in State hands, even if it means operating at a lower efficiency (due to a variety of factors like lack of expertise or technology).

Lastly, Bolivia's GDP is a meager \$1,979 per capita, but in 2010 it went up 4% and in 2011 it was up 5%. As the worldwide price of minerals has increased, the real effects of nationalization will be difficult to evaluate. If Morales' efforts have been unsuccessful, they will at least be masked for a few years.

COUNTERFACTUAL

Underlying these three variables is the significance of public opinion. Morales' values accurately reflect those of his constituents, and he remains one of them, comparable to the massively successful Ho Chi Minh in Vietnam. And this is where the counterfactual comes in. If he does not live up to his word or deliver on his promises soon, the popular man is not exempt. Before his rise to office the country had seen five presidents in as many years. Thus, Glencore's perceived negative impact is of the utmost importance. This is how a mine that is doing quite well and following all the rules can still manage to lose its rights to the job. The public is passionate about change, and since the mine is in a central area, it has inspired enough debate to be on the top of Morales' agenda.

Morales took office promising to distribute the wealth from extractive industries to the impoverished majority of Bolivia. It is likely no amount of success would be sufficient for him to halt taking matters into his own hands. Minerals found in the country are natural, nonrenewable resources with a limited lifespan, and they have been exploited since colonial times. In addition,

over time the amount of minerals that can be extracted per ton declines. So for Morales it is a cause worth burning bridges over. Not only is his reputation at stake, but he truly believes nationalization is the right path for Bolivia. But Glencore's mine in Peru, however, is not even close to a similar fate.

I would consider Morales' views towards FDI justifiable if you take into account the country's experiences since the 1980s. Massive privatization did not benefit the country as it claimed, or as much as it seemed to benefit the foreigners. Though his choice to nationalize Colquiri seems more a part of the president's general plan than a reflection on Glencore's performance, the company still has four mines in the country, so it has not been completely ousted. In contrast to Humala, Morales believes the state is in a position to have a more far-reaching impact.

PERU: YAULIYACU MINE

The Yauliyacu mine is located 200 km northeast of Lima, the capital of Peru. Similar to Colquiri, it has been in production for about a century and produces zinc, lead, and silver. In addition, its reserves have been successfully expanded and a significant mine life remains, a testament to its rich deposits (Burns 2011).

Glencore purchased the mine from Centromin in 1996. At the time Centromin was Peru's largest state-owned mining firm (Auty 2009). Soon after being privatized Glencore developed the mine's infrastructure, allowing Yauliyacu to operate year-round, and produce 90 thousand tons per month. The mine itself is divided into five operating sections over twenty-six levels; today it is one of the country's top ranked zinc producers (Gurmendi 2004). Glencore oversaw several expansions from 1998 to 2001.

Furthermore, in 2006 the company reached an agreement with Silver Wheaton Ltd., solidifying the latter's purchase of 4.75 million ounces of silver per year for twenty years. Last year the market cost of zinc was \$1.05/lb, lead was \$1.03/lb, copper was \$3.83/lb, and silver was \$28.33/lb, so this agreement will earn Glencore a consistent and significant amount of revenue (Burns 2011).

Peru is definitely one of the world's major metal mining countries. This is the case not only due to its mineral wealth, but due to its attractiveness to foreign investment and exploration. In Latin America, it is the leading producer of tin, lead, gold and zinc, and second for copper and silver. Worldwide, it is the second biggest producer of zinc, copper and silver, third in tin, fourth in lead, and sixth in gold. Evidently, it is a major supplier to the rest of the globe (Ministry of Energy and Mines Peru, MINEM).

Both Bolivia and Peru have vast amounts of mineral wealth. But there is a significant difference—Peru is also considered the second most attractive country for foreign investment in Latin America, and thirty-sixth worldwide (Strait Minerals). In 2011 the estimated aggregate value of investments in mining projects was \$42 billion. Of course some argue that foreign investment leads to dependent growth, but regardless this number places it in stark contrast to

Bolivia. Bolivia's unstable government and lack of sympathy towards foreign companies make investors justifiably hesitant to put money there.

The mine gives back to the surrounding country in accordance with several Peruvian laws. The corporate income tax is applied at a rate of 30% on net earnings, and the worker participation tax requires up to 8% of profits to be distributed back to employees (Burns 2011). For Peru the private company's payments and contributions are worth relinquishing some government control over the vicinity.

ENVIRONMENT

Peru's authority on the mining sector is the Ministry of Energy and Mines (MEM). MEM is the only governmental body that establishes the environmental protection policies, authorizes programs, enters into agreements, and imposes sanctions if there are violations (Burns 2011).

The mine has virtually no issues complying with water quality requirements, such as pH levels, metal content, and suspended solids (Burns 2011). Furthermore, in 2010 a reverse osmosis circuit was added to help alleviate the mine's discharges. There are similarly no issues regarding air quality, unlike its neighbor La Oroya, which was ultimately renationalized. And as soon as a minor vent was installed there have been no issues with noise levels.

From 2003 to 2009 the plant stopped producing copper since La Oroya's concentrates were more favorable. However, La Oroya was closed in 2009, because the mine failed to comply with environmental regulations. It is now known as one of the most polluted places in the world (Walsh 2013). Thus, Glencore plans to have Yauliyacu restart operations that proved unsuccessful in the adjacent locale.

EMPLOYMENT

The mine operates every day, which immediately makes one question the working conditions. But at least one day per month is allocated for scheduled maintenance. The mine operates on two schedules: support and operations. Support personnel include technical, management and administrative positions that are more permanent. These individuals work five days a week for eight hours a day. The individuals on the other side of the job, operations, work two weeks in and one and week out for twelve hours a day. The two are in separate unions.

In 2008 there were 2,415 people on the payroll, but this dropped to 1,827 people the following year. It is projected to increase in 2011 though. Thus, the working conditions are not easy but definitely not exploitative or inhumane. The jobs are a little unstable, but this does not usually affect the people in the surrounding area, for their lives revolve around the agricultural sector.

STANDARD OF LIVING

For the most part inhabitants in the property region are engaged in agricultural production. Hence, their concern is not quite the profitability of the mine as much as maintaining the water and vegetation in the area, which has never posed a problem. Water from the mine is either recycled back as processed water, or collected by ditches and redirected downstream to

Rio Rimac. The Yuracocha waterfall also drains into the river, a site that has contrarily witnessed various protests.

As a second illustration, in 2010 a new rail load-out facility was completed enabling all concentrates to be transported to Callao. At no cost to Peru, the mine's positive impact on the city was enhanced. About thirty percent of the population does still lives in poverty, but in the last decade the overall poverty rate has fallen by half. Though those in urban areas do benefit more, the country as a whole is in a steady ascent.

COUNTERFACTUAL

In contrast to Colquiri, Yauliyacu has not generated any major opposition in regards to its impact on the environment, employment, or standard of living. Although Humala does want to give back to his impoverished constituents as well, he, unlike Morales, is very fearful of the counterfactual. Glencore has increased productivity, expanded production, and provides capital and technology. He is not willing to risk losing this, and the people do not pressure him to do so.

The mine has been extremely successful in increasing productivity. In the 1990s the mine extracted on average 13 million tons a year, and this nearly doubled to about 25 million tons a year in the late 2000s (Burns 2011). It has also competently been able to replace production and expand resources and reserves (expanded into Vetas, Cuerpos, and Horizontes). This accounts for the large increase in tonnage seen in 2007, following the new Horizontes mineralization.

Constant exploration remains a priority, and is accounted for in the yearly budget. In contrast, some mines like Moroccho are barely able to relocate the few residents in the area. Yauliyacu does not face such public opposition. It requires serious capital each year as well. Glencore budgeted 25 million dollars a year for the next 10 years. This effectively covers equipment, maintenance, administration, safety, human resources, and environmental concerns. Soon it will upgrade its electrical system as well.

Furthermore, the ore found in Yauliyacu is considered a harder material than that found at other Peruvian mines. This means it requires more advanced technology and experience, making foreign involvement more attractive to the government.

Humala evidently has more faith in Glencore than Morales. Though this is just one case study, it does show he is more cautious when it comes to his relationship with foreign investors. This overall outlook has made the country more attractive to investors and even tourists.

CONCLUSION

These two cases make for an interesting and unique comparison because there are countless similarities between the Andean countries but starkly different outcomes. Both are extremely mineral rich, rely on this export, and recently held democratic elections that named populist presidents. Their leaders have expressed a desire to keep the economy growing, and to give back to their indigenous majority. Colquiri and Yauliyacu were sold to Glencore around the turn of the

century, and the mine was consistently producing, but ultimately only Bolivia chose to renationalize Colquiri.

Morales was definitely more concerned about Glencore's negative impact on the environment. Though the company was keeping up with regulations, he feels the state not only has more at stake, but is inevitably more inclined to make business sacrifices in order to protect Mother Earth. It is also the case that the Swiss company did not make a notable impression on employment or the standard of living, but in these respects the outcomes were comparable in both countries. However, Yauliyacu in Peru was not really hurting anyone. The area was relatively calm and harmless—there were few locals, and those that remained had agrarian interests that were never interfered with. Both presidents are accountable to their constituents, but local residents were not complaining much in Peru. Whereas miners in Bolivia have always been a major source of political upheaval, and are now, due to their sheer numbers, a huge force to be reckoned with. The recent revolts surrounding Colquiri demonstrate their passion and resolve.

So my central question is why, if the mine's performance was comparable, did Morales feel the need to nationalize? I conclude that this can be attributed to the political economy he was entering in to. Bolivia's economy was extremely stagnant in comparison to its thriving neighbors. Humala has no desire to fix something that is not broken. He is more fearful of the counterfactual. The leader is much more receptive towards and confident in the merits of foreign direct investment seeing as the economy is thriving. Humala inherited a country that was doing well politically and economically. Part of his campaign platform was promising not to rock the boat too much. Fearing socialist policies, the day after Humala was elected the Peruvian stock market fell 12 percent (Minster 2013). This was evidence that he could not allow himself to be perceived as a leftist President. Instead, he distanced himself from Chavez and said his mentor was Brazilian moderate Luiz Inacio Lula de Silva. The new Peruvian government was not calling for a revolution, but merely a way to maintain this stability.

Bolivia, on the other hand, is the second poorest country in Latin America. Bolivia entered a revolutionary cycle in 2000, and it came with a strong condemnation towards the neoliberalism of 1985-2000. Western countries had promised a new era, but instead the policies brought rampant privatization, inequality, and poverty. Morales was elected to a country desperate for major changes. Not only was an entirely new agenda something the president wanted, but it was something he promised. Whether or not his plans will deliver is one thing, but at least he has remained resilient and loyal in many eyes. And as I mentioned, the locals were more interested in the outcome of Colquiri than Peruvians were of its counterpart. Not only was nationalization part of Morales' plan, but his reputation was at risk.

This leads me to ask the question, was Morales' decision justified? I conclude Morales' decision to nationalize the mine is justifiable, though I think his reasoning is vague. His choice falls under his overarching plan to take back control of the country's resources. But I looked into legitimate reasons for discontent, and found there were few differences between Glencore's performance in Bolivia and Peru. I think more prominently Morales just did a simple risk-benefit

analysis. He had little to lose by frustrating Glencore, for the company has four other mines in the area and was unlikely to retaliate. And he had much to gain by taking 100 percent of the profits. Seeing as this is Morales' objective it does not matter if he upsets a few people in the process either.

The risks were also minimized due to the greater availability of technology in the modern day. In the past it was vital to have foreign investors extract minerals and industrialize; they brought the initial capital, technology, and market connections. But this is less relevant now. Even as poor as it is the Bolivian government is more competent and capable of managing its natural resources. The technology Glencore used was not a secret, and the global demand for minerals has gone up, so market connections are facilitated as well. So Morales was not taking much of a risk. Even if productivity does slow, due to a lack of capital or expertise, at least the mine is directly benefiting the country. Morales can also attribute any issues to be a result of his superseding environmental concerns.

In a way I do not see why any country would not want full control of its very own mineral wealth. I understand that it might not be feasible, because a vast amount of money is demanded up front. But I personally would risk operating at a slower pace, or making fewer business transactions, in order to maintain 100 percent of the profits. It makes more sense to me to let the technology and connections come at a natural pace, than to let any other country exploit your limited natural resources.

There are some who already believe Morales' plan has been effective. Before Morales took office, Bolivia received \$300 million from oil and gas exports; after he nationalized the nation's oil and gas production, the state received 2 billion dollars (Do One Thing). Morales has to use government money as capital, so he cannot nationalize every mine and foreign-owned company at once. And he does risk operating at a lesser capacity and losing market connections, but none of these are as important to him as having full control over Bolivia's mineral wealth.

I think it is still a little early to tell if his plan has been successful. First, the mine was renationalized barely two years ago. Second, the worldwide price of minerals has gone up, so this masks the true results. This can be illustrated by the example of China, where the economy's rapid growth takes the eyes off the government's authoritarian ways, at least for the time being. Another question will be whether he can effectively take the mine's revenue and redistribute it to poorer populations as promised.

I think Morales' policy choice is grounded in a beautiful idea and has noble intentions. He wants to distribute gains more fairly across the population. He has reason to mistrust foreign companies that have a capital value bigger than Bolivia's GDP, and who just a few decades ago promised prosperity but did not deliver. It would be wonderful if he can give back to the poor and also improve the economy. But hopefully Morales is not being overly optimistic. One can be reminded that socialism and communism were beautiful ideas too, but did not turn out to be so effective.

All in all, I think Morales and Humala's attitudes towards foreign direct investment lie mostly on WHEN they came to power. They are products of their time, emerging from popular

opinions. My intention was to say whether FDI is indeed a good or bad thing, but I think it is not necessarily one or the other; foreign investment is though, at the least a scapegoat in Bolivia.

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