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New mercantilism: A perspective on how politics is shaping world metal supply☆

David Humphreys [1],*

DaiEcon Advisors, London, United Kingdom

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ABSTRACT

The major countries consuming metals tended historically to be also the major countries producing them. It was in their interest to promote mine development to provide low cost raw materials. Over the past fifty years, the share of global production accounted for by consuming countries has declined and producers and consumers of metals have been slowly moving into separate camps having distinct and differing interests. As a consequence of this, governments of producing countries have become more focused on how to maximise the benefit of metal extraction to their economies rather than on how to supply cheap raw materials; a tendency which has found expression in resource nationalism. Governments of consuming countries have in response become increasingly concerned about the implications of this tendency to their economic development and some countries, most notably China, have adopted robust policies to secure their supplies. Through their actions to influence capital flows within the mining industry and to force metals trade into channels which better serve their national interests (a process characterised here as 'new mercantilism'), metal producing and metal consuming countries are reshaping global supply.

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Changing patterns of metal supply

The distribution of the global supply and demand of metals has changed significantly in recent years. With the rise of China and the Asian Tigers, the locus of metal demand has shifted eastwards, away from the North Atlantic towards the Pacific Basin. Patterns of metal supply have also been changing. Production has been growing in Latin America, in South and Central Asia, in Africa, and in Australasia, whilst it has been flat or shrinking in some traditionally important producing regions, the US, Europe and Russia. This article explores some of the factors which lie behind these changes. In particular, it explores the role that politics has played, and is playing, in bringing these changes about.

The price boom that started around 2004 accelerated the changes that have been taking place in the distribution of production while also serving to politicise metal supply. High and rising metal prices led governments of many resource-rich countries to the conclusion that they were getting an inadequate share of the bounty. The tax provisions which had been agreed in the trough years of the 1980s and 1990s to attract investment into the sector now looked to be overly generous. Accordingly, levies on the sector, in the form of royalties on production and taxation on profits, began to be increased pretty much everywhere.

At the same time, governments of major metal-consuming countries were also becoming interested in the sector. The surge in prices was making them increasingly nervous about the availability of metals and the longer term cost of their supplies. These concerns were partly about the commercial viability of their metal-using manufacturing sectors but they were also about the possible impact of the non-availability of metals on their economic development and on their national security.

While the politicisation of supply was in part a natural response to the changed price environment, it is argued here that it was something more than this. If it were just a response to prices then with the turn of the cycle the interest of governments in mining and metals would fade and everything would go back to where it was. Some observers talk about the 'swing of the pendulum' as though a full reversal of recent trends is more or less inevitable. While it is accepted that some reversal may occur as prices wane, some of the changes that have taken place are likely to prove more persistent.

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* Tel.: +44 2072621084.
E-mail address: david.humphreys@talktalk.net

[1] He was formerly chief economist of Rio Tinto and Norilsk Nickel.

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This is because recent changes in government attitudes towards mining are rooted in a structural shift in the industry which has been in train a long time, and is continuing today. The sections which follow examine the evidence for this structural shift, the factors which are driving it and the policies to which it is giving rise. These policies are characterised as 'new mercantilism'.

Geopolitical fragmentation

One aspect of the changing environment in which the industry is operating was drawn attention to by Goldman Sachs in its 2008 publication, *The Revenge of the Old 'Political' Economy* (Currie et al., 2008). In this, the authors pointed to the fact that the percentage of the globe controlled by superpowers has diminished dramatically over the past one hundred years, a point made graphically in Fig. 1. The world of empires is passed. The age of global domination by one or two superpowers is gone. The world we are now looking at is a multi-polar world, a world of G-Zero (Go) as it has been called (Bremmer, 2012). As a result of these trends, the world is now more politically fragmented than at any time since the seventeenth century, when mercantilism was the prevailing politico-economic system.

From the perspective of democracy this may be considered a positive development – more countries have the power of self-determination – but for global mineral supply the situation is more complex. As the political landscape has fragmented, so too has mineral policy. In consequence, there are now more people than ever involved in the determination of how minerals are supplied and more scope for individual countries to decide how their resource endowments can best be leveraged for their benefit.

In this increasingly fragmented world, Goldman Sachs argues, companies are restricted in making cross-border investments in minerals with the result that capital flows not necessarily to the highest quality projects but rather to the most accessible ones. The result is higher costs, lower efficiency, poorer rates of return, and will ultimately result in mineral prices being higher than they would otherwise be. The world, in their view, faces not so much a resource problem but an investment problem.

The world that Goldman Sachs describes carries echoes of the mercantilist world that existed back at the start of Fig. 1. The mercantilist world, as championed by such as Jean-Baptiste Colbert, the formidable French Minister of Finances under King Louis XIV, was a nationalist world politically, and economically a world of each country for itself. At its core was the notion that economics is essentially a zero sum game; that in order for one country to gain another must lose. Accordingly, the national interest was best served by the aggressive promotion of value-added exports and by the suppression of imports and it was the job of government actively to encourage these causes. As a nationalist and protectionist philosophy, it was wholly at odds with later philosophies of globalisation and multilateralism.

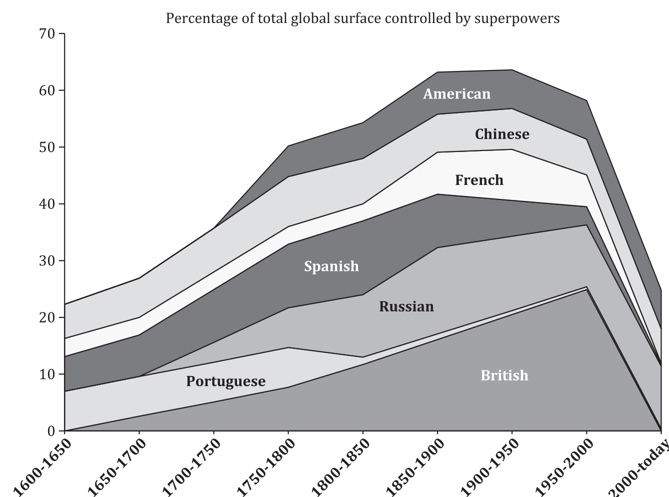

Fig. 1. Global concentration and control.
Source: Currie et al. (2008).

Polarisation of mineral producers and consumers

Important as Goldman Sachs's insights are, they capture only a part of what has been going on.

Historically, the major consumers of metals were also often the major producers of metals. During the period of European and US industrialisation, in the 18th and 19th centuries, raw materials were typically sourced locally. In the colonial world, both the production and use of metals tended to fall under control of the same set of countries. During the Cold War era, through the 1960s and 1970s, it was still generally the case that the same group of countries dominated both the production and consumption of metals. The US and the Soviet Union were very large mining countries and able to supply most of their metal requirements from their domestic resources or from those of neighbouring or closely allied countries. In these circumstances, there was a clear self-interest in metal-consuming countries devising and implementing policies which encouraged investment in mine development and ensured the supply of plentiful cheap metals to domestic consumers.

Recent years have seen the extent of this overlap between producers and consumers diminish, progressively shrinking the element of consumer self-interest. Much of the growth in demand for metals has come from East and Southeast Asia, most notably China, South Korea, Taiwan, Malaysia and Thailand, countries whose limited resource endowments make them natural importers of metals and metallic minerals. At the same time, much of the supply growth in metals has come from regions with limited domestic demand, for example, Latin America, Central Asia, Sub-Saharan Africa, Indonesia and Australia. This process of supply polarisation has, of course, been facilitated by advances in bulk transportation.

The point is illustrated in Fig. 2, which examines the proportion of metals used in metal consuming regions which are sourced locally. For the purposes of this exercise, the world has been divided into two groups; metal consuming regions and metal producing regions. The metal consuming group comprises North America, Western Europe, Japan, China and the Former Soviet Union. This group has over the past 50 years consistently

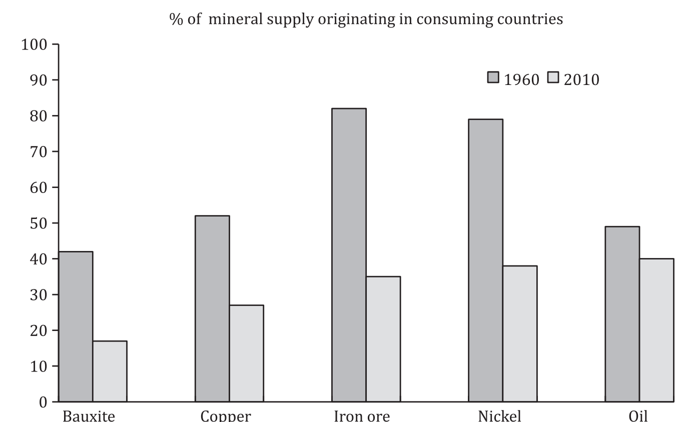

Fig. 2. Polarisation of global mineral supply.
Sources: Author's calculations based on Metallgesellschaft, WBMS, UNCTAD Trust Fund and BP. Oil data are for 1965 and 2010.

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