Bargaining to Lose:

A Permeability Approach to Post-Transition Resource Extraction

Natasha Chichilnisky-Heal

Introduction

This paper will attempt to introduce a framework for considering the problem often identified as the resource curse. The framework will address the political economy problems that emerge as a result of the distinctive path experienced by many GDP-poor but resource-rich nations in the past 20 years, focusing specifically on the issue of quality of democracy. While this is a working paper and far from complete, it seemed appropriate to submit it for judgment and comment on the basis of the theoretical ideas and the selection of cases to my colleagues at ISA.

The foundation of my argument rests on the development of the theory of permeability, which I will develop through the analysis of two cases: those of the copper mining sectors in post-socialist Zambia and post-Communist Mongolia. While the two cases may seem to bear little relation at first, I hope to show later in the paper that the comparison is not only justifiable based on the similarities alone, but that by comparing these cases we can glean valuable insights on the changing nature of democracy in poverty-stricken resource-rich nations around the world. If a theory is developed by comparing a state in sub-Saharan Africa to one in the post-Soviet sphere, it should have some traction on other states in each region and possibly also in other regions as well, although discussion or proof of that point is beyond the scope of this paper.

In defining permeability I find it useful to describe the actors involved in the bargaining game I will describe. Firstly, there are the governments of the two countries in question. I refer not specifically to the various governments that have held power since each country transitioned to multi-party democracy, but rather to the institution of the state that has existed following transition. This institution, for the purposes of my argument, incorporates party leaders (Presidents and Prime Ministers as well as leaders of the opposition), major political parties, and various bureaucracies specifically related to resource management, extraction, and export. Secondly, we have the enfranchised portion of the population in each country. And finally, we have the multinational or multilateral external actors that I argue "permeate" the democratic government of these countries through their involvement in economic and resource-based activities.

Permeability is the process by which external non-state actors such as the International Monetary Fund and multinational corporations (the IMF, or other multilaterals, and MNCs), by virtue of their relationships with cash-strapped resource-rich governments, enter into crucial roles in the governance of these nations. The foundations of the theory of the resource curse, which has at this point seen many and varied proposed mechanisms, rest on explaining negative developmental outcomes in these nations. I will explore those in more detail below. This working paper is exclusively interested in proposing a relationship between permeability and a reduction in democratic accountability of these governments to their domestic constituencies, or what I call political underdevelopment. The argument runs as follows. External actors (multilaterals and MNCs) bargain extensively with host governments over the regulation of extractive industries, and often tie development aid or loan packages to the satisfactory adjustment of regulations or conclusion of investment deals in the extractive sector. I argue, using the two cases I have mentioned, that this phenomenon skews the democratic process, providing the governments of these states with yet another constituency - the constituency of the external actors. This perverts the democratic process not simply by making the government economically beholden to the external actors, as has already been extensively argued, but by giving the external actors a permanent seat at the bargaining table of domestic politics. There are some exceptions in the cases I examine, which will be addressed during the case analysis.

The concept of permeability still holds value, however - it is not a binary but rather an ordinal variable, which measures the degree to which a democratic government and its processes have been “permeated” by actors other than its domestic constituent base. One example that I will cite below is the case of the Zambian constitutional redrafting, where despite the fact that Zambia, as a former British colony, does not operate under a Napoleonic legal system, the World Bank insisted that the government hire a Napoleonic legal system expert to lead the redrafting. Only the World Bank’s permeation of the Zambian government, I claim, led to such an egregious error on the part of the Zambian government. Permeability functions as a concept opposed to that of sovereignty -

while it is clear that in today's world few if any states exercise absolute sovereignty over their own territory and economy, states that exhibit permeation, or experience the phenomenon of permeability, necessarily exhibit lower levels of domestic sovereignty.

Roadmap

In the rest of this working paper I will do the following. First, I will provide the motivation for the paper. Next, I will demonstrate the comparability of the cases of post-transition Zambia and Mongolia and the usefulness of the comparison to my theory. Third, I will provide an overview of the bargaining game I (and others) claim takes place between external actors and developing resource-rich states, incorporating the domestic voting game into the picture. I will also describe my preliminary thinking on the incentive structures of different players in the permeability game I propose as a useful construct through which to view the resource curse problem. Finally, I will contextualize this bargaining game in the theoretical framework I have just proposed.

Motivation for the paper

The so-called resource curse is one of the greatest challenges facing developing nations today. Numerous cases of oil- and mineral-rich states stunted by civil war, large-scale corruption, hyperinflation, and limited state capacity illustrate a tragic situation, where the wealth concentrated beneath the surface has not transformed itself into wealth in the hands of the citizenry. Political and economic actors the world round want to know: what is stopping the massive revenues flowing through the extractive industries from promoting economic development in some of the poorest countries in the world? This question is both critical and timely; the emergence of the Extractive Industries Transparency Initiative (which was written into Section 1504 of the Dodd-Frank Act) indicates the momentum gathering around this basic development issue. We must therefore ask: what is preventing the development of this large set of resource-rich post-colonial states? In this paper I develop a theoretical framework in which to study this question by conducting a comparative analysis of the post-transition development of the mining industries in Zambia and Mongolia – two developing states with significant mineral wealth (specifically copper) that experienced a massive exogenous economic (as well as political) shock in the early 1990s, and that subsequently have undergone similar processes impacting their permeability and thereby, I claim, their political and economic development. The purpose of this paper is to use these two comparable but varying cases to deduce a basic theory of resource-driven underdevelopment.

Zambia and Mongolia are not the only countries to face the challenges of underdevelopment despite possession of significant reserves of natural resources. From Iraq to Bolivia, we find cases that seem to exemplify the concept of the resource curse: the idea that the existence of significant natural resources, particularly hydrocarbons or other minerals, within a nation’s territorial boundaries is the primary cause of such diverse outcomes as civil war, brutal authoritarian regimes, ethnic conflict, corruption, and widespread poverty. However, what is often neglected in the literature, and has only in the past several years been given a platform, is the fact that many of the wealthiest and most stable democracies around the world possess significant natural resources. The United States, Canada, Norway and Australia are but the most commonly cited counter examples to the resource curse theory. What makes these countries different? In particular, what has limited the quality of democracy in resource-rich states in the third world? I propose that the negative outcomes clumped under the umbrella of the resource curse are in fact highly context-specific, and that there is a great need for each type of negative outcome (loss of democratic accountability, for example) to be studied individually. It is for this reason that I have chosen to compare the cases of Zambia and Mongolia, two countries that share sufficient points of comparability to demonstrate the workings of my theory as indicating a way in which resource wealth can translate into underdevelopment, and yet are different enough to indicate the generalizability of the permeability theory. These cases will be used to construct the theory presented here, and in future iterations of this project additional case studies will be developed for theory testing.

Demonstration of comparability of cases and usefulness of comparison

In order to show the usefulness of the comparison, I will first outline the nature of the “underdevelopment” that both Zambia and Mongolia have experienced. Underdevelopment can be broken down into economic, political, and social components – I will focus primarily on the political component. The per capita GDP ppp of Zambia in 2012 was $1700 (in 2011 US dollars), ranking it

202nd out of all the countries in the world according to the CIA World Factbook. Of the Zambian population, 64% lived below the poverty line in 2006, according to the same source. And yet Zambia was once the world's second greatest producer of copper after Chile – copper, a highly traded and critical global commodity. Turning to Mongolia, the World Factbook states GDP per capita ppp in 2012 stood at $5400, placing it at rank number 151 in comparison to other nations. As of 2011, according to the same source, 29.8% of the population was below the poverty line. These facts of contemporary Mongolian life should be contextualized further, however, with the knowledge that this data from 2011 and 2012 comes 8 and 9 years respectively after discovery of the largest undeveloped copper-gold deposit in the world in the South Gobi desert. While Mongolia's GDP has been growing at a rate of between 6-7% per annum since 2010, this growth has not been reflected in the life of the average Mongolian.

The above statistics merely give a rough sketch of the economic situation of these two countries. What about the political situation? Political underdevelopment, as I operationalize it in this paper, can be broken into corruption, unstable legal environment, ethnic fragmentation, and violent protest. These four components limit the capacity of the state to enact "positive sovereignty" – the formulation and implementation of policy over its population and territory, specifically of policy that benefits the domestic population rather than either the politicians themselves or the external actors referenced in the introduction. In Zambia, the Anti-Corruption Commission, a special agency put in place by the party elected to government in 2011 (the Patriotic Front), was recently accused of corrupt behavior in its ruling on several high-profile political cases.[i] The country has been in the process of drafting a new constitution since 2009, but had failed to make significant progress towards passing a draft even since the consolidation of government in 2011 up until late 2013 when a new draft was claimed to have been produced, although President Sata has refused to release it, leading to a dissolution of Parliament. The current President and head of the Patriotic Front, Michael Sata ran his party on an anti-Chinese investment campaign in the mid-2000s, and has currently taken a note from his neighbor to the south in Zimbabwe in hinting at instituting land reforms stripping white Zambian nationals with British citizenship of ownership and labor rights.[ii] While his campaign slogan leading up to the 2010 elections was highly palatable, “More money in your pocket,” Sata has come under fire from opposing parties and civil society organizations for corruption and serious ineffectiveness in his government. Perhaps even more tellingly, during my preliminary field research in Zambia in January 2013 my interviews with citizens in the capital, Lusaka, the general attitude towards the government was succinctly summarized by one interviewee, who said, “Yes, President Sata made many promises, and yes, we have not yet seen any real progress on those promises. But it has only been two years, and here in Zambia we have learned to wait a long time for real change.”[iii]

What of Mongolia? The government, also a hybrid parliamentary-presidential system, has weathered a series of scandals in the past several years. One high-profile case was the sentencing to four years in jail of former President and former Prime Minister Nambar Enkhbayar in August 2012.[iv] Accusations of

Enkhbayar's Mongolian People's Revolutionary Party's involvement in vote-buying triggered riots in the capital, Ulaanbaatar, in July 2008 – the first time in Mongolia's history as a democracy where a transition of power was less than peaceful. More recently, Bayartsogt Sanjagav, former deputy speaker of Parliament, resigned his post in April 2013 after a report by the International Consortium of Investigative Journalists that he had secreted over $1 million in undeclared off-shore accounts.[v] Recent journalistic pieces on Mongolian politics have described both the government and the opposition as "billionaires' clubs." The generally dysfunctional nature of the Mongolian government's various coalitions between the three or four main parties, which has been ongoing since the early 2000s, is another indicator of the political challenges faced by the rapidly changing nation. Despite stable democratic practices, three of the four indicators of political underdevelopment are rampant in the country. Corruption is ever-present. The legal environment is not only destabilized by frequent changes to major legislation, but also by the ineffectiveness of regulations in the mining sector in particular. Violent protest, unheard of during the transition to multi-party democracy, is now a feature of everyday life in the capital Ulaanbaatar, and these protests take place over mining policy, either near corporations, or near the seat of government. Finally, while ethnic fragmentation is not a major concern for the primarily single-ethnicity state, Mongolia has experienced a resurgence of nationalist political parties since the floodgates opened to foreign mining and construction firms in the late 1990s and early 2000s, leading to the emergence of a neo-fascistic nationalist party known as the Blue Mongols, who support the ejection of all non-Mongolians from the country immediately – another point of commonality with recent trends in Zambian politics. One of this party's infamous slogans, which could easily be translated to Zambia, is, "Don't kill people – kill the Chinese." I saw it graffitied on many a building wall during my many years in and out of Mongolia.

Zambia's troubles with corruption have been briefly described above. The legal environment in Zambia today is fundamentally unstable, as the country is in the process of revising its constitution but has made little to no progress on presenting, debating, or passing the new draft in the course of the past three years since the arrival of the Sata regime. Corruption and challenges to the rule of law and civil rights are united in a scandal that has emerged in September 2013, wherein the president of one opposition party, Movement for Multi-party Democracy, Nevers Mumba, was to be arrested for illegitimate charges of defamation of President Michael Sata following a radio interview he gave in 2013 criticizing the government. The country has also interjected new mining investment laws (such as a windfall profits tax, which was exactly paralleled in Mongolia) into the regulatory environment and adjusted others frequently over the past decade. Violent protest has been relatively infrequent, although there was a rash of violent crimes against Chinese and Indian migrants following the death of several Zambian mineworkers during a protest at a Chinese-owned copper mine in 2005. In addition to anti-foreigner conflicts, there have been a number of high-profile protest movements taking place in the country over the past several years. In the spring of 2013 students at the national university consistently engaged in violent conflicts with the police. Both the ruling party and opposition factions have come into conflict with the police as well during political protests in the capital Lusaka. And, as mentioned above, while ethnic fragmentation among the main tribes in the country is very limited, it is growing, and the focus on removing foreigners and Sata's recent push to limit the rights of white Zambians represent strong sub-national movements.

I have yet to detail the conflict both the Mongolian and Zambian governments have generated internally (and indeed across the global extractives sector) through their varied efforts to drastically change their mining laws since the commodities market upswing starting in 2005. Both countries introduced windfall taxes (Mongolia in 2006 and Zambia in 2008). Both countries rewrote their mineral laws, and are today rewriting them again. Both countries have drawn the antagonism of mining firms and multilateral development agencies with vested interests in preventing resource nationalization from spreading like wildfire across the globe, as happened during the period from 2006 to 2009, from Mongolia to Latin America. This conflict with external non-state actors is at the heart of my theory of the underdevelopment of both countries. While some scholars of the resource curse argue that all the negative political phenomena can be attributed to what is known as the obsolescing bargain model, in which governments make bad deals when commodity prices are low and renege, with dramatic effects, when commodity prices are high, both Zambia and Mongolia have experienced such extreme interaction with external actors, particularly multilaterals, during these times that it is impossible to ignore the role of external actors in the negative political outcomes. When Mongolia goes through a downswing in commodity prices, it does not return to the MNCs on whose contracts it reneged - it goes to the World Bank, and the World Bank gives its advice and sits (literally) at the negotiating table.

Having now indicated that both Zambia and Mongolia suffer from low economic and political development despite significant mineral wealth (Mongolia possesses the largest undeveloped copper-gold deposit in the world, while Zambia remains Africa's largest copper producer and has 35 million tons of reserves left), I will now proceed to analyze the comparability of the two cases along other dimensions. After all, Zambia is a small landlocked country in south-east Africa with a population of roughly 13.5 million sharing territorial borders with Zimbabwe, Angola, Mozambique, the Democratic Republic of Congo, Namibia, Malawi, and Tanzania. Mongolia is the 19th largest country in the world and possibly the least densely populated (roughly 3 million inhabitants), with only two territorial neighbors: Russia and China. Zambia is a former British colony, while Mongolia was never technically a part of the USSR (despite often being called the sixteenth Soviet satellite). However, both countries have depended heavily on copper production and export for their economic survival for many decades. Zambia's northwestern region, known as the Copperbelt, has been producing raw copper since the 1930s. Mongolia's single largest revenue earner remains the massive Erdenet copper mine on the Russian border, which was developed by the Russians in the 1970s and remains jointly owned by the Russian and Mongolian governments. In this way, economic colonialism in the copper sector continues in both countries – one of the largest multinational mining companies operating in Zambia's copper sector today is Anglo American, which has been mining in the Copperbelt since 1928.

In addition to the political troubles that plague both nations today, they have a shared history of state socialism (communism in the Mongolian case) followed by a peaceful transition to democracy beginning in the late 1980s and early 1990s. Immediately following transition both countries were in dire economic distress. Zambia's sovereign debt topped $7 billion according to World Bank estimates at the time, while Mongolia's economy, which had mostly been propped up by Russian industry, essentially collapsed once the Russians left the country after the disintegration of the USSR. And while the copper sector in Zambia was significantly more developed in Zambia than in Mongolia, where large-scale production had only got underway in the 1970s, by the time of transition the Zambian copper sector was practically bankrupt, primarily due to lack of reinvestment during the socialist period from independence in 1964 to 1991.

Most critically for my theory, both countries were exposed to the same set of actors immediately post-transition with respect to their extractives industries. This set includes firstly multilateral development agencies, at that time ever ready with a Washington Consensus-approved set of structural adjustment programs that included rapid opening of the mining sector to international investors. The second group of actors in this set is the multinational mining companies that were invited into Zambia and Mongolia at the behest of, primarily, the World Bank and the IMF. This invitation took place through the restructuring of the countries' mineral laws, and in the Zambian case, the forced privatization and de-bundling of Zambian Consolidated Copper Mines, the state-owned enterprise that held all Zambia's mining assets and was responsible for the social welfare programs attached to them.

To summarize, Zambia and Mongolia are comparable along the key parameters of my argument. Below I present a table listing the similarities and a brief discussion of the dissimilarities and their impact on the theory development.

Table 1:

Zambia	**Mongolia**
Colonial occupation by the British	Pseudo-colonial occupation by Imperial Russia and then the USSR
State-run socialism from 1964 to 1991	State-run communism from 1921-1989
Dependence on copper mining revenues since 1920s	Dependence on copper mining revenues since 1970s
Collapse of copper mining sector by 1990s	Collapse of copper mining sector by 1990s
Small population in landlocked territory	Small population in landlocked territory
Extensive experience with World Bank, IMF, and multinational mining corporations	Extensive experience with World Bank, IMF, and multinational mining corporations
Survival of socialist party (UNIP) to present day	Survival of communist party (MPRP) to present day
Stable, hybrid parliamentary-presidential democracy since 1991	Stable, hybrid parliamentary-presidential democracy since 1991
Bargaining between government and external actors over mining investment	Bargaining between government and external actors over mining investment
Major cultural backlash against foreign investors (Chinese & Indians)	Major cultural backlash against foreign investors (Chinese & Canadians)

The major dissimilarities come down to the following: ethnic fragmentation, regional environment, geopolitical significance, climate, population density, and nature of pre-democracy regime. Zambia is composed of several ethnic groups, one of which (Bemba) is predominant. Mongolia has a small Kazakh ethnic minority in the far west, but ethnic politics play no role in the national dialogue. However Zambian ethnic fragmentation is minimal – it mostly acts on a highly localized level of government that is not hugely relevant for the purposes of this paper. The copper sector in Zambia is based in the Copperbelt, whose local politics are closely tied to national politics and which is predominantly Bemba. Regional environment and geopolitical significance are closely linked for these two countries; neither is significant on its own, so each state's geopolitical relevance is defined by its relations with its neighbors. Mongolia sits in the middle of the Sino-Russian region, has ties to Central Asia, and relies heavily on the US and EU to prop it up and keep it out of the clutches of the Russians and Chinese. Zambia is surrounded primarily by other small, relatively poor African nations, but it is a regional hub for trade and migration and is proximate to South Africa, the behemoth of the region. The main difference between Mongolia and Zambia along this dimension is that the West is more deeply invested in supporting Mongolia due to its location in a highly strategic region and its democratic regime in a world of authoritarianism. But when it comes to the mining sector, the impact of the West is felt equally in both countries. Climate is essentially irrelevant for copper mining, the issue under consideration. Variation in population density of course changes the composition of the economy and the particular developmental challenges, as well as the nature of domestic politics. But high urban concentration and almost identical population levels in Ulaanbaatar and

Lusaka (1.5-2 million in each), and secondary population concentration around the major mining areas (the Copperbelt in Zambia, and Erdenet and the South Gobi in Mongolia) limit the relevance of differing population density.

The final obvious area of dissimilarity comes in the nature of the regimes prior to the establishment of multi-party democracy. This includes both the colonial or pseudo-colonial regimes and Zambia's first government post-independence. Zambia was a British colony from the late 19th Century to 1964, after which Kenneth Kaunda's United National Independence Party took over in a single-party system and ruled till 1991. Mongolia was never officially colonized by Imperial Russia, but the White Russians fought against Mongolian revolutionaries from 1917-1921, at which point Mongolia declared itself an independent communist nation under the Mongolian People's Revolutionary Party. That party ruled until 1989, and remains a factor in Mongolian politics to this day (like UNIP in Zambia). The key differences between the two countries are the nature of the colonizers, the timing of independence, and the nature of the first independent regime. For the purposes of this paper, I am making the simplification that conditions prior to the 1970s will be excluded from the analysis. This decision is justified as follows. Firstly, copper mining in Mongolia did not become a significant revenue earner until the 1970s. Secondly, Zambia was a colony until 1964. Thirdly, the nature of the problem I am studying (bargaining between the state and external non-state actors over natural resource extraction) changed fundamentally in the 1970s with the advent of the New International Economic

Order (NIEO), a set of proposals put forth by a group of developing states that highlighted developing nations' rights to:

- Regulate the activity of multinational corporations within their territory;
- Nationalize foreign property within their territory; and
- Obtain fair prices for exports of raw materials on the international market.

The NEIO, while relatively toothless in the end, changed the conversation about resource extraction in the developing world in ways that have lasted to this day. I argue that, for the above reasons, beginning the development of the comparative theoretical framework in the 1970s is justified.

In the rest of this paper, I will outline the process by which these two sets of external non-state actors (multilaterals (IFIs) and MNCs), in their interactions with the post-transition Zambian and Mongolian governments, laid the groundwork for the underdevelopment we see today through their permeation of each government.

Overview of bargaining theory

The permeability theory I propose is best understood through the form of a bargaining game. Governments bargain with multilateral development agencies over the terms of economic assistance, and those terms include concessions regarding the legislative framework for extractive industries. Governments also bargain with multinational mining corporations over the terms of individual mining agreements. There is of course another bargaining game that occurs, between the government and the electorate, but a key point is that in both Zambia and Mongolia, despite the electorate's efforts, through national elections, to improve each country's relative bargaining position with respect to the external non-state actors, initial conditions in the post-transition period and then subsequent conditions following each iteration of the bargaining games have made it so that no matter what party or coalition came to power, the host country remained at a severe disadvantage and was ultimately forced to choose, at various points from 1991 to today, between acceding to the terms of the external non-state actors or stalling investment and ensuring further economic stagnation. This is the essence of the "permeation" I have identified, and that I claim is a key concern in the operation of democratic politics. Each case shows this mechanism at work, where increased permeability initiated during transition to multi-party democracy and economic crisis leads to a "permeability trap" wherein regardless of which party comes to power, politicians find themselves unable to effect true change in the structure of the bargaining game as well as reliant upon external actors, and in many cases turn to graft as an alternative way of satisfying their desires while in power.

I propose a new model, building on a bargaining framework, to study the relationship between extractive industries and development outcomes: the permeability approach. While in this working paper I will not formalize this model, for the purposes of discussion I define permeability as a continuous variable that represents the degree to which positive and negative sovereignty have been compromised, and argue that it enters the process under study through bargains that take place between the host country (HC) and the various types of external non-state actors. Permeability is normalized to one, where a value of zero represents complete positive and negative sovereignty and a value of one represents complete failed statehood. Obviously there are no states that exist on the ends of this open interval, but my purpose in developing the permeability concept comes from the recognition that most post-colonial states have higher levels of permeability than developed, colonizing nations, and those forced to open their political and economic borders to external non-state actors approach a value of one. One of the next steps in this paper project will be to select key quantifiable indicators that can be used to measure permeability.

I have identified four primary mechanisms through which permeability, as it is increased, can lead to political underdevelopment. After listing each mechanism I will provide a brief explanation of the process, and some examples of the process from the Zambian and Mongolian cases.

1. **Mechanism 1**: Higher levels of permeability cause lower levels of political (and economic) development by c*reating opportunities for and incentivizing corruption.*

The argument here runs as follows. When permeability increases (e.g., when Mongolia's economic situation in the early 1990s forced it to approach the IFIs and other sources of funding for economic assistance), as a result of the legislative changes that were demanded by the IFIs, Mongolia was forced to accept a number of suboptimal bargains for mining contracts. Over time, when the Mongolian government wished to renege on or oppose such contracts, politicians were able to seek high levels of graft from the MNCs as well as other interested players, such as Russia. In addition, as I have described briefly above, in both the Zambian and Mongolian cases politicians who enter office with the desire to effect change in the mining sector find themselves unable to do so, and are therefore more likely to accept bribes. As a secondary result of this effect, politicians who are corruptly motivated rather than ideologically motivated are more likely to seek office in future.

2. **Mechanism 2**: Higher levels of permeability cause lower levels of political and economic growth through *regulatory entrenchment of bad bargains*.

This is a fairly straightforward claim. Mongolia has been forced into signing a number of "stability agreements" with mining companies, which guarantee protection from any tax reform or legal reform of other kinds during the life of the agreement. Their tenure usually runs from 10-30 years, which is unheard of outside of the developing world. Peru is another example of a nation plagued by stability agreements, which leave essentially only the option of nationalization as the government's last resort, destroying international credibility and causing capital flight. The governments in both Zambia and Mongolia instituted windfall profit taxes on copper and gold in the mid-2000s, another attempt to redress the suboptimal terms of initial bargains. These led to reduction in production levels and increased conflict with the MNCs, requiring the assistance of the World Bank in both cases as mediator, further solidifying the Bank's role IN government in both countries. Therefore permeability close to 1 in the mid-1990s led to bad bargains which led both to increased entrenchment of external constituencies in each country's government and to suboptimal economic growth rates.

3. **Mechanism 3**: Higher levels of permeability cause lower levels of political and economic growth by *causing the policy space in the country's political sphere to collapse and become uni-dimensional*.

This is an argument that requires further exploration, and is as yet primarily a theoretical proposal. I have witnessed during my fieldwork in both countries, as well as other developing resource-rich states, the degree to which national political campaigns focus on the extractive sector and public discussion of politics focuses on how to use mineral wealth to reduce poverty more effectively. I hypothesize that this reduction of political debate to one issue - whether or not to nationalize natural resources, most often - reduces the opportunity to hold politicians accountable for their actions in other, perhaps more important, spheres such as education, healthcare, infrastructure, and other sources of economic growth. This explanation has not been explored at all in the literature, and I have another working paper in which I am currently expanding the concept and identifying appropriate theory-testing mechanisms.

4. **Mechanism 4**: Higher levels of permeability cause lower levels of political and economic development through *misdirection of bureaucratic growth.*

There are two primary explanations for this mechanism, and they are intertwined. The first is a secondary effect of Mechanism 1: corruption. This is very much evident in Nigeria, where the Minister of Oil is one of the wealthiest and most powerful women in the country. MNCs chalk bribes to the appropriate bureaucratic agency up to the cost of doing business in the process of competing for a new contract or extending an existing one. Opportunities for rent-seeking may draw more and more high-level bureaucrats or rent-seekers to the agencies responsible for dealing with the extractive sector, such as the Mineral Resource and Petroleum Authority of Mongolia (MRPAM) or the Ministry of Mining in Zambia. There are other agencies that may experience this effect as well, such as the Revenue Authority in Zambia, which deals with collecting customs from mining companies exporting copper along Zambia’s many borders. Bureaucrats are likely to expand their own opportunities for rent-seeking by expanding the authority or reach of their own agencies wherever possible.

The second explanation for this mechanism, while it can coexist with the first, is slightly different. It deals with the idea that there is an ideal division of the government’s budget between all bureaucratic agencies, and that permeability of the country’s government, combined with Mechanism 3, create an inequitable division of resources. The Ministries of Education, Health, and Transportation are likely to suffer significantly as time, energy, political clout and resources are distributed away from them and toward the agencies that deal with what is perceived to be the most critical issue in the country: the extractive sector. Permeability can also cause this effect by forcing the government to develop its own “expert task force” on resource issues to stand on the other side of the table from the external advisors with whom the government negotiates over critical policy. Underinvestment in health, education, and infrastructure is a clear path to underdevelopment.

The value of the permeability approach is that it is synthetic. It allows us to examine the mechanisms and symptoms identified by other approaches, but grounds the analysis in a study of the evolution of the political and economic institutions of developing nation-states through a bargaining framework. It emphasizes the importance of understanding where there is autonomy or control in the process of development, and where it can be taken away. It also points us to impacts we might not otherwise have considered, such as the phenomenon, which I have observed, of a government increasing the size of its Ministry of Mining simply because it feels outnumbered by external technical experts. The permeability approach explicitly links development outcomes with the degree of sovereign statehood and thereby the degree of a government's democratic accountability downward, towards its population, versus upwards, towards external actors.

In order to develop the permeability approach using the cases of Zambia and Mongolia, I have outlined a basic timing framework for the bargaining model under discussion:

- Time t = 1:
  - State undergoes exogenous economic shock (e.g. decolonization, decline in commodities prices)
- Time t = 2:
  - State requires financial assistance and seeks it from external actors (IFIs, other governments, MNCs)
- Time t = 3:

    - In the case of resource-rich states, a bargain (Bargain 1) is struck regarding investment in extractive industries. Although this process can often take years, I choose to represent it as a single point on the timeline. This bargain comprises a) an extractive industries investment protection regime (regulatory framework) and b) an initial investment contract for at least one project.
- Time t = 4:
    - Investment occurs. This is also a drawn-out point on the timeline.
- Time t = 5:
    - Election occurs.
- Time t = 6:
    - Bargain 2 is negotiated. This may or may not include renegotiation of Bargain 1.

Analysis of incentive structures of the actors in the bargaining game

Host Country Government (HC)

Although the incentive structure of the HC might seem to be the most straightforward in the bargaining game, in fact the HC is strictly confined in its set of strategy profiles by exogenous circumstances and by the strategy profiles of the other players in the game. The HC is also not a unitary actor – it can be broken down into parties, into bureaucracies versus executives, into individual legislators, into distinct Ministries, and so forth. The HC is not only a non-unitary actor at any given time t, but whatever aspect of it that is under study changes as we shift from one game to the next. Elections in time t = 5 are a stand-in for the possible replacement of the HC actor, whatever actor or actors we are examining. Even bureaucrats can be replaced when elections come around.

So what are the incentives of the different types of HC actors? The executive, for example, obtains utility over several terms: his level of power/ effectiveness during his time in office, his likelihood of reelection, his payoffs, his ability to redistribute payoffs, his enactment of his programmatic policy preferences, and his historical legacy/reputation. There are additional factors at play, but from my field research in Zambia and Mongolia these seem to be the most critical elements. Many of these terms are interdependent and probabilistic in nature.

A legislator has much the same utility profile as an executive, except perhaps that he will place higher weight on reelection than an executive. A legislator has made a career out of politics that he hopes will last him through each iteration of the game, whereas the executive, while he may have been a legislator in a past iteration of the game, he expects that having reached the position of executive he is unlikely to be able to continue in politics much beyond one additional iteration of the game (i.e., election). Therefore the executive may, based on political possibilities at the time and his own preferences, emphasize either implementing his preferred programmatic policies or obtaining payoffs.

Bureaucrats represent a slightly different type of player again. Career civil servants look more like legislators except that they are likely to have less control over policy formation and to place more weight on small, consistent payoffs as large payoffs can be relatively easily detected when made to relatively low-level civil servants. Ministers, on the other hand, are political appointees and are therefore interested in their own careers as functions of the careers of their party, the executive who appointed them, and are heavily invested in obtaining payoffs – in both Zambia and Mongolia this seemed to be considered as one of the main reasons to be a Minister, as well as to enable one to develop a patronage network of one's own. However in Zambia, more weight may be placed on remaining in office by pleasing the executive than in Mongolia – during my fieldwork in Zambia in January 2013 I heard many stories of ministers appointed by the Patriotic Front government being replaced multiple times just since the PF's election to government in 2011.

Multilateral Development Agencies (IFIs)

IFIs can be viewed as unitary actors, principal-agent actors, network actors, or all of these options. When viewed as unitary actors, their incentives are relatively simple; they have both a policy agenda that they wish to promote and a desire to be granted access to the decision-makers in the HC in the future. These incentives create something like a voting game, in which the IFIs present an initial policy, the HC government responds, and the IFIs adapt their policies until a compromise is reached. But viewing IFIs as unitary actors is overly simplistic. Both principal-agent problems and social network issues come into play. The principal-agent concerns have to do with distance, misinformation, and possibly conflicting incentives. For example, the World Bank in Washington, DC may have certain preferences and mandates that have to be translated by the representatives on the ground in Mongolia. And of course after a certain number of years away from the home office, many World Bank specialists I have known have exhibited a tendency to become mandates unto themselves, especially in the more remote corners of the world.

The social network issues can be even more pressing in some cases. Normally the association of an agent on the ground with an IFI is a strong link to the international reputation of the IFI, and that link restrains principal-agent problems of mismatched incentives, at least. But as Keck and Sikkink's work on transnational advocacy networks and Stiglitz' work on the social networks within the World Bank and IMF demonstrate, network connections can easily pervert intentions, and the safety of acting with others allows transgressions against the principal and its stated aims that solitary agents might not otherwise engage in. In one piece of anecdotal evidence from Mongolia, I observed the in-country World Bank Country Director and member of the WB's Oil, Gas & Mining Group spend five years pressuring the Mongolian government to accede to a particular bargain over the largest undeveloped copper-gold deposit in the world, located in the South Gobi. Once the government, its bargaining power dramatically reduced by the global financial crisis and commodity price downswing, finally agreed to the bargain, the Country Director quit his job at the WB and promptly accepted a position on the executive board of Rio Tinto, the Australian mining major with the controlling stake in the copper-gold project. While conducting field research into the social networks present in the Mongolian mining sphere in 2009 I came across a number of strong personal, informal ties between the WB Country Director and several representatives of Rio Tinto and its local partner. In addition, on many occasions during the year I lived in Mongolia I saw this group seated around a table in the local Irish bar and restaurant, forming the bonds that would influence the fate of an entire nation.

Overlapping Incentives

A key element of future analysis will be fleshing out the overlapping incentives between different sets of actors. For example, the executive in Mongolia in 1997 may want very badly to please the World Bank in order to keep grant and loan funding flowing. The World Bank wants to maintain its credibility as an impartial advisor to governments, and yet it faces the challenge that the majority shareholders are Western nations who may choose to use the Bank to promote their own agenda, often relating to creating a favorable business environment for Western MNCs. And MNCs may be (and frequently are) at the local level made up of both host country nationals and expats, leading to potential conflicts of interest in preference formation.

The Bargaining Game in the Permeability Context

I am only one of many scholars to view the resource curse as essentially a bargaining problem. I hope to contribute to the field of scholarship on this issue by utilizing the framework of permeability theory, and proposing the four mechanisms outlined about as ways in which permeability interferes in the bargaining process and leads to suboptimal outcomes that get iteratively worse for the host country and reduce the democratic accountability of the government. Let us examine the bargaining game through the lens of permeability. Permeability enters into the equation at time T = 2, where the government negotiates with IFIs and then MNCs. By T = 3, the government has been “permeated”. Many of the four mechanisms identified above are self-reinforcing - that is, the negative development outcomes that emerge from permeability reinforce permeability. That is why this is written as an iterative bargaining game, in which, even if commodity prices skyrocket, the government almost always loses. One solution to this problem that I have seen enacted in several countries occurs when the government hires competent experts of its own, who have knowledge of how the IFIs and MNCs work and are capable of holding their ground and helping the government to do the same. Of course, the ideal solution would be for citizens of these countries to start being trained to fulfill this capacity, but in the meantime, we have few options. One would be to enhance the role of the EITI in these nations, reducing the risk of corruption or at the very least bringing it into the light. Another would be to encourage, as far as possible, domestically-owned refinement of raw materials being extracted and exported in their unrefined form at the present moment. This is not always economically feasible, however, and often the technical capacity to build and run such an operation is not present in the country. A final (and obvious) option would be to dramatically restrict the role of entities like the World Bank and the IMF, and to do so for unilateral development agencies and MNCs as well. If host country governments were suddenly told that the WB experts could not sit in on governmental meetings, not because the government had denied them but because the WB charter had been amended, this could dramatically change the permeability factor. It would, of course, change the nature of the WB’s operations fundamentally, but perhaps it would be for the better.

Conclusion

This working paper has presented a new model of the resource curse. It proposes that a lack of scholarship on the relationship between governments and external actors has led to under-theorization of the role of permeability in national politics, and has led to theorists overlooking the impact on democratic accountability (and therefore on many other development outcomes) of "permeation." I welcome any and all comments on the preliminary materials introduced here, and hope that the work has provoked some new thinking.

[i] http://www.lusakatimes.com/2013/02/20/anti-corruption-commission-clears-kabimba-and-gbm-of-any-corruption/

[ii] Personal communication with Hugh Carruthers.

[iii] Personal communication with Sebastian Kopulande.

[iv] http://www.aljazeera.com/news/asia-pacific/2012/08/20128393741765865.html

[v] http://www.business-mongolia.com/mongolia/2013/04/18/deputy-speaker-bayartsogt-s-explains-icij-offshore-releases-to-sgk/