The Takeaway

Policy Briefs from the Mosbacher Institute for Trade, Economics, and Public Policy

The Restraining Effects of Foreign Direct Investment on Armed Conflict

How Foreign-Owned Mines Shape the Conflict Location

GYU SANG SHIM
The Bush School DC

Despite the well-documented connection between resource wealth and conflict, levels of violence in mining regions can vary significantly. For example, although diamond and copper mines in the southern regions of the Democratic Republic of Congo (DRC) were the location of intense conflict during the civil wars, recent violence has shifted to the eastern parts of the country. Similarly, in Ukraine's Donbas, separatists targeted Ukrainian-owned mines but spared the vicinity of a German company's facility. My recent research suggests that the threat of military intervention from the home governments of foreign miners can restrain attacks on the vicinity of foreign-owned facilities, especially when the home country has strong military capabilities and a reputation for intervention.

The presence of extractive resources within a nation can be a double-edged sword. While offering substantial economic potential, it often comes with an increased risk of civil conflict. Research shows that resource wealth, especially lootable resources like minerals, can entice rebel groups to engage in violence to gain control and exploit these resources.[1] Insurgents frequently target oil-drilling operations and mining sites to fund their activities. Despite this, the security situation in mining regions varies widely. Some become intense conflict zones, while others remain relatively stable. This disparity can be influenced by the involvement of foreign investment.

WHAT'S THE TAKEAWAY?

Foreign-owned mines can receive additional military and diplomatic protection from their home countries, unlike domestic operations.

The effectiveness of foreign miners in restraining conflict depends on the credibility of military threat from their home countries.

Host countries can boost stability and security by attracting FDI from nations with strong military capabilities and global reputations.

Mosbacher Institute *for* Trade, Economics, and Public Policy
THE BUSH SCHOOL • TEXAS A&M UNIVERSITY

DOMESTIC VS. FOREIGN-OWNED MINES

The main difference between extractive foreign direct investment (FDI) and domestic mining operations is the home country of the operating entity, although there can also be differences in capital investment and productivity. Domestic mining operations do not benefit from the "protection of nationals abroad" or "diplomatic protection" provided by foreign governments. In contrast, attacks on foreign-operated mines can lead to military interventions by the home countries of these foreign entities. For instance, when Occidental Petroleum's Caño Limón Coveñas oil pipeline in Colombia was repeatedly attacked by revolutionary forces starting in the 1990s, the US responded with substantial military aid, significantly reducing the attacks. Similarly, France sent special forces in 2013 to protect Areva's uranium mines in Niger from rebel group threats, and Angola intervened in Guinea-Bissau in 2012 to protect its investments in bauxite and oil production. Russia has also used private military companies like the Wagner Group to safeguard its gold mines in Sudan.

Additionally, foreign miners' home countries with significant political and economic leverage can influence host governments and collaborators of armed groups to ensure the safety of their nationals' mining operations.[2] When multinational mining corporations face security threats due to conflict and instability, their home countries can use a multifaceted strategy such as threatening sanctions and economic repercussions against the host government to emphasize the urgency of the situation. Simultaneously, they might negotiate for additional foreign aid or security support, using their economic influence to persuade the host government to enhance security measures. By leveraging their geoeconomic power in this way, foreign governments can effectively push host nations to improve security, thereby reducing the risk of insurgent attacks and contributing to greater overall stability around foreign-owned mining facilities.

ARMED CONFLICT IN THE DRC

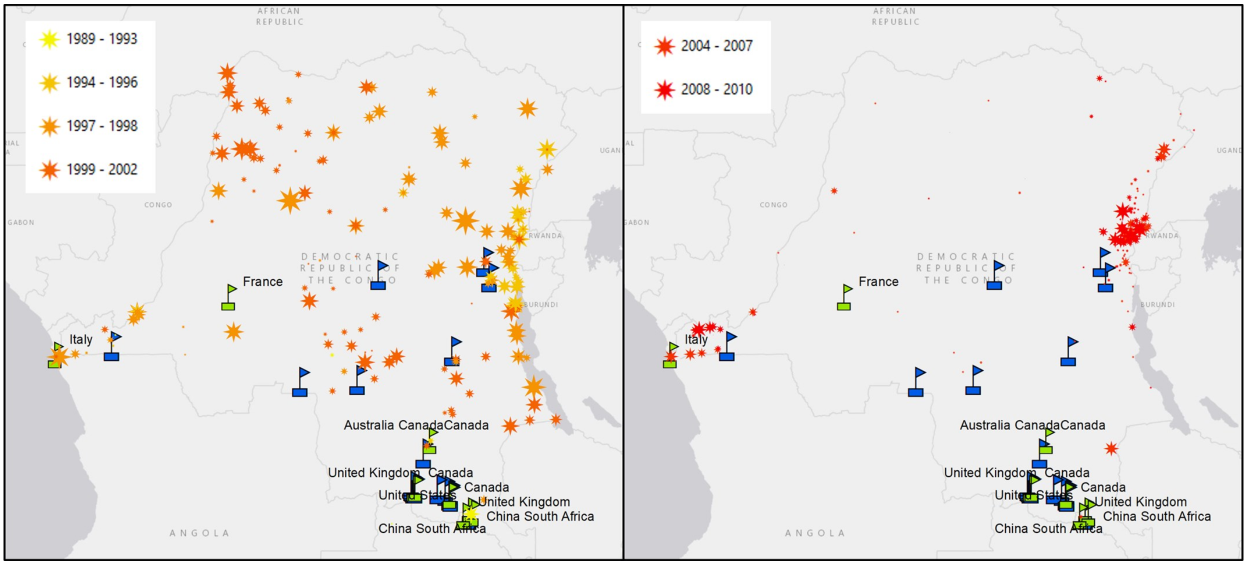
The Congo civil war's origins trace back to the 1960s, driven by disputes over mining interests from the colonial era. Belgian firms, having controlled mineral-rich Katanga and South Kasai during colonial rule, supported secessionist movements to protect their interests after Congo's 1960 independence, leading to clashes with Congolese forces. UN intervention shifted control from Belgian to American investors through US aid to Mobutu's regime. American firms took over copper and diamond mines in these regions, but a collapse in copper prices and oil crises in the mid-1970s led to their withdrawal and renewed conflict. This instability prompted Belgian and French military interventions, and post-Cold War shifts in US policy contributed to Mobutu's decline and the onset of the First Congo War in 1996.

The maps in Figure 1 illustrate the geographical distribution of armed conflicts and mining operations in the DRC. Mining activities in Congo commenced only after the end of the Second Congo War in 2003. The left map depicts conflict locations before this period, highlighting extensive violence in regions that would later host foreign-owned mines. This historical context reveals a persistent link between violence and valuable mineral resources. In contrast, the map on the right, covering the period after 2003, shows a significant reduction in conflicts near foreign-owned mines. Despite the DRC's ongoing conflict and rich mineral resources, areas like Katanga and South Kasai, once major conflict zones, now exhibit relative stability. New conflict concerns, however, have emerged in regions such as Ituri, North Kivu, and South Kivu, indicating evolving patterns of violence.

THE CREDIBILITY OF THREAT MATTERS

The impact of foreign-owned mines on armed conflicts varies significantly depending on the credibility of the threat posed by the home countries of these foreign miners. The home country's military capacity and reputation play a crucial role in this restraining effect. An analysis of georeferenced data from 1998 to 2010, covering 6,222 mining facilities across 148 countries[3], reveals that foreign miners from a country that spends over $50 billion annually on military activities can prevent about two armed conflicts in regions of interest. This preventive effect, however, decreases by approximately 0.03 for every $1 billion reduction in military spending by the country. As Figure 2 shows, nations with significant military capabilities and a robust reputation for intervention, such as the United States, France, Italy, and Russia, create a strong deterrent effect.[4] Their considerable

Figure 1: Armed Conflict in the Democratic Republic of the Congo



Source: Author's estimates. The green flags represent the locations of foreign-owned mines, while the blue flags represent domestic mines. All conflict incidents are represented by explosion symbols, with more recent conflicts depicted in red and older conflicts in yellow. The size of the symbols reflects the level of casualties.

military presence and history of intervention contribute to a perception that aggression towards their interests will provoke substantial retaliation, thus reducing conflicts by at least two. In contrast, countries with a lower perceived military threat or less certain intervention policies, like Canada, China, Japan, Germany, and the United Kingdom, do not deter conflicts as effectively.

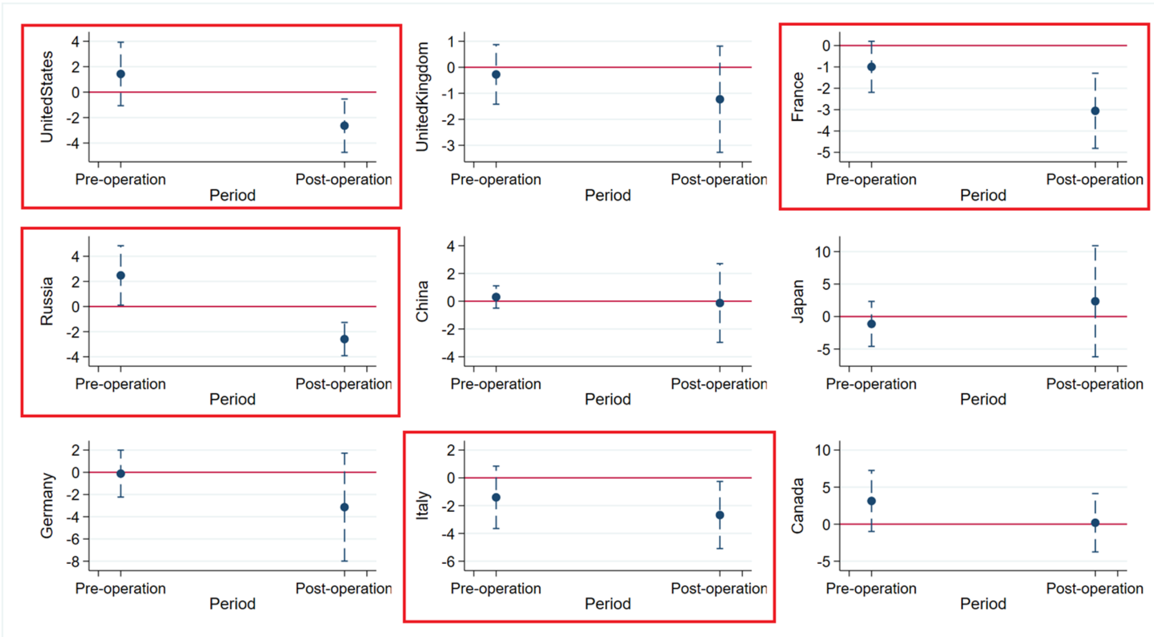
Some may wonder about alternative mechanisms that may prevent armed conflict in a region. One possible alternative explanation is that foreign miners may bribe armed groups. However, bribes do not guarantee the safety of business operations. In the case of Lafarge, a French cement company, many workers had been kidnapped by armed groups for ransom. When the Kurds kidnapped 9 employees in 2012, the firm had to pay €200,000 to release them, and the size of the payments subsequently increased. When Lafarge concluded that the demands of ISIS were no longer affordable, ISIS attacked the Lafarge cement factory and killed over 50 employees in September 2014. The other alternative explanation of the restraining effect of foreign miners is mercenaries hired by foreign mining corporations. These private security forces, however, often engage in human rights violations[5] in regions where foreign mining facilities are located, which has been suggested as a cause of armed conflict near foreign-owned mines. According to the data analysis, firms that are more capable of bribing and hiring mercenaries do not necessarily experience more or less armed conflict in regions where their facilities are located.

The conflict in Donbas starting April 12, 2014, illustrates this dynamic. Ukrainian-owned mines in the region were heavily targeted by separatists, while Knauf Gypsum, the only foreign miner and a German company in the region, was spared, likely due to Germany and NATO's strong military reputation. However, Knauf Gypsum closed its factory on February 24, 2022, following the Russian invasion of Ukraine. The German government, which had been willing to offer assistance to Knauf in 2014, was unable to provide the same level of support in 2022.

IMPLICATIONS

The impact of foreign-owned versus domestic-owned mining operations on local conflicts is significantly shaped by the credibility of the threat posed by the home countries of foreign investors. My analysis underscores the pivotal role that threat perception plays in determining the efficacy of foreign miners in maintaining security in volatile regions. When military intervention by a foreign miner's home country is deemed less likely, these foreign enterprises often face difficulties in stabilizing their operational environments and mitigating conflict. The credibility of such threats can be bolstered not only through substantial military capabilities but also through a robust reputation for global security engagement.

Figure 2: The Effects of Extractive FDI by Home Country



Source: Author's estimates. Dots represent the size of the impact of extractive FDI from nine countries on the number of armed conflicts within 300km of foreign-owned mines. The dashed lines illustrate the 95% confidence intervals. If these confidence intervals include zero, it indicates that the coefficient lacks statistical significance.

China's recent military involvement in Africa, notably through the establishment of a military base in Djibouti in 2017, illustrates its strategic intent to safeguard its investments and business interests in the region. This move supports the security of projects associated with the Belt and Road Initiative, demonstrating a broader strategy to ensure the protection of Chinese investments through a credible and active security presence.

Additionally, host countries can also foster peace by attracting FDI from nations with substantial military capabilities and strong global reputations to strategically important locations. This strategy enhances the security of investment sites by leveraging the military and diplomatic influence of the investing countries, thereby contributing to broader regional stability.

Gyu Sang Shim is an Instructional Assistant Professor at the Bush School DC and a Research Fellow with the Mosbacher Institute at Texas A&M University.

Notes:
[1]Addison, Tony, Philippe Le Billon and S. Mansoob Murshed. (2002). Conflict in Africa: The Cost of Peaceful Behaviour. *Journal of African Economies*, 11(3), 365-386.; Auty, Richard M. (2001). Resource Abundance and Economic Development. Oxford University; Collier, Paul and Anke Hoeffler. (2004). Greed and Grievance in Civil War. *Oxford Economic Papers*, 56(4), 563-595. Press.
[2]Klosek, K. (2019). Indirect Interventions in Civil Wars: The Use of States as Proxies in Military Interventions. *Czech Journal of International Relations*, 54(4), 5–26; Gaffney, Mason. 2018. Corporate Power and Expansive US Military Policy. *American Journal of Economics and Sociology*, 77(2), 331-417; Burgess, Stephen. 2018. Military Intervention in Africa: French and US Approaches Compared. *Air and Space Power Journal*, 9, 5-25.
[3] For the analysis and insights underlying this brief, please refer to Shim, Gyu Sang. (under review). Armed Conflict and the Location of Extractive Foreign Direct Investment. This working paper is available on the author's research website at https://gshim8.wixsite.com/gshim/research. I used difference-in-difference design with a kernel-based propensity score matching method. The results remain consistent across different distance bands (100 km and 500 km) and casualty thresholds (more than 10 deaths and more than 20 deaths).
[4] Firms from countries in the red box have 95% confidence intervals that do not include zero after their operations begin, indicating a significant deterrent effect. In contrast, firms outside the red box show no such effect.
[5]Holden, William N. and R. Daniel Jacobson. (2007). Mining amid armed conflict: nonferrous metals mining in the Philippines. *The Canadian Geographer/Le Geographe Canadien* 51(4), 475-500.; Renner, Michael. (2002). The Anatomy of Resource Wars. *Worldwatch Paper* 16(2); Le Billon, Philippe. (2013). Fuelling War: Natural Resources and Armed Conflicts. Routledge.

Published by:
Mosbacher Institute for Trade, Economics, and Public Policy
The Bush School of Government and Public Service
4220 TAMU, Texas A&M University
College Station, Texas 77843-4220

Email: bushschoolmosbacher@tamu.edu
Website: https://bush.tamu.edu/mosbacher

To share your thoughts on *The Takeaway*, please visit http://bit.ly/1ABajdH