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More Legislation, More Violence?

The Impact of Dodd-Frank in the Democratic Republic of the Congo

By Nik Stoop, University of Antwerp; Marijke Verpoorten, University of Antwerp; and Peter van der Windt, New York University Abu Dhabi

For many countries, natural resources are a curse rather than a blessing. In the Democratic Republic of the Congo (DRC), untapped deposits of raw minerals are estimated to be worth $24 trillion. Most of its population, however, is dismally poor, mainly because both war and political mismanagement have ravaged the country. Conflicts in the DRC, the argument often goes, center around the illegal exploitation of minerals, creating competition between rapacious rebel groups and providing them with the means to purchase weapons and attract fighters. To end the ongoing violence, it was deemed necessary to end the illegal trade in natural resources. In this spirit, Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in July 2010. Section 1502 requires all companies listed on the U.S. stock market to trace the minerals used in their supply chain and to declare whether these minerals are conflict-free or not. It specifically targets resources from the DRC and focuses on four minerals: tin, tantalum, tungsten—often referred to as "the 3Ts"—and gold.

When President Trump's draft executive order that proposed to temporarily suspend Section 1502 was leaked by the *Guardian* on February 8, 2017, it caused commotion and triggered various reactions. The Congolese Minister of Mines stated that a suspension of Section 1502 "in the long run, will jeopardize the stability and security of the DRC by encouraging an escalation in the activities of non-state armed groups." Human rights activists, who were among the main actors lobbying for the regulation, also deplored the proposed suspension, calling it "a gift to predatory armed groups seeking to profit from Congo's minerals as well as a gift to companies wanting to do business with the criminal and the corrupt." On the other hand, Congolese scholars said that Trump was "right on Congo's minerals, but for all the wrong reasons," with the wrong reasons including high compliance costs for American companies. The right reasons, instead, relate to the local backfiring of the conflict minerals legislation. Not only did the legislation lead to a de facto ban on artisanal mining that deprived hundreds of thousands of artisanal mining communities from their livelihoods, it was argued that the legislation also failed to address the root causes of the violence.

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In September 2014, in an open letter, a group of 70 academics and experts wrote that the "conflict minerals campaign fundamentally misunderstands the relationship between minerals and conflict in the Eastern DRC." The misunderstanding is twofold. First, although minerals play a role in the continuation of existing conflicts, they are not its root cause. It is estimated that only 8 percent of all conflicts are over natural resources. Other factors include longstanding political and economic grievances, and disputes over the control of land and trade routes. Second, since armed groups are engaged in a diverse range of income-generating activities, their existence does not depend on access to mineral revenues. For instance, the United Nations reports that, after Dodd-Frank, some armed groups looked for alternative sources of income, including trade in charcoal, cannabis, and palm oil.

From a policy perspective, it is important to get a better understanding of the impact of Dodd-Frank. However, to date there is only one rigorous quantitative analysis that investigates the impact of Dodd-Frank on local conflict events. Economists Dominic Parker and Bryan Vadheim make use of geo-referenced data on artisanal mining sites and local conflict from 2004 through 2012 to compare the incidence of conflict before and after Dodd-Frank, and between those areas in the eastern Congo affected by the ban and those unaffected. They show that the legislation increased looting of civilians and shifted battles between armed groups from 3T mining areas towards unregulated gold mining areas. In interpreting these findings, they turn to Mancur Olson's "stationary bandit" metaphor. According to the metaphor, armed actors fill the power vacuum left by an absent state, establish a monopoly on violence and—in return for taxes—offer protection against violence, including their own. When the profitability of the activities they are taxing is negatively affected, stationary bandits may look for other sources of income. Section 1502 implied a de facto embargo on 3T but not on gold, which is much easier to smuggle compared to the bulkier 3T minerals. As a result, armed groups stationed at artisanal 3T mines found it more profitable to switch their efforts to looting civilians, and to fight rival groups for the "right" to station at gold mines. At the same time, some armed groups that were stationed at gold mines switched to looting civilians in order to avoid battles with competing groups.

We build on a much larger dataset of mining sites and extend the time horizon of the analysis by three years, covering the period 2004–2015. Our results echo the findings of Parker and Vadheim and confirm that Section 1502 does not do what it was intended to do. We find that, in the short-term, the legislation strongly and significantly increased the likelihood of violent conflict in affected territories, especially in relatively unregulated gold mining areas. Battles between armed actors became more frequent, and events of looting and violence committed against civilians increased. In addition, we find that mining areas targeted by Dodd-Frank further witnessed a strong increase in riots, which is a clear sign of social upheaval. In the longer term, these effects seem to abate for the average Dodd-Frank territory, while remaining highly significant for gold mining areas, which may suggest that rebels continue to fight for control over gold sites. On a less pessimistic note, we do not find evidence that conflict events increased with the number of 3T mines in a territory. Moreover, when looking at the longer term, we find an indication that the looting of civilians slightly decreased in 3T mining areas compared to the pre-Dodd-Frank period. This does not necessarily mean that the average civilian in this area has become less exposed to looting. Dodd-Frank has triggered a movement from 3T to gold mines—not only of armed actors but also of artisanal miners. Hence, per capita looting in 3T mining areas may not have decreased.

Our findings offer empirical support for recent studies—and an open letter signed by 70 academics and experts—that cast doubt on the "conflict minerals" narrative of the Dodd-Frank legislation and other resource governance interventions. More generally, they offer a cautionary tale about the potential unintended consequences of well-meaning international interventions that are based on strong assumptions of how natural resources relate to conflict.

NOTE:

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