Essay

Why is it often said that Natural Resources are a Curse?

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Abstract

The resource curse theory is one of the long-standing pillars in political economy associating resources and democratic development. Though it is well established that many resource-rich countries are poor and undemocratic, this paper seeks to reassess the resource curse literature in light of more recent publications and developments. This paper claims the causal link made between resources and the lack of democratic and economic development is simplistic and incomplete. Using a variety of case-studies and fresh scholarly literature, this paper challenges the resource curse theory and suggests that resources may sustain autocracy as they may fuel development – the main determinants being regime type and political leadership. This paper suggests that, on the whole, natural resources can be a blessing or a curse.

Keywords: Political economy, resources, democratic development.

Introduction

Political scientists and economists have tried to identify the factors that generate economic growth and political reform, as well as those that hinder democratisation and development. An important theoretical framework presented for the persistence authoritarianism in the developing world is that of the "resource curse" theory. This article attempts to present a balanced view of this concept. After analysing *why* it is often said resources are a curse, I shall discuss whether a *resource curse* exists. I begin by looking at the assumptions underlying the resource curse theory and illustrate them with empirical evidence. I then seek to challenge the idea of a resource curse by deconstructing the causal link between natural resources and authoritarianism. In light of past and present literature, I propose an alternative understanding of the effect of natural resources on politics. It is, however, implausible to try and give an exhaustive account of the effects of natural resources on political regimes in such a brief synthesis.

Why is it often said that Natural Resources are a Curse?

Many scholars have studied the impact of natural resources on governments. The general view is that countries home to large mineral resources – oil, gas, diamonds, gold and copper – harness the progress of democracy. In the Middle East, this is conceptualised by Michael Ross's "Does Oil Hinder Democracy?" (Ross, 2001) His theory draws from a classic political science paradigm identified by Hussein Mahdavy in the 1970's: "the rentier state thesis" (cited in Huntington, 1996). In "The Clash of Civilizations" (cited in Huntington, 1991), Samuel Huntington reverses the American motto by claiming there is "no representation without taxation" (Ibid.). The belief in the resource curse and its implications as *the rule* for explaining authoritarianism in resource-rich developing nations is supported by the majority of the scholarly literature. Nevertheless, another school has recently come up with rival findings.

The Political Economy of the Resource Curse

To this day many regions where minerals are found in abundance remain in turmoil. These countries are plagued by corruption, slow growth, instability, wars, poverty and the absence of human rights. The existence of mineral resources keeps autocrats in place and populations in disarray.

The Rentier State

Mahdavy contends that oil serves as a direct source of revenue for Middle Eastern governments (cited in Huntington, 1996). Oil allows the rulers to refrain from levying taxes on the population. The regimes use this inflow of "easy money"[1] to build strong security apparatuses and to repress dissenters. The Gulf monarchies are textbook cases, with their tendency to co-opt and buy off the population by distributing patronage. Such states solve issues with bribes, often block privatisation, and delay necessary structural changes to stay in power and capitalise on oil and gas revenues (cited in Huntington, 1996).

[1] Money earned without having to work for it.

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The mechanism is refined in Morrison's work (2009): Non-tax revenues tend to increase the stability of regimes because they provide external inflows of cash that can be spent at the incumbent government's discretion (Ibid.). In addition, this syndrome appears not only with resource rents, but also with foreign aid. Hence, the very nature of non-tax revenues seems irrelevant because the consequence for governments is the same (Ibid.). Another important aspect is that resource-rich states tend to over-spend and "live beyond their means" (Karl, 1999). Politicians focus on short term gains and fail to predict the consequences if commodity prices fall (Ibid.). Dominant and single-party regimes – the most resilient form of authoritarianism – are able to maintain power when they can "politicize public resources" (Greene, 2010). Incumbent authoritarian parties that control resources are able to outspend their rivals easily.

Furthermore, it is interesting to see that oil-price increases are negatively correlated with freedom in petro-states (Friedman, 2006). One path to reform may thus require a decrease in oil prices to force these governments to become more sensitive to public opinion, by having to respond with policies and concessions rather than distributing patronage and co-opting challengers to the resilient oil-states (Ibid.).

The Dutch Disease

Investigating the resource curse cannot avoid the economic aspects imbedded in its logic. The presence of a mineral resource can hinder the development of the secondary and tertiary sectors[2]. Over-reliance on resource exports triggers a convergence of the units of production and the labour force towards the extraction of minerals. The phrase "the Dutch disease" was coined by *The Economist* magazine in reference to the Netherlands and the negative effect of the discovery of large natural gas reserves on their economy (The Economist, 1977).

Sachs and Wagner found that "great natural resource wealth" meant significantly slower growth than in resource-poor counterparts (Frankel, 2010). The macroeconomics of the Dutch disease lead to a currency appreciation, an increase in government spending, the rise of non-traded goods, and a shift of labour toward the production of the commodity. People abandon their traditional activity

[2] Industry and Services

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in favour of one offering higher returns – in the short run. This phenomenon is known as "de-industrialisation".

In this case the Dutch monarchy endured the shrinkage of its manufacture in spite of its democratic system and strong institutions, although the democratic nature of the Netherlands was never altered or threatened. If natural resources have a negative effect on the development of democracy, this example suggests their discovery does not challenge a regime that was democratic prior to the discovery of natural resources, in this case gas.

Case Studies: Countries and Minerals

Nigeria's case exemplifies the effect of sudden resource-rent increases. Nigeria is now the fifth largest producer in OPEC and tenth in the world with approximately 80% of budgetary revenues extracted from oil (CIA World Factbook). Nigeria is also one of the poorest countries in the world and has only enjoyed ten years of civilian rule since its independence in 1960.[3] Nigeria's case suggests the discovery of oil in 1956 - and near simultaneous independence - produces neither democracy, growth or welfare (Walker, 1999). Nigeria's failure to capitalise on the considerable resources it owns and the country's stagnation – if not downfall – as an indirect consequence of its resources, is a case-in-point for the resource curse theory.

More specifically, oil prices can be understood as a determining factor in democracy (Friedman, 2006). Friedman uses charts to demonstrate a recrudescence of authoritarianism in Nigeria and Iran during oil booms. In both cases there was a negative correlation between the price of oil and freedom in Iran, and between the number of independent newspapers and elections in Nigeria (Ibid.).

Though one could imagine foreign international organisations and corporations helping developing countries use resources to fuel development, the role of international corporations seems dubious. The private sector does not seem to exert a positive influence *on the ground* and a country like Nigeria experiences frequent domestic oil shortages. More specifically, Shell's activities in the Niger

[3] Annual GDP per capita of just $2500 in 2010 ranks Nigeria 177th out of 227 world countries (CIA World Factbook).

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Delta have been criticised for harming democratic and economic progress in Nigeria (Bronwen, 1999). Bronwen decries the collusion between Shell and the Nigerian authorities to put down unrest (Bronwen, 1999, p.284). With regards to non-governmental organisations, Nigeria struck a debt-restructuring deal with the IMF and received a $1 billion credit in exchange for promised economic and social reforms in 2000 (CIA World Factbook). Nothing came of this and Nigeria pulled out of the IMF in 2002.

The US has been criticised for its relations with the absolutist regime of Saudi Arabia through Aramco. It has been largely documented that the Saudis export their oil in exchange of arms from the United States (Yamani, 2009). Interestingly, Juan Pablo Perez of Venezuela, a founding father of OPEC,[4] said, referring to oil, that in the following decades the world would be "drowning in the devil's excrement" (Cited in Karl, 1999). In the 1970's, oil price hikes led to nationalisations and expropriations of businesses in petro-states. These were reversed when the oil frenzy came to an end, causing rents to decrease substantially.

Consistent with Ross, during the oil booms real GDP[5] and GDP *per capita* fell compared to prior years in Venezuela, Nigeria, Saudi Arabia, Iraq, Kuwait, Libya, Iran and Algeria (Karl, 1999, p.38). Booms and busts are generally harmful to freedom and development, though periods of low oil prices are more prone for reform (Karl, 1999, p.47).

The rational short term power-maximizing choice for authoritarian governments is to use revenues of exports to increase their personal and entourage wealth as a means to remain in power. The result is that the political economy of natural resources incurs the resilience of authoritarianism.

The Myth of the Resource Curse

I shall now pay tribute to rival interpretations that challenge the general validity of the resource curse theory. There is evidence for numerous successful developments, both economic and political, in spite of the existence of natural resources –Australia, Brazil, Botswana, Chile, Norway, Peru, the United States and Venezuela. The simplistic theory that natural resources hinder democracy has

[4] Organisation of Petroleum Exporting Countries.

[5] Gross Domestic Product.

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been amended by more recent research. Though we seek to develop probabilistic theories, which can never bar us from finding exceptions, the theory that resources hinder democracy is affected by a number of caveats; scholars have contributed to better understanding of the mechanisms that may lead to autocracy or prevent democracy in the presence of natural resources. Returning to the case of the Netherlands, the Dutch disease did not affect the country's entrenched democracy by any means and Norway's oil reliance does not lessen its status as one of the most advanced democracies.

First of all, natural resource exports need to be studied relatively to other exports. Some countries have export-led economies yet they may not be resource reliant. It is important to specify the terms we use and to be rigorous in assessing the classification of the countries investigated. Secondly, the reliance on resources is based on political, cultural and legal institutions (Haber and Menaldo, 2009). Weak states are more likely to focus on resource extraction and authoritarianism is inherent to most regimes before raw materials are discovered (Ibid.). One hypothesis could be that democracies devolve less effort than autocracies in searching for natural resources because the former seek to develop all sectors of the economy - however this remains to be tested in future research. A possible intuition could be that political elites in non-democratic politics will focus on searching for minerals, as this is one of the most lucrative sources of revenue. Thirdly, the time frame considered in assessing the impact of natural resources is crucial in correctly identifying their long-term effect.

Foreign Rents and Resource Reliance in Perspective

Much of the research is mistaken in considering the share of exports as a percentage of GDP instead of the share of resource exports as a percentage of exports. The difference creates biases that lead to classifying Singapore as resource abundant when in actual fact it is not. In effect, Singapore is a re-exporter of natural resource-intensive commodities, not a resource dependent state (Lederman and Maloney, 2007, p.4). Instead, Haber and Minaldo propose Leamer's net exports of natural resource-intensive commodities per-worker measure (Ibid.). There is a difference between rentierism and resource dependency. The former compounds the share of exports as part of the government's revenue, whereas the latter deals with the share of resource rents as part of total exports as a

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percentage of GDP. In other words, the latter is a more accurate estimate of the real importance of resources in the economy (Herb, 2005, p.298).

Furthermore, we have to rewind back to the 1970's when the price of commodities skyrocketed. The main exporters were accumulating foreign debt at the same time as they were focusing exclusively on exports, which signaled trouble when prices dropped (Lederman and Maloney, 2007, p.5). The cause was the inappropriate macroeconomic policy issued by the intelligentsia (Ibid.). Politicians' inability to identify the risks pertaining to a shift towards a more resource-dependent economy led to the Dutch disease and hard economic downturns when the price of commodities dropped. What I seek to emphasize is that the negative effect of being dependent on resource rents was only made possible by governments at the time. Therefore, the negative impact of natural resource dependency was conditional to having inept governments in power.

Institutions and Development

The formal institutional setting and political system in a particular country appear to take precedence over financial interests. Subramanian and Trebbi use the rule of law and the respect of property rights as indicators of institutional effectiveness and others add the variable of expropriation risk.[6] Their finding is that "cursed" states lacked institutions before they enjoyed a resource boom.

One can find strong evidence that oil may hurt democracy; but one also finds very significant evidence of the positive influence of oil (Herb, 2005, p.297). Herb differentiates "richer" oil states from others suggesting that they allocate resources in a way that benefits the middle class, increases GDP *per capita*, and improves welfare (Ibid.). Higher rent boosts growth and brings economic development. There is abundant literature linking economic development to political development.

[6] Rodrik, Subramanian, and Trebbi (2003) use the rule of law and protection of property rights (taken from Kaufmann, Kraay and Zoido-Lobaton, 2002) and Acemoglu, Johnson, and Robinson (2001) use a measure of expropriation risk to investors.

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Time and the Order of Things

Applying time-series on longer historical periods have shown variations in results. A long run approach achieves a clearer vision of the effect of natural reserves on policy. Herb finds that the direct and short-run effect is to reinforce authoritarianism, but that GDP growth ultimately benefits the population in the long run (Ibid.).

During the US's pre-war industrialisation, in half a century of democracy in Venezuela, in Australia since the 1960's, in Norway post-1969, in Chile since 1983, and in Peru and Brazil more recently, governments have used natural resources to purport growth in their nation (Czelusta and Wright, 2004, pp.4-7). This suggests that the time frame considered is unmistakably important; more democratic countries use the natural resources to improve the nation as a whole, whereas autocratic ones resort to enriching small elites.

Venezuela would seem a controversial case if one looks at Chavez's regime. It seems oil revenue is the main asset the Venezuelan president is using to fulfill his totalitarian aspirations. However, looking at Venezuela's history since a democratic government was elected in 1959, the evidence is different. The country used oil and gas resources to promote democracy and resisted coups that overthrew many South American regimes in the 1970's (Dunning, 2008, p.3).

Chaudhry and Vandewalle argue that if the oil boom occurs before an institutional building process, then the latter is blocked. Instead, if an oil boom takes place afterwards, the spoils of oil will be better allocated (Anderson, 1999, p.353).

Resourceful Success Stories

Ross's resource reliance dataset presents Botswana, Bahrain and Chile as respectively first, third, and fourth in non-oil mineral reliance[7] (Ross, 2001, p.327). Yet Botswana is the most stable, democratically elected regime in Africa and has been democratic for half a century (CIA World Factbook). Bahrain, though not democratic, is the most liberal Gulf monarchy and Chile is a prominent South American success story. Botswana is four times more reliant on resource exports

[7] Resource exports/GDP.

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than Chad (Jensen, 2004, p.837) – where National Assembly elections have been withheld since 2002.

Luciani sets the threshold of rentierism at 40% of GDP (Herb, 2005, p.299). Over the period from 1972 to 1999, the average rentierism rate of Bahrain was 59% and Saudi Arabia – the most conservative monarchy – was 80%. This appears to support the idea that heavy reliance on resource export equates to less freedom. However, Yemen is only reliant on resources for 46% of GDP – barely a rentier – and is doing far worse in terms of democracy, stability and growth than its neighbours. Furthermore, whilst Kuwait's commodity exports represent 88% of GDP, it is considered a relatively liberal monarchy, as are those of Jordan - no oil - and Bahrain, the latter's economy gradually shifting to banking and services as the result of diminishing oil reserves. All three hold elections for parliament (Brooker, 2009, p.62), whereas no elections have taken place in Yemen since 2003 (CIA World Factbook).

Dunning and Haber and Menaldo's combined findings respectively demonstrate statistically significant links between natural resources and democracy in Ecuador, Chile and Bolivia (Dunning, 2008, p.4), and between freedom and resource-reliance during boom periods in Norway, Ecuador, Venezuela and Mexico (Haber and Menaldo, 2009, p.10).

Malaysia gradually managed a transition towards a diversified economy by decreasing its oil reliance since the 1970's, under governmental impulse (CIA World Factbook). The economy remains healthy and under close scrutiny of an effective central bank (Ibid.). Malaysia is in fact more reliant on oil exports than its neighbour, Indonesia, which is faring worse democratically with similar quantities of oil and gas.[8] Chile bears heavy reliance on export of commodities combined with sustained growth. Wise economic policies began under dictator Pinochet but bloomed after the 1990 democratic elections. The fluctuations of commodity prices have not affected the stability of the government. Strict constitutional regulations on government spending and an independent Chilean central bank have helped Chile step into a virtuous circle (CIA World Factbook).

[8] Currently at 40% of GDP.

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The most powerful determinant of democracy remains the political system and its leadership. Rents can only have an accelerator effect towards autocracy if no institutions check on the government; but resources cannot be highlighted as a cause of autocracy. The negative effect of natural resources on democracy is conditional; it can only kick in if a corrupt, incompetent or greedy political class is in place *ex ante*. Emphasizing this point, the Dutch disease did not impact the quality of Holland's democracy in the same way that the discovery of oil in Nigeria did not fuel democracy in such a resolutely corrupt country.

Resources: A Blessing?

Few have hypothesised the positive repercussions of resources on democracy and development. Noland found that oil is "not a robust factor behind [the] lack of democracy" in the Middle East (Noland, 2007, p.20). Dunning tested the likelihood of oil hindering democracy in Latin America and found oil and democracy were positively correlated (Frankel, 2010, p.21) – even though this observation was not systematic. Resource booms can increase or decrease attractiveness of democracy (Frankel, 2012, p.11). On one hand, elites might have incentives to control production to receive higher yields of resource revenues. On the other hand, they might also want to reinforce democracy to insure the redistribution of income and to protect private capital. Crunching the evidence, it appears that neither are natural resources a curse, nor are they a blessing.

Conclusion

The beginning of the 21st century did not see the eradication of authoritarianism. This article sought to demonstrate that resources can both protect and threaten democracy. Ironically, some of the most gifted countries, in terms of natural resource abundance, are some of the less well-off. The effects of minerals on democracy encompass many shades of grey. Time frame, institutional development and nature of leadership have an important role in determining whether resources are used to hinder or enable economic, social and political developments.

Why then, are natural resources said to be a curse? The short answer is because this observation fails to address the context. The undemocratic features associated with rentier states can also be

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found in non-rentier authoritarian neighbours (Ibid.). Turning the observation around, could oil states be as undemocratic without oil? Possibly; but supposing oil were suddenly to be found in democratic regions, it is unlikely that the same outcome would occur. My understanding is that a resource curse is caused by the political system in place. Governments have the opportunity to choose the path to reform or to repression, the responsibility to choose wise policies, and a duty to serve their citizens. The gifts of nature can only doom a state if the government is incompetent. In Zimbabwe, Robert Mugabe's recent reckless economic decisions simply remind us that, at the risk of sounding dull, "democracy is the worse form of government except all those other forms of government that have been tried from time to time" (Churchill, 1947), especially in resource rich countries.

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