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Does the “resource curse” no longer exist?

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Does the “resource curse” no longer exist?

Bonn, 23 July 2012. Until a few years ago, it was clear that having an abundance of natural resources was not a blessing, but a curse for most of the world's countries. This was primarily a reference to non-renewable mineral and fossil resources. In countries without the admirable public institutions of a Norway or an Australia the exploitation of natural resources was almost bound to lead to lower growth rates, unfavourable social development and undemocratic political conditions. Promotion to the Champions' League of the developed states was possible only through industry and manufacturing. On this one point left-wing development research (with its roots in the dependency theory) and right-wing development research (rooted in the modernisation theory) were agreed, though each for its own reasons.

There is still a great deal that is right about this assessment, but recently the view taken of natural resources has been changing, helped along by two tendencies in particular: on the one hand, some states, especially in the Latin American region, have been developing at a rapid pace, a resource-based growth path being combined with well-focused social programmes and entrenched in sound economic and financial policies. On the other hand, new findings of the accompanying academic research in recent years suggest that a more differentiated interpretation would be appropriate.

One of the main messages to emerge from these studies is that even for developing countries resource wealth is not necessarily a disadvantage. What determines whether resources are used in the general interest is transparency and the existence of institutional checks and balances in the political system. If an environment conducive to development is to be created, national and international efforts must interlock. This is a fundamental task for the industrialised countries, which can do more to help ensure that natural resources are used responsibly than they have done in the past.

Resource curse: what's it about?

The resource curse hypothesis has an economic and a political dimension. Economically, it is true to say that a country's heavy dependence on exports of raw materials gives rise to a distorted economic structure, in which investment and productivity growth in other sectors are lower than might otherwise be expected (the “Dutch disease”). Competitiveness and growth opportunities throughout the economy suffer as a result. Price fluctuations in world markets also make it difficult to plan investment projects and government budgets. Furthermore, in the absence of competition the state's acquisition of resource rent often leads to inefficiencies, which also has an adverse effect on development in the resource sector itself.

The economic causes of the resource curse have thus been identified. The problem-solving approaches are also generally known. It is important to create incentives to diversify the economy and to save some of the revenue from resources. Success in these respects will go a long way to ensuring that the state and the economy are not entirely dependent on the fluctuating world market prices of resources and to setting a steady course for economic growth. The state must also make sure that humane working conditions prevail in the production process and that the consumption of environmental goods is minimised.

One of the main challenges is to distribute the resource rent “correctly”. Three dimensions must be borne in mind in this context: (i) distribution within society, meaning that the distribution of revenue must be socially fair; (ii) territorial distribution, meaning that people living in particularly affected areas must be compensated, but this must not lead to fresh social distortions; and (iii) intergenerational distribution, meaning that, as many natural resources are finite, the state must ensure that the country's wealth also benefits future generations.

The political dimension of the resource curse is decisive

If, then, it is known in principle how natural resources can be used sustainably for development – why does it not happen far more often?

It is here that the political dimension of the resource curse has its impact. Two factors account for it. First, a society derives revenue from the resource sector in the form of *rents* and so (to some extent) independently of its own efforts. This paralyzes personal initiative and weakens the monitoring authorities in the institutional set-up. Second, the revenue goes primarily to the state, and it is the state which distributes it. Control of the state becomes an “all-or-nothing” game if very few profitable activities are possible outside the public sector. As a result, resource-rich countries often have weak and inefficient administrative structures and are also, on average, less democratic than resource-poor countries with comparable per capita incomes.

In addition, there is no universally valid “best” solution to many of the problems referred to above. What form should, for example, fair intergenerational distribution take? Should it be so organized that society derives as constant an income as possible from natural resources (the permanent income approach), or should the uncertain trend in prices be taken into account through

increased saving now (the precautionary savings approach)? Or should, on the contrary, more be done to encourage consumption today, because future generations are likely to be more prosperous than the present generation? Striking an intergenerational balance is complicated even in theory. In practice, the political calculations of the ruling elites must be added to the mix, making things even more difficult.

On balance, then, resource-based development is possible, but even now remains a particular challenge for developing countries. From this an agenda for international cooperation emerges. In the resource-producing countries the peaceful and transparent settlement of conflicts over the production and distribution of resource wealth should be supported. This is less a question of personal credibility than of developing institutional structures for monitoring, accountability and participation.

However, for such measures to have an impact, greater efforts must be made at international level to regulate resource markets and associated financial flows and to subject the extractive industry to globally valid rules. As long as companies and corrupt individuals all have ways of covering up dubious practices and of moving illegal profits, even the best-intentioned development policy will come to nothing.



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