

Tackling the Natural Resource Trap

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Natural resources discovered in poor countries can increase poverty. Paul Collier finds that about 29 per cent of the Bottom Billion live in countries abundant with natural resources. He argues that the net proceeds from their export have political effects that undermine economic growth. While this 'resource curse' is well substantiated, Collier downplays how the negative political effects of these resources are also linked to their geostrategic importance, their coexistence with national debt, and the realities of their extraction.

Collier on natural resources

Collier acknowledges several economic and political-economic reasons for the natural resource trap. First, natural resource exports inflate currency values, reducing the international competitiveness of other exports, so capital-intensive natural resource industries which favour the wealthy undermine other labour-intensive industries that favour the poor. Second, commodity price volatility often produces poor investment because commodity booms enable public spending to become profligate and less focused on economic growth, and spending cuts in bust periods rarely protect growth. Collier's main argument, however, is that revenue flows from resource extraction precipitate a deterioration in governance and public institutions. He argues that democracies generally have short-term priorities and

so tend to under-invest, but that with resource revenues investment decisions get even worse. This is because it becomes cost effective for governments to buy votes through bribing community leaders (especially where ethnic allegiances are strong) rather than to attract votes by investing well and delivering public services effectively. This option becomes even more cost effective the fewer the restraints on embezzlements. The problem is that regimes with resource revenues tend to weaken political restraints. Moreover, where resource revenues mean that there is less need for taxation, populations clamour less for restraints. This is Collier's trap, and he argues that this explains why democracies among the Bottom Billion grow faster than autocracies when they don't have natural resources, but grow

slower than autocracies when they do.

Collier's later section on instruments analyses the enabling conditions of this trap. This places responsibility firmly on the malpractices of the international banking and transnational resource extraction businesses (Collier 2007: Part Four). There is a need to go way beyond the guidelines of the Organisation for Economic Co-operation and Development (OECD) and the Extractive Industries Transparency Initiative (EITI) to ensure:

- Transparency in allocating resource concessions, resource payments and government expenditure
- Justice in resource contracts
- Equity in bearing price shocks.

Collier seeks an international governance regime to rein in those global corporations that pursue bad practices.

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The natural resource trap debate

Collier is mostly correct on the natural resource trap, as far as he goes. Many of these arguments have been tested in the past few years, and have become accepted wisdom by those who work on these issues. Beyond Collier and his colleagues' own academic publications, the existence of the resource curse has been well documented (Auty 1993; Sachs *et al.* 1995; Gylfason 2000; Ross 2003). Oil and non-fuel minerals do appear to increase poverty. The poorer the country, and the larger the significance of resources to the country's economy, the worse this gets (Ross 2003). Resources extracted in enclaves appear to be responsible, and oil in particular crowds out manufacturing. The possession of these resources leads to a deterioration in the quality of public institutions, and makes states more authoritarian and more likely to face civil wars (Ross 2001).

Where Collier is more original, however, is in his observation that even democracies fare badly with resource rents, and in his attribution of this to weakening restraints on embezzlements, leading to his forceful policy suggestions concerning transparency, public scrutiny and accountability. His analysis is supported by research which shows that public scrutiny is enhanced when people are taxed (Brautigam *et al.* 2008), and in studies of political culture and process in many parts of Africa.

Strategic natural resources

Some issues have been downplayed in these analyses of natural resources, especially the role of strategic interests. Several works highlight the particular importance of oil, yet oil is important not only because it is an enclave natural resource generating rents, but also because it is a geopolitically strategic resource attracting external political interference (Klare 2002; Ghazvinian 2007). Analysts ignoring this strategic element also overlook the importance of close relations between transnational corporations and powerful governments – e.g. in their revolving doors between public and private sector jobs – and now in the return of sovereign investors in the natural resource sector.

Attention to the strategic nature of resources is important when considering associations between the resource trap and the conflict trap. While other lootable natural resources, including diamonds, sustain wars, oil appears to start them (Ross 2004). Moreover, when other resources become equally strategic (e.g. at times tantalum, cobalt, uranium, manganese) they also appear to initiate, not just perpetuate conflict. Historians of Africa have long exposed that geopolitics, not just geoeconomics, is part of the natural resource trap complex. Global political rivalries shape the way African national politics unfold. Works such as Humphreys, Sachs and Stiglitz (2007) that ignore this reveal a political bias. Supporting resource-rich but poor nations to form their own

geostrategic alliances must be a part of the solution.

Connections between debt and corruption

Too little attention is given to the added effect of debt in undermining restraints on embezzlements. Collier's argument tends to assume that resource rents are politically corrupting because this is rational, given the opportunities. For politicians, weak character is rational, and moral fibre is not. Yet there are other structural conditions (not just economists' assumptions concerning human nature) that help make corruption more likely. Among these national debt is the most important.

Over the last 30 years, those governments of the Bottom Billion cursed with resource wealth have also been cursed with debt. Natural resources provide collateral and future income guarantees, permitting the accumulation of even larger national debts. The coexistence of enormous wealth in the ground alongside enormous debt in the treasury (generally inherited from long-gone regimes) has important consequences. Qualitative political research reveals that when governments seek to use disposable income from resources to support both political and economic investment, they often have to find their way round the official accounting which would channel this revenue into debt repayments. Barter agreements with corporations, for example exchanging resources or

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concessions for arms, become attractive (Reno 1997), as do hidden overseas payments in which the proverbial Swiss Bank Account can become a *de facto* national treasury. The injection of money from resource wealth needs to be examined in a broader analytical context which includes the drain of money to debt payments. It is this combination of factors that undermines restraints on embezzlements.

Accumulated debt also makes resource-wealthy governments beholden to externally-driven political and economic conditionalities. Latterly these have involved – among other things – privatising revenue-generating resources (including the resource sector, but extending to customs etc.). Selling these off to foreign businesses has enabled governments both to derive upfront benefits from these businesses (including protection) and to deprive potential national political rivals of revenue sources. In short, debt as well as resources shapes national politics.

If natural resources, or indeed aid flows, are a curse, debt is doubly so and the two need to be considered in one breath. Yet debt is conspicuously absent in all works on the resource curse. Debt write-offs need to be considered as an important policy option for the resource curse.

Natural resources and sub-national political dynamics

Collier underplays the significance of natural resource extraction to political dynamics at the sub-national level. A focus on regions and localities can reveal how resource wealth undermines governance and generates conflict, not just through national political corruption but even through corporate best practice. There is a growing incidence of governance failures and conflict related to the operation of mining operations themselves. These include:

- Social unrest linked to oases of extreme wealth alongside extreme poverty
- The inability of poor, weak states and localities to enforce environmental and social regulation on wealthy, strong mining companies
- Public perceptions of collusion between the government and the mining companies (Fairhead 2003; Ross 2007; Yanguas 2008).

As Yanguas (2008) points out, corporate attempts to enhance local development frequently backfire by fostering clientelism and promoting quick spending that competes with public investments rather than reinforcing them. While extractive industries now appear ready to address these issues (e.g. via the International Council on Mining and Metals), more research is needed to assess and address the impact of mining ventures on inequalities and local socio-political transformations (Ross 2007).

Grievances can transform political action

Collier's analysis treats any expressed grievance as a secondary phenomenon of the political-economic forces that he has identified. As a result, he dismisses the analytical validity of grievance, and instead returns his focus to what he sees as its structural causes.

This is in stark contrast to other analytical traditions which find in grievance – emergent out of common experience – the impetus of transformative political action. On this issue Collier parts company with Richards (2005), Cramer (2006), and many others who recognise the importance of the transformative qualities of modern grievances, and embrace in their analysis the cultural and historical specificities that shape how grievances are expressed. Such a perspective also enables other social categories, which Collier takes as an analytical given (such as ethnicity), to be understood as historically produced.

Without an analytical framework which takes people's experience, motivation and agency seriously, it is especially hard to track properly the relations between natural resources and conflict, which are obviously so central to Collier's thesis and to the lives of the Bottom Billion. Moreover, such analysis is essential, particularly if one appreciates that even in peacetime politics are often shaped by the threat of conflict.

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