Resource curse

The **resource curse**, also known as the **paradox of plenty**, refers to the paradox that countries with an abundance of natural resources (like fossil fuels and certain minerals), tend to have less economic growth, less democracy, and worse development outcomes than countries with fewer natural resources. There are many theories and much academic debate about the reasons for and exceptions to these adverse outcomes. Most experts believe the resource curse is not universal or inevitable, but affects certain types of countries or regions under certain conditions.

Resource curse thesis

The idea that resources might be more of an economic curse than a blessing began to emerge in debates in the 1950s and 1960s about the economic problems of low and middle-income countries. The term *resource curse* was first used by Richard Auty in 1993 to describe how countries rich in mineral resources were unable to use that wealth to boost their economies and how, counter-intuitively, these countries had lower economic growth than countries without an abundance of natural resources. An influential study by Jeffrey Sachs and Andrew Warner found a strong correlation between natural resource abundance and poor economic growth. Hundreds of studies have now evaluated the effects of resource wealth on a wide range of economic outcomes, and offered many explanations for how, why, and when a resource curse is likely to occur. While "the lottery analogy has value but also has shortcomings", many observers have likened the resource curse to the difficulties that befall lottery winners who struggle to manage the complex side-effects of newfound wealth.

Scholarship on the resource curse has increasingly shifted towards explaining why some resource-rich countries succeed and why others do not, as opposed to just investigating the average economic effects of resources. Research suggests that the manner in which resource income is spent, system of government, institutional quality, type of resources, and early vs. late industrialization all have been used to explain successes and failures.

Political effects

Natural resources are a source of economic rent which can generate large revenues for those controlling them even in the absence of political stability and wider economic growth. Their existence is a potential source of conflict between factions fighting for a share of the revenue, which may take the form of armed separatist conflicts in regions where the resources are produced or internal conflict between different government ministries or departments for access to budgetary allocations. This tends to erode governments' abilities to function effectively.

Even when politically stable, countries whose economies are dominated by resource extraction industries tend to be less democratic and more corrupt.

Violence and conflict

According to a 2017 review study, "while some studies support the link between resource scarcity/abundance and armed conflict, others find no or only weak links." According to one academic study, a country that is otherwise typical but has primary commodity exports around 5% of GDP has a 6% risk of conflict, but when exports are 25% of GDP the chance of conflict rises to 33%. "Ethno-political groups are more likely to resort to rebellion rather than using nonviolent means or becoming terrorists when representing regions rich in oil."

There are several factors behind the relationship between natural resources and armed conflicts. Resource wealth may increase the vulnerability of countries to conflicts by undermining the quality of governance and economic performance (the "resource curse" argument). Secondly, conflicts can occur over the control and exploitation of resources and the allocation of their revenues (the "resource war" argument). Thirdly, access to resource revenues by belligerents can prolong conflicts (the "conflict resource" argument).

A 2004 literature review finds that oil makes the onset of war more likely and that lootable resources lengthen existing conflicts. One study finds the mere discovery (as opposed to just the exploitation) of petroleum resources increases the risk of conflict, as oil revenues have the potential to alter the balance of power between regimes and their opponents, rendering bargains in the present obsolete in the future. One study suggests that the rise in mineral prices over the period 1997–2010 contributed to up to 21 percent of the average country-level violence in Africa. Research shows that declining oil prices make oil-rich states less bellicose. Jeff Colgan observed that oil-rich states have a propensity to instigate international conflicts as well as to be the targets of them, which he referred to as "petro-aggression". Arguable examples include Iraq's invasions of Iran and Kuwait; Libya's repeated incursions into Chad in the 1970s and 1980s; Iran's long-standing suspicion of Western powers; USA's relations with Iraq and Iran. It is not clear whether the pattern of petro-aggression found in oil-rich countries also applies to other natural resources besides oil. A 2016 study finds that "oil production, oil reserves, oil dependence, and oil exports are associated with a higher risk of initiating conflict while countries enjoying large oil reserves are more frequently the target of military actions." As of 2016, the only six countries whose reported military expenditures exceeded 6 percent of GDP were significant oil producers: Oman, South Sudan, Saudi Arabia, Iraq, Libya, Algeria. (Data for Syria and North Korea were unavailable.) A 2017 study in the *American Economic Review* found that mining extraction contributed to conflicts in Africa at the local level over the period 1997-2010. A 2017 study in *Security Studies* found that while there is a statistical relationship between oil wealth and ethnic war, the use of qualitative methods reveals "that oil has rarely been a deep cause of ethnic war."

The emergence of the Sicilian Mafia has been attributed to the resource curse. Early Mafia activity is strongly linked to Sicilian municipalities abundant in sulphur, Sicily's most valuable export commodity. A forthcoming study in the *Journal of Economic History* also links the emergence of the Sicilian Mafia to surging demand for oranges and lemons following the late 18th century discovery that citrus fruits cured scurvy.

A 2016 study argues that petrostates may be emboldened to act more aggressively due to the inability of allied great powers to punish the petrostate. The great powers have strong incentives not to upset the relationship with its client petrostate ally for both strategic and economic reasons.

A 2017 study found evidence of the resource curse in the American frontier period of the Western United States in the 19th century (the Wild West). The study found that "In places where mineral discoveries occurred before formal institutions were established, there were more homicides per capita historically and the effect has persisted to this day. Today, the share of homicides and assaults explained by the historical circumstances of mineral discoveries is comparable to the effect of education or income."

Democracy

Research shows that oil wealth lowers levels of democracy and strengthens autocratic rule. According to Michael Ross, "only one type of resource has been consistently correlated with less democracy and worse institutions: petroleum, which is the key variable in the vast majority of the studies that identify some type of curse." A 2014 meta-analysis confirms the negative impact of oil wealth on democratization. A 2016 study challenges the conventional academic wisdom on the relationship between oil and authoritarianism. Another 2016 study finds that resource windfalls have no political impact on democracies and deeply entrenched authoritarian regimes, but significantly exacerbate the autocratic nature of moderately authoritarian regimes. A third 2016 study finds that while it is accurate that resource richness has an adverse impact on the prospects of democracy, this relationship has only held since the 1970s. A 2017 study found that the presence of multinational oil companies increases the likelihood of state repression. Another 2017 study found that the presence of oil reduced the likelihood that a democracy would be established after the breakdown of an authoritarian regime.

There are two ways that oil wealth might negatively affect democratization. The first is that oil strengthens authoritarian regimes, making transitions to democracy less likely. The second is that oil wealth weakens democracies. Research generally supports the first theory but is mixed on the second.

Both pathways might result from the ability of oil-rich states to provide citizens with a combination of generous benefits and low taxes. In many economies that are not resource-dependent, governments tax citizens, who demand efficient and responsive government in return. This bargain establishes a political relationship between rulers and subjects. In countries whose economies are dominated by natural resources, however, rulers don't need to tax their citizens because they have a guaranteed source of income from natural resources. Because the country's citizens aren't being taxed, they have less incentive to be watchful with how government spends its money. In addition, those benefiting from mineral resource wealth may perceive an effective and watchful civil service and civil society as a threat to the benefits that they enjoy, and they may take steps to thwart them. As a result, citizens are often poorly served by their rulers,[61] and if the citizens complain, money from the natural resources enables governments to pay for armed forces to keep the citizens in check. It has been argued rises and falls in the price of petroleum correlate with rises and falls in the implementation of human rights in major oil-producing countries.

Corrupt members of national governments may collude with resource extraction companies to override their own laws and ignore objections made by indigenous inhabitants. The United States Senate Foreign Relations Committee report entitled "Petroleum and Poverty Paradox" states that "too often, oil money that should go to a nation’s poor ends up in the pockets of the rich, or it may be squandered on grand palaces and massive showcase projects instead of being invested productively". A 2016 study finds that mining in Africa substantially increases corruption; an individual within 50 kilometers of a recently opened mine is 33% more likely to have paid a bribe the past year than a person living within 50 kilometers of mines that *will open* in the future. The former also pay bribes for permits more frequently, and perceive their local councilors to be more corrupt.

The Center for Global Development argues that governance in resource rich states would be improved by the government making universal, transparent, and regular payments of oil revenues to citizens, and then attempting to reclaim it through the tax system, which they argue will fuel public demand for the government to be transparent and accountable in its management of natural resource revenues and in the delivery of public services.

One study finds that "oil producing states dependent on exports to the USA exhibit lower human rights performance than those exporting to China". The authors argue that this stems from the fact that US relationships with oil producers were formed decades ago, before human rights became part of its foreign policy agenda.

One study finds that resource wealth in authoritarian states lower the probability of adopting Freedom of Information (FOI)laws. However, democracies that are resource-rich are more likely than resource-poor democracies to adopt FOI laws.

One study looking at oil wealth in Colombia found "that when the price of oil rises, legislators affiliated with right-wing paramilitary groups win office more in oil-producing municipalities. Consistent with the use of force to gain power, positive price shocks also induce an increase in paramilitary violence and reduce electoral competition: fewer candidates run for office, and winners are elected with a wider vote margin. Ultimately, fewer centrist legislators are elected to office, and there is diminished representation at the center."

Distribution

According to a 2017 study, "social forces condition the extent to which oil-rich nations provide vital public services to the population. Although it is often assumed that oil wealth leads to the formation of a distributive state that generously provides services in the areas of water, sanitation, education, health care, or infrastructure. Quantitative tests reveal that oil-rich nations who experience demonstrations or riots provide better water and sanitation services than oil-rich nations who do not experience such dissent. Subsequent tests find that oil-rich nations who experience nonviolent, mass-based movements provide better water and sanitation services than those who experience violent, mass-based movements."

Gender inequality

Research links gender inequality in the Middle East to resource wealth, and likewise for the problems of "petro-sexual politics" in Nigeria. A study in the US finds similar results: resource wealth leads to lower levels of female labor force participation, lower turnout and fewer seats held by women in legislatures.

International cooperation

Research finds that the more that states depend on oil exports, the less cooperative they become: they grow less likely to join intergovernmental organizations, to accept the compulsory jurisdiction of international judicial bodies, and to agree to binding arbitration for investment disputes.

Foreign aid

There is an argument in political economy that foreign aid could have the same negative effects on the long run towards development as in the case of the resource curse. The so-called "aid curse" results from giving perverse political incentives on a weak body of civil servants, lowering politicians accountability towards citizens and decreasing economic pressure thanks to the income of an unearned resource to mitigate economic crisis. When foreign aid represents a major source of revenue to the government and especially in low-income countries the state building capacity hinders by undermining responsiveness toward taxpayers or by decreasing the incentive for the government to look for different sources of income or the increase in taxation.