Natural Resource Abundance: Blessing or Curse

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Why do some countries grow economically and become prosperous, while others stagnate and remain poor?
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Short answer: We don’t know.
Why do some countries grow economically and become prosperous, while others stagnate and remain poor?

Long answer: Lots of theories …

• Private investment
• Education
• Public infrastructure
• Openness to trade
Deeper question: If preceding items are keys to growth, why are they missing in so many countries?
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Critical ingredient: High quality political and governance institutions

- Absence of corruption
- Rule of law
- Effective public good provision
What role (if any) does natural resource abundance play?

Logically, greater resource abundance should enhance welfare
Former President Clinton, in a speech in Nigeria on August 27, 2000, on the role of natural resources in economic growth:
Former President Clinton:

“With … its vast human and natural resources, a revitalized Nigeria can be the economic and political anchor of West Africa.”

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**Paradox**: Resource rich countries tend to experience slow growth, and this effect is systematic.
Figure 1.1 Median GDP per capita (constant 1995 US$)
resource-rich and resource-poor developing countries
Paradox: Resource rich countries tend to experience slow growth

• How to understand solve this puzzle?
• Are there conventional explanations?
• Is the resource curse real, or a statistical fluke?
A deeper puzzle: Some resource rich countries have prospered, while other remain poor. Why?

- Countries with strong government institutions at the start of a resource boom tend to prosper.
- Countries with weak or predatory governance tend to suffer the resource curse.
- *Spatially concentrated resources* are most likely to result in a curse:
  Examples: petroleum, natural gas, diamonds
Some resource rich countries have prospered, while others remain poor. Why?

• Oil: Norway vs. Nigeria

• Diamonds: Angola vs. Botswana
Norway

Had good institutions when oil boom began

Per capita income more than doubled during 1970-2000.

Norway's Seadrill, due for installation in 2011
A Nigerian militant group threatens to destroy major oil pipelines, in battle to control oil wealth in the Niger Delta, June 2008.

Nigeria

Had poor institutions when oil boom began

Diamonds may be forever, but they’re not necessarily the key to growth.
Some resource rich countries have prospered, while other remain poor. Why?

- Petroleum: Norway vs. Nigeria
- Diamonds: Botswana vs. Sierra Leone
Botswana

Strong institutions upon independence from UK


Jwaneng mine in Botswana, the most valuable diamond mine in the world
Sierra Leone

Weak institutions upon independence from UK

Endured 11 years of civil war

Among world’s poorest countries (per capita income <$400/year).
Could *concentrated resource* abundance lead to bad governance?

Anecdotal evidence

Statistical evidence

Case studies
Could concentrated resource abundance lead to bad governance?

Anecdotal evidence

Statistical evidence

Case studies
My project for UN agency

Hypothesis: Resource Abundance affects Governance (A to B) which in turn affects Development (B to C)

Vs. Resource Abundance affects Development directly (A to C)
B Weak Governance Institutions

A. Point Resource Abundance

C. Impaired Development

My project for UN agency

Conclusion: Resource Abundance affects Governance (A to B) which in turn affects Development (B to C)
Resource curse case studies

Gold: 16th century Spain

Tin & natural gas: Bolivia

Timber: Malaysia and Philippines

Oil: Venezuela and Nigeria

Peru: the economics of bird $@!!?
Is the resource curse real, or a statistical artifact?

One inside observer seems to believe it is real:
Sheik Ahmed Yamani, former oil minister of Saudi Arabia, on the value of natural resource abundance in economic growth:
Sheik Ahmed Yamani:

“All in all, I wish we had discovered water.”

Take home messages

• A natural resource boom (or other windfall) can lead to slower economic growth;
• This perverse outcome is most likely when governance institutions are weak at the beginning;
• A resource boom can cause weak institutions to become weaker;
• The last outcome is most likely when the resource involved is spatially concentrated, and can be controlled by a strong political elite.
What can be done to avoid the curse?

• Locking up resources may seem a potential solution, but no government leader has an incentive to do this.
• Fostering strong governance institutions (rule of law, resistance to corruption, stable constitutional structure) is the best bet.
Thanks for your attention!

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