

The curious case of resource-rich developing countries: part II

It is hardly a shocker that not every developing country has had the spectacular economic growth rates that China experienced in recent years, some developing countries are simply developing at a much faster pace than others. There are various reasons as to why some developing countries are doing better than others, think of for instance political (in)stability, economic policy, (a lack of) foreign direct investment and the competitiveness of an economy. In an increasingly globalized marketplace it is important that countries have something to offer if they were to attract foreign direct investment and develop. One could think of cheap labour or an attractive fiscal climate. Another factor that, on the surface, seems to stimulate economic development of previously underdeveloped countries is the availability of marketable natural resources, especially oil and gas. It seems that countries that are rich in natural resources have an advantage over those that are not when it comes to economic development, simply because they have something to offer on the market place. One is tempted to think that, if managed properly, an abundance of natural resources should enable economies to develop and lift millions out of (extreme) poverty. Reality however shows that resource-rich developing countries are not experiencing the economic growth that one would expect them to, mainly due to two phenomena that economists coined the *resource curse* and the *Dutch disease*. In the remainder of this lesson we will discover what these phenomena are and how they hamper the economic development of resource-rich countries and finally, you will brainstorm about what can be done to manage resource-rich countries better.

The resource curse

As stated before one would expect resource-rich countries to benefit from the abundance, one would for instance expect an increase in gross-domestic product (GDP) per capita and literacy, and a decrease in extreme poverty and infant mortality. Yet, the truth is that that many of these countries have experienced a decrease in GDP per capita and an increase in extreme poverty despite, or some would argue because of the abundance of natural-resources. In fact, most of these countries have turned into rich countries with poor people, as is illustrated by the cartoon. Economist refer to this phenomenon as the resource curse, resource-rich countries are developing slower than their seemingly less lucky counterparts.



The reason why developing countries seem unable to turn their luck into prosperity for many stems from corruption and a lack of democratic institutions. It is not hard to imagine that a sudden

abundance of valuable natural resources leads to chaos. As Joseph Stiglitz writes in his book *Making Globalization Work*: "When there is a pile of diamonds sitting in the room, everyone will make a grab for it". Usually the strongest wins the subsequent fight and he will do everything he can to protect what is rightfully his. In that light it is not surprising that many resource-rich countries are characterized by war, violence and chaos, oppressive regimes use the proceeds from the extraction of natural resources to buy weapons that allow them to remain in power. So instead of investing the proceeds from resource extraction into the economy and lifting citizens out of poverty, regimes are investing in themselves. Meanwhile, citizens fight a battle that they cannot win while they are getting poorer and poorer.

On a different level developing countries struggle with debates with regards to the ownership of natural resources. Many developing countries have borders that were drawn by former colonial powers and therefore have a weak national identity. In Nigeria the majority of the oil fields are located in the Niger delta, also known as Ogoniland, where the Ogoni people live. Even if the Nigerian government would draw up a good tactic on what to do with the proceeds from oil extraction, it is unlikely that the Ogoni people would buy into that plan. The Ogoni people feel entitled to the proceeds from oil extraction because to them, the oil fields are in their land, not in Nigeria. The Nigerian government has had a history of brutal conflicts with the Ogoni people over the oil fields in the Niger delta. In 1995 they executed their leader, Ken Saro-Wiwa, who initiated non-violent demonstrations against the (environmental) practices of the Nigerian government and Royal Dutch Shell in the Niger delta. Royal Dutch Shell was brought to court for its alleged involvement in the killing of Saro-Wiwa. The company ultimately settled the case for roughly 15 million USD.

The case of Nigeria suggests that an abundance of resources is by definition a curse, not a blessing. The truth however is that it *can* be a blessing. The United States and Norway are perfect examples of countries that have been able to turn an abundance of resources into prosperity for all. In a sense resource-rich countries need to be managed better in order to reap the full benefits of their assets. Can you think of any steps that governments and/or global institutions should take in order to manage their resources better?