Are natural resources a blessing or a curse for developing countries?

The notion of the resource curse goes back to the 18th century, but the realities are more complex than the term might suggest.

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What is the resource curse?
Dating back to Adam Smith, this is the notion that countries with abundant natural resources do not perform as well economically as those without. Far from being a blessing, minerals have an adverse impact, the argument goes. This is because commodity exporters face a decline over time in the relative prices of their products and also because of the "Dutch disease", whereby the resource sector drives up the value of the local currency, hurting the competitiveness of manufacturing exports.

In an influential study by Jeffrey Sachs and Andrew Warner, covering 97 countries between 1971-89, it was found that natural resource exporters grew at appreciably lower rates than other countries. More recent work, however, disputes the methodology used by Sachs and Warner. Daniel Lederman and William Maloney, for instance, have suggested that natural resources are neither curse nor destiny, asserting instead that it's a mixed bag: some resource-rich countries perform poorly, others do not.

What are the relative growth figures for resource-rich and resource-poor countries?
A recent World Bank study, Africa's Pulse, compared growth of Africa's resource-rich and
non-resource-rich countries between 1980 and 2010. In the 1980s, both sets of countries experienced a virtual stagnation in per-capita gross domestic product. Overall, resource-rich countries were unable to harness resource wealth in the first two decades. Since 2000, however, it has been a different story: higher growth in all groups, with oil-rich countries in the lead. The oil producers achieved sustained growth over the past decade, with some growing faster than others. Angola and Equatorial Guinea experience annual average growth rates of more than 7%. At the lower end, Nigeria, Sudan and Cameroon had rates of 3-6%.

What impact has economic growth had on poverty and inequality in Africa?
Not much. The same World Bank study said strong economic growth over the past decade in Africa has had little impact on poverty rates. Some countries – Angola, the Democratic Republic of the Congo and Gabon – have actually seen an increase in the percentage of their population living in extreme poverty. "Overall, the decline in poverty rates in resource-rich countries has generally lagged that of the region's non-resource rich countries," said the bank. "Income distribution remains highly unequal in most countries in the region ... To a large extent, the benefits of growth have not reached the poorest segments of society."

How do resource-rich countries score on accountability and governance?
Poorly. The World Bank's governance indicators show that oil-rich countries in Africa systematically perform worse than other country groups in terms of voice and accountability, political stability, rule of law and the control of corruption, with Chad and Sudan among the worst performers. As the World Bank notes, where governments are heavily dependent on resource rents rather than on direct taxes from citizens, "the chain of accountability between citizens and governments can be weak. Also, natural resource abundance can be associated with weak checks and balances, because the generation of large rents motivates political elites and powerful private actors/groups to capture these rents for the benefit of a few over the common economic interest." Although there may be no resource curse on growth, it seems to manifest itself in relation to concentration of wealth and accountability (video).

What is being done to improve accountability?
France is making a big push for the EU's directives on transparency and accounting, currently making their way through the EU. The directives, which were approved by a key European parliamentary committee in September, require publicly quoted companies in the extractive industries to publish their payments to foreign governments - not just country by country, but also project by project - without exception. The directives would be in line with US rules under the Frank-Dodd act, although are under legal challenge. France wants to broaden these transparency rules to forestry and fishing eventually.

How much do African economies depend on natural resources?
Oil, gas and mining are important sectors and account for a major source of income. Economic rents from minerals in sub-Saharan Africa came to $169bn (£105bn) in 2010. In Nigeria and Angola, two of Africa's biggest oil producers, the combined size of the rents was more than $100bn. Government revenues from natural resources - a combination of tax and royalties - accounted, on average, for 45% of total general revenues in resource-rich countries.
The economist Paul Collier says African resource reserves may be underestimated, as less exploration has taken place in Africa than in other regions. African countries’ share of global reserves and production of non-fuel minerals is considerable as well. Zambia and the Democratic Republic of the Congo have a combined share of 6.7% of total world copper production, while Ghana and Mali account for 5.8% of total world gold production.

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