

Natural resources and violent conflicts

A curse with no cure?

Policy recommendations for reversing the ‘resource curse’ have been divided into ‘purely’ economic measures and messy politics. A reality check is needed to see if the suggested cures are realistic.

The adverse effects of natural resource extraction on growth, democratic institutions and political stability have mainly been studied within the different disciplines of social science. When diagnosing the resource curse, each discipline – economics, political science and conflict studies – considers only its own part of the body, without paying attention to the body as a whole, or how its prescribed cure might interfere with the medicines prescribed by the other disciplines.

Economists have been particularly persistent in separating their cures from ‘messy politics’ – the political dynamics of resource extraction – such as corruption, lack of democratization and violent conflict. However, various cases show that implementing economic measures is ‘messy politics’. And things are likely to get even worse. Economic development throughout the last decade, in particular that of China and India, has resulted in increased demand for raw materials and energy, leading to investments in areas where extraction was previously considered too costly or risky, mainly due to political instability.

Hence, the critical question is not what *should* be done, based on an economic efficiency calculus. The ‘multi-billion’-dollar question is what can be done, taking into account the institutional infrastructures and power (im)balances in the countries concerned and the global natural resource and energy environment. 📌

Diagnosing the curse(s)

Why are natural resources likely to become a curse rather than a blessing for developing countries? Three main

By **Bertine Kamphuis**, lecturer at the University of Amsterdam. Her research interests include the political economy of ‘post-conflict’ development and the links between natural resources and violent conflicts.

Summary

- Policy recommendations for reversing the resource curse are based on disparate analyses from different social science disciplines.
- Most policy recommendations assume ‘willing, but unable’ resource exporting governments, neglecting the ‘messy politics’ of implementing economic measures and the expected resistance from various corners of the resource extraction network.
- Current policy recommendations do not fully address investments in politically unstable areas, driven by increased raw material and energy demands.
- Given the need for a comprehensive model of ‘resource curses’, responsibility shouldn’t be portrayed as ‘simply’ a technical capacity problem of resource governments; all actors in the resource extraction network should be involved, especially China.

arguments have been made to answer this, each of them focusing on a different set of ‘curses’.

First, the disappointing economic growth record of countries exporting natural resources has occupied economic theorists for some time. A 1995 study by Jeffrey Sachs and Andrew Warner, in which they found statistical support for the ‘resource curse’, triggered a large number of economic studies on this topic. Much of this research has been criticized for its over-reliance on regression analysis or the incorrect application of such a tool. This debate revolves around the question of which came first, natural resource dependence or low growth rates and weak institutions. What remains are a number of challenges, which – if dealt with as strictly economic phenomena – could be overcome by macro-economic, fiscal, trade and development policy.

However, a second argument highlights the proposition that these ‘strictly economic phenomena’ have ‘deep social



Overconsumption, encouraged by easy credit, has intensified the hunt for resources.

and political roots'. This political economy perspective has contributed a number of insights into the 'resource curse'. States that rely on oil, gas and mineral revenues differ from states that rely on domestic revenue extraction. They have freed themselves from the need to collect taxes, and hence the need to promote economic activities outside of the resource sector. They risk becoming 'rentier states' – states in which the elites could easily live off oil income and strengthen their position by 'buying' support, rather than through good economic performance. Resource revenues accrue directly to the state, increasingly in a direct relationship with a multinational corporation. Hence, institutions facilitating taxation, political representation, education, health care and so on, which are the foundation of the 'social contract' in Western states, are not needed. Instead, institutional development is directed at the narrow function of resource extraction and revenue distribution ('narrow institutions'). Groups in these societies are more likely to ask for a share of the pie, rather than for representation in the government. As a result, according to Michael Ross of the University of California, Los Angeles, 'oil and mineral wealth tends to make states less democratic'.

A number of researchers have suggested that there is a third component to the resource curse: natural resource extraction can fuel civil war.

Diamonds, timber and coltan sold on global markets have earned large sums of money for armed groups in Sierra Leone, Cambodia and the Democratic Republic of the Congo (DRC). Once this was revealed through NGO research and media exposure, it gave credit to researchers who had argued that economic agendas played a central role in violent conflicts. Priority was given to the economic functions of violence ('greed') over the social-political causes of conflict ('grievances'). This stirred up a heated 'greed-versus-grievances' debate that resulted in a number of shared assumptions. 📌

Regardless of why a conflict starts, opposing parties generally need some resources to sustain fighting. Over time, these financing mechanisms are likely to become a prime motivator for actors involved in them. Hence, a shift is likely to occur from 'finance for violence' to 'violence for finance'. Some natural resources are particularly suitable for looting. For example, 'alluvial' diamond mining, which requires surface mining or diving into rivers, is carried out by unskilled workers without machines and is characterized by a diffuse geography, high rents and low entry costs. The smuggling of these high-value-to-weight diamonds is relatively easy, and can therefore play an important role in violent conflicts. The National Union for the Total Independence of Angola (UNITA) – through unrestricted entrance to the legitimate diamond industry – generated an estimated minimum US\$3.72 billion (1992–1998) to finance its military capacity. Foreign companies and governments sometimes played dubious roles in tipping the power balance between conflict parties, mainly motivated by their ambition to create or sustain access to lucrative resources ('greedy outsiders').

The low growth rates and rentier effects of the curse also play a role in the relationship between resources and conflict. In the case of resources that are easy to monopolize by a government, such as oil, gas extraction and industrial mineral mining, competition for resource revenue becomes intimately tied with competition for control of the state through a *coup d'état* or, in states where the resource wealth is concentrated in a remote area, a secessionist war. Poor economic performance in combination with narrow institutions makes mobilization for violence easier, while the capacity of the state to mitigate conflict in a non-violent way is limited. Finally, the most important shared assumption to result from the greed-versus-grievances debate is that 'even where natural resource predation features strongly in conflict >

dynamics, it is seldom the sole or even main cause of conflicts’.

As the three arguments show, the term ‘resource curse’ refers to different ailments according to different scholars. While economic thinking mostly focuses on a disease for which a ‘ready’ prescription exists, political economy approaches have tried to explain why some of these ailments might be difficult to cure and why most countries don’t follow the ‘economic’ prescription. Conflict studies have analyzed the shadow side of natural resources – the plunder, informal exports and criminal rackets that do not show up in economic statistics – and have shed a light on the informal, transnational networks through which armed groups, natural resources and international markets are related. So, when seeking to cure the ‘sick’, one should expect resistance, not only from the armed groups, but also from the formal, informal and criminal corners of their networks. Although many authors seem to support the argument that these ‘components’ of the resource curse (low economic growth, rentier effects, lack of democracy and violent conflict) are interrelated, little effort has been made to cross disciplinary boundaries in an attempt to integrate them.

The ideal cure

The disturbing links between ‘far-away’ armed groups or corrupt governments and Western consumer goods have also attracted media attention. They have triggered demand for global policy responses and domestic policy changes in the resource-rich countries.

The global advocacy initiatives are often organized around a particular issue, such as ‘blood diamonds’ and Publish What You Pay (PWYP), and trigger new global governance responses. The most established responses are the Kimberley Process (KP) and the Extractive Industries Transparency Initiative (EITI). These policy initiatives differ from some other relatively new policy mechanisms, such as targeted UN sanctions, independent monitoring by NGOs, naming and shaming by UN expert panels and sector-specific guidelines. They look at the various stakeholders involved in the curse, bringing together domestic and global agents. However, when the KP and EITI were implemented, most of the prescribed actions had to be carried out by the resource-rich countries. Recent reports have highlighted some limitations of the approach.

In addition to these ‘global’ governance measures, various researchers stated that the resource-exporting countries should also take action by implementing a number of domestic ‘economic’ policies and institutions to avoid ‘Dutch disease’ effects, become more resilient to price volatility and diversify their economies. The policy suggestions at the domestic level for creating a resource blessing can be grouped as follows:

- good economic policy and financial management (monetary policy, revenue smoothing, saving and stabilization funds, diversification of the economy, sequencing of economic initiatives);
- good governance and capacity building (anti-corruption legislation, revenue transparency or commodity tracking, accountability and civil society participation); and
- avoiding local grievances (redistribution of rents to local

communities, social and environmental assessments to avoid harming local communities and ensure they are properly compensated).

When combining these policy suggestions for (largely domestically implemented) global efforts and the ‘purely’ domestic policy measures, it becomes clear that for most developing countries, these suggestions mean a total overhaul of society. In fact, the whole list of measures that need to be taken to turn the resource curse into a blessing seems to add up to: install a full-blown multi-party democracy with a strong, open and diversified economy (or keep the resources in the ground). Hence, this mounting list of policy suggestions points out what *ideally should be done*, or more specifically, *what should be done by the resource-rich countries*.

Reality check

What is the likelihood that governments in oil, gas and mineral exporting countries will ‘willingly’ follow the often unsolicited advice given in recent publications? 🙄 With an increasingly aggressive energy environment and, as a result, a number of resource exporting newcomers, a ‘reality check’ is even more urgently needed.

Testing how realistic the cures described here are requires an understanding of the contemporary market for natural resources. Until recently, the global natural resource market showed high and rising prices, thanks in part to economic development in China and India and the accompanying increased demand for raw materials and energy. In the case of oil and gas, international security concerns, a desire to diversify gas and oil suppliers (to become less dependent on the Middle East) and the prospect of exhaustion of oil fields worldwide have increased demand. This resulted in sky-high prices until a few months ago. For example, in 1999, the price of oil was US\$11 a barrel. It peaked in July 2008 at US\$147, and since then has halved. But it is unlikely that the current financial crisis will reverse this upward trend in the long run. Two factors are worth pointing out in the framework of the resource curses, namely the role of China and the forthcoming new oil, gas and mineral exporters.

China’s quest for natural resources made it turn to areas where others have been reluctant to invest. China turned to Africa, where it has drastically increased its investments in the last decade. As a result, bilateral trade between China and Africa exceeded US\$50 billion in 2006. Angola became China’s largest foreign supplier of oil. Chinese multinationals have made significant oil investments in Sudan, Nigeria and Gabon, purchased gas shares in Algeria and are engaged in commercial logging in Equatorial Guinea and Liberia. Many Western commentators characterize China’s approach toward Africa as focusing on ‘resource acquisition and commercial opportunism’, combined with a foreign policy of ‘no political strings’, and ‘coupled with Beijing’s willingness to provide aid and concessionary loans, has proved to be tremendously appealing to African leaders’. The way China is trying to secure its energy/natural resource needs has led to accusations that it is allowing countries to resist the very demands made by the above-mentioned new global advocacy initiatives.

Partially driven by China’s search for resources, new areas are being considered for oil and gas development. These areas were previously considered too expensive or politically

instable. It should therefore be no surprise that most of them are low-income countries with weak, and in some cases even predatory, governance systems. Even when these countries are willing to improve their institutions prior to the resource extraction, they face serious pressures not to do so. While the institutions needed for managing resource wealth need time to establish and consolidate, pressure from countries like China to move ahead is building up. Hence, the critical question seems to be *what can be done?*

Aspirin can't cure a broken back

The domestic and international 'reality check' reveals four main limitations of the current policy suggestions:

- A single issue often prompted the policy response and, hence, it is generally organized around disappointing growth, corruption, poor governance, violent conflict, human rights abuses or environmental damage. As a consequence of 'institutional parochialism' one issue gets priority, and limited efforts are made to facilitate inter-agency cooperation and seek synergies between different mechanisms.
- An uncomfortable tension exists between purely economic solutions and the 'handling of politics', assuming the two can be separated. According to Terry Lynn Karl of Stanford University, 'what is often economically inefficient decision making is an integral part of the calculation of rulers to retain their political support by distributing petrodollars to their friends, allies, and social support bases.' 📖
- In terms of solutions, recent policy explorations assume – some more explicitly than others – that the governments of the resource-rich countries mainly lack capacity. They are not unwilling to turn the resource curse into a blessing, but they are incapable of doing so. Therefore, capacity building is the key. But there are two problems with this assumption: The line between unwilling and unable is thin, and the way resource extraction is organized often provides the very incentives that pull an 'unable' government across this line.
- The consequences of global pressures from (multinationals backed by) resource-thirsty countries that resource countries are facing have generally not been incorporated into the policy prescriptions.

A curse with no cure?

The cure to the resource curse either risks being limited to the few willing and capable countries that are least likely to get ill, or it becomes a prescription (wholesale societal reform or keep your resources in the ground) that no developing country is going to follow. Indeed, the big question remains, if all this is unrealistic, what can be done?

The main conclusion drawn here is when looking for cures for the resource curse, the following four aspects are crucial to determine their likely success:

- Avoid single-dimensional approaches to addressing the resource curses. The case of Nigeria shows that a single focus on revenue transparency does not overcome all resource curse. Even worse, the praising of Nigeria with its EITI compliance may relieve it from some of the pressure to address the violence and corruption in the Niger Delta.
- Counter the trend in which the responsibility for



A gas-guzzling Hummer on an up-market shopping street: shopowners provide free valet parking.

preventing the curse is mainly placed in the hands of governments and portrayed as 'simply' a technical capacity problem. This separation seems to reflect a typical neoclassical approach and policymakers' wishes rather than reality. In this way, the PWYP campaign's effort to encourage mandatory country-by-country reporting by oil companies is a step in the right direction.

- Engage all actors involved in the resource extraction networks and follow not a country but a regional, if not a global, approach. For example, the 'loopholes' in the Kimberley process show that if all actors are not involved, parallel systems are easily created.
- Involve China in defining and resolving the problem. As the case of Sudan showed, China might give up its 'non-interference stance' under certain circumstances, such as when its resource/energy interests are at stake and when its reputational risks become too high. Hence, all global initiatives should actively seek opportunities for engaging with China as a strategic partner in certain resource countries. Until now, the main approach has been to criticize China, whereas selective engagement might prove more successful. ■

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