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Poor little rich countries: another look at the ‘resource curse’

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Resource-rich countries are plagued by macroeconomic crises known as ‘Dutch Disease’, which is associated with the inflation of local currencies on account of a large influx of foreign exchange and a dip in labor supply for non-traded goods. In developing countries, the historical context of state formation is often such that the revenues generated by natural resource exports bolster the stability of authoritarian regimes, and the dominant state actors consolidate their power by managing boom–bust cycles to avert crises. In the context of oil resources, with their special geopolitical significance, relevance for the environment, and enclave character, the primary producers face even more challenges, especially if they are relatively new players and are buffeted by geopolitical power games. Using Mexico, Venezuela and Angola as paradigmatic cases, the relevance of outside forces, domestic policies, and the opportunistic forms of engagement with external power chosen by local actors that produced tragic outcomes in each of these instances are examined.

Keywords: resource curse; development; dependency theory; extraversion

Introduction

A nation endowed with mineral wealth is far less privileged than one might imagine, especially if it is unlucky enough to be in an already underdeveloped region. Consider a poor country in Latin America or sub-Saharan Africa, with a history of exploitation by colonial rule and local elites, caught up in vicious circles of institutional decline, having inadequate access to healthcare, education and jobs, and already wholly dependent on foreign exchange revenue from marginal earnings from agricultural commodity exports. The sudden discovery of significant quantities of mineral resources under its control will jolt its political and economic elites into reorganizing themselves into stewards of an extractive economy that relies primarily on external expertise to

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manage investments, technology and planning. For speedy production of the resource and transfer into global commodity markets, large global corporations are brought in whose revenues may well exceed the country's domestic output. The contracts will almost undoubtedly have terms that are unfavorable to the public interest, but advance the private interests and power of a small elite network of public officials, local oligarchs, and representatives of the resource extraction industry.

When oil is the resource in question, there are several further complicating factors. Oil is probably the most closely watched international commodity, even though its share of global trade is less than 5%. It is concentrated in surprisingly large quantities in a few countries of the world but requires considerable human and financial capital and technology for exploration, extraction and distribution. Given the relatively inelastic worldwide demand for its products and the high entry barriers, there are opportunities for creating substantial rents rather than profits; that is to say, sellers have the ability to charge far more for the product than simply the costs of extraction and a reasonable rate of return. For technical reasons, however, it is relatively difficult to control changes in output very quickly because doing so will probably cause permanent damage to the integrity of wells. And finally, oil production has enormous environmental impacts, in the form of land clearance, construction of roads, pipelines and other infrastructure, major accidents such as blowouts and spills, local air pollution associated with flaring and exposure to toxic gases, and of course climate change.

Economists and political scientists have noted many of these features over the past two decades or so, and have coined the term 'resource curse' to characterize the challenges faced by countries relying on natural resource exports for their wealth. Much of the scholarly focus to date has been on the counter-intuitive finding that the extraction and export of natural resources has hindered rather than improved growth since the early 1970s (Sachs and Warner 2001). On the face of it, resource-rich countries also seem to share several disturbing institutional features with one another. The regimes controlling the resources are often corrupt, authoritarian or over-centralized, with weak state capacity and poor institutions. Their societies are fragmented, with vast disparities in income, poor education, and typically a growing class of skilled and unskilled workers as well as an elite group of experts serving as managers, most of whom who are foreign-born. Common to many resource-rich countries are stagnant growth, poor social welfare indicators, high levels of poverty, inequality, and unemployment, and social anomie in the midst of extraordinary wealth.

While there is a plethora of perspectives on the resource curse, ranging from skepticism over its existence through behaviorist, neo-Marxist, public choice and statist frameworks explaining its existence (for surveys, see Rosser 2006, Frankel 2010), a dominant position influential in shaping multilateral policy is starting to emerge, having both macroeconomic and institutional dimensions. According to Jeffrey Sachs and Andrew Warner (2001), increasing revenues

from natural resource exports leads to a rise in the price of non-tradable goods because of the appreciation in the real exchange rate. This, in turn, leads to a decline in the competitiveness of other (say, non-oil) sectors, thereby increasing the country's overall risk exposure to volatility in the global price of the natural resource. The institutional aspects of the resource curse are associated with the generation of the unusually large revenues from resource extraction, having to do with the relatively low costs of production compared with prices in international markets (Karl 2004). Economic investments in oil production tend to be concentrated in enclaves, providing huge rents for a small elite and very few benefits for the rest of society. But the rents also distort the state's ability to pursue institutional development, such as democracy and the rule of law, by weakening 'agencies of restraint'. Oil states, in particular, tend to have expanding bureaucracies and otherwise become profligate at the expense of nurturing domestic institutions such as courts and civil service training centers. With substantial revenues that can be easily diverted for personal gain, the regimes tend to be corrupt and authoritarian.

Here, while registering my overall agreement with the central features of this explanation, I review the literature critically, in order to highlight what appears to be a prominent blind spot in the mainstream perspective. I argue that even though conventional accounts of the resource curse appear to be logical and consistent with the evidence, by eliding some crucial factors they systematically skew the institutional possibilities for reform in resource-rich countries. These factors are tied primarily to international geopolitics and the rent-seeking tendencies and power of global capital and new forms of mercantilism emergent in large oil-consuming states around the world, together with the hegemonic power of neoliberalism (Harvey 2005). I shall use cases from Africa and Latin America to show how the resource curse can be described alternatively, with perhaps different implications for national and international policy than those currently on offer by multilateral organizations and other donors.

I begin by describing the central arguments of resource curse theorists who use macroeconomic and domestic institutional attributes to characterize the problem. I then examine three cases from Latin America and Africa, which together lend credence to my claim that a systematic bias appears in most conventional explanations of the resource curse, which disregard the impact of the lopsided power relations of international political economy and the historical legacy of colonialism on the development of resource-rich countries. But dependency theory by itself is an inadequate framework to replace or supplement these theories because it simply points to the externally imposed conditions that have suppressed growth in many developing countries, and to the continuing barriers to actual global competitiveness of the developing world by unfair terms of trade and political bullying. Instead, I contend, one should not discount the role of domestic actors who engage in strategies of extraversion; that is to say, collaborative and sometimes independent means to engage in rent-seeking together with outsiders. Taken together, particularly in

the context of oil-rich countries, the resource curse appears as a tragedy for ordinary people as a result of a grand collusion between the financial and political interests of domestic elite power networks and global capital, with even well-meaning political leadership helpless to make sound macroeconomic policy as a result of institutions damaged in the course of a long history of domestic and international intervention, especially in the context of boom–bust cycles of oil prices.

Characterizing the resource curse

The earliest intimations that the economic performance of low-income countries tends to be negatively correlated with their natural resource wealth came from economists such as Alan Gelb, James Mahon and Richard Auty, who introduced the term resource curse into the development lexicon. Their initial thesis has since been extended (Auty 2001, Sachs and Warner 2001) but the overall argument remains fairly straightforward. Over the past four or five decades, the median per-capita income of the resource-rich countries has reduced to levels far below that of the resource-poor countries, whereas in the previous half-century or so the situation was reversed. This pattern is also reflected in their relative growth rates; in the period 1960–1990, the growth rates of the resource-rich countries were less than one-half of those of resource-poor countries.

Resource-rich countries, especially if they are small, generate the bulk of their income from the sale of minerals abroad, which ends up raising their relative exchange rates (that is to say, their currencies become dearer). In the process, these countries lose the ability to build up a competitive industrial sector that is separate from those parts of their economy linked to resource extraction. With higher wages in the resource extraction sector, employment and entrepreneurial talent will converge towards it and crowd out any other possible growth-generating opportunities elsewhere in the economy. In addition, being high-price economies and in the midst of boom and bust cycles affecting their revenues from resource sales, they are likely to suffer the consequences of missing out on the standard advantages of export-led growth. All in all, the resource-rich countries end up having lower levels of growth, but with greater inequality. In contrast, resource-poor countries start to invest much earlier in labor-intensive competitive manufacturing, resulting in faster diversification, higher saving rates, and quicker capital accumulation. As mentioned earlier, oil is the emblematic instance of these problems, given its special importance in the global economy, its enclave character, and peculiar price cycles compared with most other commodities.

A parallel literature tries to explain the origins of the resource curse primarily in political and institutional terms (for example, Karl 1997, Auty 2001, Robinson *et al.* 2006). The main argument here is that it is the political leadership in resource-rich countries that shifts its priorities in managing revenues by engaging in rent-seeking for personal financial or political gains.

The state tends to be negligent about developing its industrial sector, in part because sufficiently large rents already accrue from exploiting the resource endowment. The rents are further derived from enclaves that are sufficiently delinked from the rest of the economy, which implies that windfall gains accrue primarily to select business entities and their political benefactors within the country. This in turn generates an incentive to maintain the *status quo*, since elites potentially have a great deal to lose by allowing a change in institutions that provides other sectors in the economy incentives to become more efficient. Together, these conditions lock in the endurance of institutions not conducive to development. There is some uncertainty as to whether pre-existing institutional conditions cause the resource curse or whether institutions are made worse by it. Karl seems to point to some ambiguity on this issue, but Robinson *et al.* (2006, p. 447) are quite insistent: 'Countries with institutions that promote accountability and state competence will tend to benefit from resource booms since these institutions ameliorate the perverse political incentives that such booms create. Countries without such institutions however may suffer from a resource curse.'

The resource-rich state is characterized by predatory regimes with weak, inept, or corrupt institutions, which are effective only to the extent that they control resource extraction and divert its revenue stream toward conferring wealth on elites. But the windfall revenues also diminish the need for the state to collect any taxes from its population, which in turn reduces political contact with the people in the form of accountability and representation. Rather, a generous welfare state on the one hand ensures that basic services function well and its populace remains politically docile, while, on the other hand, potential challengers to the regime are kept at bay through patronage networks. A disproportionate fraction of revenues tends to be spent on the military to protect the regime from internal as well as external threats, both perceived and real.

Three cases

Mexico: after the revolution, the drought

Mexico's case illustrates many of these conditions, particularly after the mid-1970s, when significant off-shore oil resources were discovered. Funds from oil seemed to contribute to an economic recovery of sorts, since the previous decade was characterized by a severe balance-of-payments crisis, which was itself resource driven, because it was precipitated by the global oil-shocks of 1973/74. Mexico became a choice candidate for receiving 'petro-dollars', providing it with cheap access to money from international financial institutions anxious to circulate the new liquidity generated by the spurt in oil revenues caused by the OPEC oil shocks. The loans were used to promote government-led investments in industrial development, on the basis of anticipated future oil revenues. Between 1977 and 1982, Mexico's public-sector external debt rose from about \$23 billion to \$85 billion. A major

contribution to this problem came in 1979, when the US Federal Reserve decided to tighten interest rates significantly, which caused a sudden increase in debt servicing requirements for all developing countries that had borrowed heavily during the era of easy petro-dollars. In 1982, under the further pressure of falling oil prices, the government saw massive levels of capital flight and was forced to devalue the peso three times, furthering inflation and increasing interest payments on the debt.

Mexico's industrial development was largely state-led although the private sector was significant and highly concentrated. As John Minns (2006, p. 58) points out, two banking groups in the 1970s:

controlled 72% of the total resources of the private sector and 51% of the total capital reserves of the economy as a whole. At the end of the developmental period in the early 1980s, Mexico had a level of industrial concentration similar to or higher than most advanced economies; just 0.82% of firms accounted for 64.3% of total production.

While the boom–bust cycles created by fluctuating oil prices generated substantial conflicts between domestic capitalists and the political establishment, it was clear that some private businesses benefited enormously from state-sponsored subsidies, contracts, very low corporate taxes, and so on. Mexico's special historical and geographical relationship with the United States, while generating a strong nationalist sentiment, did not preempt engagement with foreign capital. Until the 1980s, foreign investments were tempered by rules relating to majority ownership by Mexican firms and the state. Still, it was a narrow group of private business elites who benefitted from these arrangements, often with ties to foreign companies and to the state.

Since the 1980s, virtually the entire non-oil economy in Mexico has become heavily reliant on subsidies, so much so that oil export revenues pay for nearly 40% of government spending. The funds come from heavy taxes on the state oil monopoly Pemex, which is subsequently unable to capitalize its industry effectively. Oil's share of export earnings was as high as 70% in the early 1980s, but has since declined to about 20%. Between 1983 and 1988, the economy grew at about 0.1% annually, with 100% inflation and a declining share of non-oil output. In 1994, a second major currency crisis took place, which resulted in further devaluation of the peso and the loss of about \$11 billion in foreign reserves in less than four weeks. In recent years, there has been a resumption of economic growth and stability in the currency, but the country continues to be saddled with substantial external debt, which effectively curtails the government's ability to manage its oil export earnings sustainably, which is especially troublesome with falling oil reserves and production at post-peak levels (Usui 1997, Minns 2006).

One explanation of Mexico's crisis is that it is the outcome of faulty fiscal, foreign borrowing and exchange rate policies inspired by its distinctive domestic politics of rent-seeking in the wake of windfall revenues from oil. Yet, it is important also to recognize the international political economy context of

Mexico's resource curse. As Peter Gowan (1999) and others have argued, while Federal Reserve Chairman Volcker's decision to raise interest rates sharply in 1979 might itself have been motivated by specific domestic US economic concerns, it also signaled a strong dollar strategy, with very specific foreign policy intentions. In the 1980s, the Reagan administration's ideological commitment to reducing state support for various programs initially indicated withdrawal from the International Monetary Fund (IMF), but it was subsequently recognized that the institution could be used for extending US influence over economic policy in other countries. When Mexico was saddled with dollar debt as a direct result of Volcker's moves (and a three-decade history of dollar hegemony starting with Bretton Woods), its rescue package came with conditions designed by the US Treasury and the IMF to cut welfare expenditures, relax labor laws, and promote privatization and open the door to foreign investors.

Domestic elites in Mexico, while not directly responsible for generating the crises, were often beneficiaries of the reforms that followed. But the active role played by these actors is most clearly seen in the negotiations around NAFTA, which could truly be considered the logical outcome of the series of structural adjustments that began in the 1980s:

In the negotiations before 1994, Mexican business leaders played a major part – in some cases actually leading the formal discussions for the Mexican side. The Mexican bourgeoisie had entered the state directly and had done so through the PRI. They publicly lauded its approach. The multibillionaire media owner, Emilio Azcarraga, said that he had done so well as a result of the Salinas administration that he was willing to give US\$75 million to the PRI. (Minns 2006, p. 115)

Venezuela: from patronage comes the revolution

Terry Lynn Karl points to Venezuela as the archetype of a resource-rich state getting caught up in institutional problems. When oil was discovered at the beginning of the twentieth century, Venezuela was characterized by extremely weak political and administrative institutions, with a military strongman, Juan Vicente Gomez, as ruler. Gomez negotiated the entry of foreign oil companies (principally Royal Dutch Shell and Standard Oil) into a country with virtually no institutional or economic infrastructure to manage its oil resources by itself. The ensuing:

partnership between the oil companies and Gomez left little for the construction of an impersonal state bureaucracy or the development of the country, but it worked to the benefit of both parties: the companies achieved their central goal of capturing crude oil supplies; Gomez remained in power and managed to add to his considerable wealth. (Karl 1997, p. 78)

Institutional development was evidently in the interest of the oil companies in the early years to ensure their stable presence in the country, and they formed a new consensus with existing elite interests to reshape the Venezuelan

state. The resulting laws provided the state with the sole authority to deal with exploration contracts, concentrated power in the hands of the executive, eased of controls on companies to own and manage property, and provided centralized authority for collecting and managing rents. Karl argues that in the years that followed the state became the desired locus of power, but without an impersonal and accountable bureaucracy, it became a patronage machine for distributing rents rather than a capable and legitimate administrative entity.

In 1973/74, with the first oil embargo, Venezuela saw an unexpected windfall as oil revenues quadrupled to \$10 billion, giving the newly elected president, Carlos Andres Perez, a substantial political boost. Yet, the huge inflows of money into the treasury invited fears of inflation, which led to a series of decrees to curb costs, the invocation of special presidential powers, general weakening of democracy, and ironically, massive foreign borrowing to manage spending requests from different sectors. In other words, when the government received a major windfall, it tried to do too much too soon, and this tendency to overextend itself was accompanied by an attack by rent-seekers. The institutional outcome of this disastrous sequence is what Karl describes as a 'pacted' democracy, where the formal institutions of democracy overlay an elite arrangement of patronage through petro-dollars.

By 1976, the oil industry was entirely nationalized but the country, like Mexico, was seriously affected in the 1980s by a combination of spiraling expenditure from oil revenues followed by a precipitous drop in oil prices in 1983, in which the impact was magnified by the Volcker interest rate hikes. It attempted devaluations in its currency, import protection and producer and consumer subsidies to stave off major crisis until 1989, by which time it had experienced another steep drop in oil prices and a growing foreign debt burden. In 1989, Perez returned for a second term, replacing Jaime Lusinchi, whose economic populism was checkered by corruption scandals and the fiscal crisis. Immediately upon assuming the presidency, with a campaign slogan that the IMF was a 'bomb that only kills people', Perez adopted an IMF package of \$4 billion, which was accompanied by measures to privatize state companies, substantially devalue the bolívar, withdraw most consumer and producer subsidies, reduce taxes and customs duties, and generally minimize the role of the state in the economy.

The February 1989 protests, which claimed close to 3000 lives as a result of police shooting, are marked as the 'Caracazo', and eventually generated the conditions to give Hugo Chávez the presidency a few years later. But 1989 was a dark year economically as well, with 44% of the population under the poverty line and inflation soaring to 81%. By 1991, even according to official estimates, nearly 80% of Venezuela's 19.5 million people lived in relative or critical poverty. According to George Schuyler (1996), the events of 1989 demolished whatever elite consensus had developed during previous decades, based on the idea of well-organized political parties and favored positions for powerful groups, when it became obvious that the government was unable or unwilling to respond to economic hardship for the majority of its population.

In the course of a single decade between 1981 and 1991, petroleum revenues per capita had declined about three and a half times. Yet, in just three years, between 1988 and 1991, the share of national income going to the richest 10% of the population had risen from 30.3% to 43%. The birth of the Bolivarian revolution was predicated on the reality and perception by the poor that an extraordinarily affluent global upper class had for quite a long time systematically mismanaged the country's oil wealth and its economy to suit their interests.

The Chávez presidency has managed to avoid some of the elements of the resource curse, although it remains to be seen whether these can be sustained. In the decade 2001–2010, the real average annual growth rate of Venezuela was 3.38%, compared with 1.83% during the previous decade and 0.92% a decade earlier. Given its explicit rejection of elite capture of the state as well as of externally imposed neoliberal policy, it is not surprising that the Bolivarian revolution has paid special attention to development, with an impressive record. The government renegotiated oil royalties with transnational corporations early on and also initiated a series of missions to promote health and education. By the end of 2007, unemployment levels were down to 6.3%, the number of people living in extreme poverty more than halved by comparison with the previous decade, and the infant mortality rate dropped from 25.6 per 1000 births in 1990 to 13.9 (Riggirozzi 2010). Nevertheless, it is not clear whether inequality *per se* has reverted even to pre-1991 levels, and official data are ambiguous on this score. Moreover, Venezuela's relationship with the United States has been tense for over a decade, although less so since the 2008 election of President Obama. Venezuela negotiated the purchase of \$4 billion in arms from Russia in 2005 and has strengthened military ties with China, both of which are sore points for US foreign policy. At the same time, Venezuelan oil imports to the United States stand fourth in volume, after Saudi Arabia, Canada, and Mexico.

Angola: race to the bottom

The third case we consider is that of Angola, currently the second largest petroleum producer in sub-Saharan Africa, and until 1975 a Portuguese overseas territory for nearly four centuries. Colonialism in Angola was characterized from the seventeenth to the nineteenth centuries by the supply of slave labor to plantations in Brazil, Principe and Sao Tome by Portuguese entrepreneurs, with African chiefs and their slave-hunting tribes serving as their primary collaborators in providing a steady supply of slaves (Wolf 1982). Although Britain signed a treaty with Portugal in 1810 to cease slave trading, the King of Portugal did not finally abolish slavery in colonies until 1869 and the practice continued to take place illegally for decades afterward. In the second half of the nineteenth century, with the reduction in revenues from the slave trade, agriculture in the interior began to form the basis for surplus creation, managed largely by Portuguese and Brazilian merchants, with

Luanda becoming a major trading center and the site of an emerging Angolan bourgeoisie. The Berlin Conference of 1884 consolidated territory in the hinterlands under Portuguese control, but it also meant that the government needed to actually possess property in the interior, leading to new arrangements with local intermediaries.

Portuguese governance of the country was highly centralized, with Lisbon maintaining an iron hand over the territory. The Portuguese Colonial Act of 1930 further alienated the native-born population in Angola from civil or political rights, with the explicit language of race. It created two communities in the African colonies: natives and non-indigenous, the latter including whites, *mestiços*, and *assimilados*. It is in the last category that one can locate the especially pernicious element of divide-and-rule: the *assimilados* were those members of the black native population who were officially sanctioned as being 'assimilated' on the basis of their being able to dress, converse and behave like educated Portuguese. Furthermore, colonial territories were required to produce raw materials for Portuguese industry with low production and purchasing costs, to contribute to the equilibrium of the Portuguese balance of payments, to be financially self-sufficient, and to be politically and administratively centralized under the metropolitan government (cited in Cross 1987).

The discovery of diamonds in 1912 had already shifted the locus of economic and political interest in the region, but that of oil in 1950 was even more significant. Mineral exports, primarily diamonds, gold and copper, doubled in the 1960s, which precipitated a land-grab by ethnic European settlers in mineral-rich areas, while farm income dropped by more than one-half during this period. By the early 1970s, oil had turned into the primary revenue source from exports. The population of European settlers in Angola was by now nearly 10 times what it had been in the 1940s, marking new clusters of communities along racially defined lines. In 1968, Gulf Oil (now part of Chevron) was awarded exploration contracts in Cabinda province. By 1970, revenues from this province supported nearly one-third of the colonial government's \$54 million military budget, which was largely used to fight a burgeoning civil war (LeBillion 2001).

In 1961, the Popular Movement launched an independence struggle for the Liberation of Angola (MPLA), a relatively small communist militant group at that time. Two other groups, the National Liberation Front of Angola (FNLA) and the more militant National Union for the Total Independence of Angola (UNITA), which was a bitter enemy of the MPLA, joined the attack on the colonial government, but the war turned into a three-way fight, with complex international alliances on each side. The FNLA and UNITA received assistance from the United States, France and Britain, but also support from the Republic of China, Romania, North Korea and South Africa against the MPLA, which was largely supported by the Soviet Union and Cuba, with the backing of Sweden, Denmark and Nigeria (Bender 1987). In 1975, a three-way negotiated settlement with Portugal led to a transitional government. But the

post-independence situation was characterized by intense civil war until 2002, featuring conflict between the MPLA and UNITA. A third movement, the FLEC, an association of separatist militant groups, fought for the independence of Cabinda, an oil-rich exclave province. By the end of the war, an estimated 500,000 people had been killed.

Throughout this period, revenues from oil and diamonds were barely affected by the civil war, but grew at a robust pace of 8–10% annually, for the most part. In recent years, Angola has a booming economy, tied to high oil prices. China's Eximbank recently approved a \$2 billion line of credit, intended to rebuild the country's infrastructure and bypassing the involvement of multilateral agencies like the IMF. Yet, the country's contradictions are clear: 70% of the population lives on the equivalent of less than \$2 a day, the majority lack access to basic healthcare, and about one in four children die before their fifth birthday. The country ranks 157 out of 179 countries in terms of human development and, during the recent global financial crisis, GDP growth remained flat or negative. Oil exports account for nearly 90% of revenues to the government, which provides fuel subsidies to the poor, but not investments in education, healthcare and jobs. At the same time, the government is able to use oil as an economic sanctuary against military and political threats, primarily due the almost exclusively off-shore location of the oil-fields. The oil-fields themselves are secured, enclaved and globally networked with financial institutions, oil companies and intermediaries, with security provided by private military companies.

Angola's importance in the global political economy of oil is unmistakable. Currently producing nearly two million barrels per day, Angola is the largest producer in sub-Saharan Africa. The US imports 7% of its oil from Angola and considers the country an important strategic partner for energy cooperation and security (United States 2011). At the same time, China has vigorously pursued exploration contracts with Angola, making it now the second largest trading partner for oil in the 'new scramble for Africa'. While China and the United States have become the dominant players seeking contracts for oil in the continent, they are by no means alone: Brazil, India, Malaysia and South Korea are equally active in chasing after partnerships in the region (Frynas and Paulo 2006). The United States has used diplomatic instruments, economic incentives and military aid to promote its relationship with Angola, often assisting private firms to obtain concessions for oil exploration and production. China, in contrast, has adopted a bilateral approach, often securing concessions in exchange for aid to rebuild railways, government buildings, schools, hospitals and roads. In the process, it has provided an alternative to IMF aid, and thereby enabled Angola to avoid having to abide by neoliberal conditions for structural reform. China's entry is thereby providing Angola's leaders with new bargaining power for development aid. All in all, the current situation is yet another twist to the bizarre history of the country's elites managing different partners to negotiate the management of its oil resources with outsiders: for instance, in the mid-1970s,

the government called Cuban troops to protect American oil interests in Cabinda (Bayart 2000, p. 232).

Is wealth really the curse?

The mainstream economic and institutional explanations of the resource curse go hand in hand by making the case that where prevailing institutions are weak, resource booms give rise to political opportunism and misallocation of economic gains through a tragic internal logic that leads directly to the resource curse. For those countries that appear to have escaped the resource curse, such as Indonesia and Botswana, it is simply good governance that needs to be credited:

But the origins of good macroeconomic policy in Indonesia stemmed from the fact that Suharto staffed the relevant bureaucracies not with political appointees but rather with Berkeley-trained economists and technocrats hired on the basis of merit. (Robinson *et al.* 2006, p. 465)

There are several valuable features of these analyses, which need to be acknowledged. First and foremost, by characterizing a syndrome common to many resource-rich developing countries, they bring into focus the perils of the resource-rich, thereby creating the basis for further research in an important domain that might otherwise not receive much notice. Second, they provide useful models of the dynamics of endogenous factors involving the predatory pursuit of power and wealth by elites that reinforce the underdevelopment of resource-rich countries. Third, they help to characterize the peculiar conditions under which a revenue-rich country can turn into a fiscally insolvent one and provide some common basis for understanding these conditions even if the solutions proffered are not easily available.

At the same time, the cases we have seen above make clear that these explanations are incomplete, if not inadequate. In each instance, notwithstanding the messy internal politics and poor management of resources, it is clear that the countries followed trajectories that sometimes seemed to work against conventional expectations related to the resource curse, and, secondly, that their crises had a strong relation to external conditions and forces. Mexico's fiscal crises *preceded* the discovery of large amounts of oil, and Venezuela had an authoritarian government prior to the development of its resources and democratization took place *subsequently*. Angola's troubled history of colonialism and its long war afterwards were certainly connected to its resource wealth but by no means determined by it.

In other words, the timing and sequence of resource exploitation *vis-à-vis* institutional change are different in each case and out of odds with the conventional understanding of the resource curse. Mexico's first peso devaluation in 1982 was arguably the result of profligate spending arising from a combination of petro-dollar loans pushed by banks abroad in the preceding years and the government's unreasonable expectations of continued

high revenues from oil sales, both of which were exacerbated by clientalism. The early institutional development of the Venezuelan state was determined in large part by the unhealthy coalition of foreign oil companies and domestic elites, whose rent-seeking interests dovetailed with each other to the detriment of the public good. As Karl points out, this feature is common to many resource-rich developing countries:

In sum, all major exporting countries have faced the same external dilemma throughout their history. On the one hand, they have had to bargain hard, both individually and collectively, to emerge from the domination of the international companies that so profoundly affected their development paths. On the other hand, their gradual success paradoxically set the stage for sharp rises and falls in prices, a prolonged trough of lower prices, and an especially risky international environment. (Karl 1997, pp. 51–52)

Unfortunately, Karl does not pursue this line of research very far either in her original analysis of Venezuela or in subsequent work. With very few exceptions, other scholars on the topic also seem quite unmindful of the external pressures on resource-rich developing countries at various points in their history, treating the resource curse as an entirely indigenous problem that is also the logical outcome of a sequence of events linked primarily to two causal factors: the windfall revenues arising from resource sales and the poor quality of institutions in the country in question.

This logic and the evidence for this theory are far less unequivocal than is postulated. First, developing countries typically lack the ability to raise capital from abroad to finance their growth unless they are seen as boom economies to begin with, creating a self-fulfilling prophecy. During lean times, when the revenues from exports are low, resource-rich countries find it difficult to finance their spending commitments and investments made during boom times, which leads to the sort of fiscal tailspins Mexico and Venezuela found themselves in. This is not to say that the governments do not have themselves to blame for not anticipating downturns, but given poor infrastructure and very low development as their starting points, the appeal for spending during times of plenty should not necessarily be seen as reckless but as an anxiety to get the ball rolling when the going is good. When external funding for development programs as much as for patronage payments are not easily forthcoming on a regular basis, it is not surprising if resource-rich developing countries feel compelled to overspend during boom times.

Second, there is in fact inadequate evidence that resource rich countries tend to have poor democratic institutions. Haber and Menaldo (2011) have recently analyzed the long-term longitudinal relationship between countries' resource dependence and their regime type and found that oil and mineral reliance does not undermine democracy, preclude democratization, or protract democratic transitions. Nevertheless, this need not undermine the general case made that mineral rents provide incumbent politicians with the means to buy clientelistic support while keeping direct taxes on citizens low, thereby

depressing participatory politics (Ross 2001). Where opportunities exist for consolidating these gains and preserving extant regimes, whether authoritarian or democratic, they tend to endure, but when other factors such as international geopolitics, domestic ethnic conflict or similar legacy issues gain importance, then political fortunes too may shift accordingly. The quality of pre-existing domestic institutions is certainly one of the relevant features influencing the country's political path, but only one among many.

Indeed, an entire sphere of influence about which surprisingly little analysis has been carried out in this context is the international political economy of resource demand. Popular culture is apparently far more mindful of the fervent geopolitical context of blood diamonds and oil than are mainstream political scientists and economists, judging by the latter's relative silence on the issue. Minerals, particularly oil, are of course produced primarily for an external market, and it is often because of the special enclave character of these resources that remote, otherwise uninteresting and desolate countries suddenly catch the public eye. Mineral resources are international commodities in great demand, but because there is often little or no local capacity to manage their extraction, a series of measures needs to be undertaken by interested parties to re-gear indigenous institutions that may already be caught up in complex prevailing arrangements, burdened with a post-colonial legacy, perhaps only recently emergent as a state, and already halfway on a development trajectory shaped by multilateral donors, domestic political interests and businesses.

Nevertheless, the strong version of dependency theory, which claims that the resource curse is directly the outcome of unequal exchange and the structure of the world economy, is too sweeping and unfocused a paradigm to add value to existing explanations. A broad-brush causal attribution of the resource curse to global capitalist structures that subordinate the needs of resource-rich developing countries to the interests of the powerful completely sidelines the dynamics of local circumstances in relation to global political economy. In particular, it erases the role of local agents and their active construction of and participation in the development of dependency, treating them rather as passive victims. Yet it is clear that an array of structural factors – for example, the political economy of global oil demand, the coercive influence of international banking and finance, and the threat of military intervention – are in fact utilized by the domestic political actors and other elites to consolidate personal wealth and power. In the process, the predilection for boom and bust cycles associated with global oil markets leads to faltering macroeconomic conditions but these are in turn complemented by the opportunistic behavior by elite networks, both domestic and international.

Jean-Francois Bayart's (2009) use of the term 'extraversion' is perhaps relevant in this context. Bayart argues that the participation of indigenous actors in such activities as the slave trade in Africa or colonial governmentality represents an internal stratification that aided and abetted external interests as well as certain local ones. Government policy in the colonial regime often coincided with the strategies of local actors and was in fact co-opted by the

latter in those instances, or was effectively resisted by them when it went against their interests. Bayart describes six such strategies: coercion, trickery, flight, mediation, appropriation, and rejection. In the contemporary, post-colonial context, similar strategies are adopted by domestic actors who seek to mobilize rents by capitalizing on relationships with the outside world, including bankers, private corporations, multilateral organizations and governments. It is in this context and through such actions that they turn into 'elites', who may form state actors or remain outside the state, but it is important to note that their power is derived by the extent to which they form symbiotic relationships with powerful external interests, which could have little to do with their relative standing in their own societies prior to these conditions. Dependency is still present in this framework, but it is mediated by the extraverted rent-seeking actions of local players who are now seen as active agents rather than passive victims.

The notion of extraversion can help explain the peculiar challenge of the resource-rich developing country because it calls attention to the ways in which the discovery of mineral wealth puts into motion a set of strategies that are used to engage with developers and create a mutually reinforcing, although not necessarily cooperative, rent-seeking platform. Typically these manifest themselves as secretive contracts between extractive industries and the state, which may include corrupt side payments or indirectly provide political support to the regime in return for long-term and loosely regulated arrangements for resource extraction and revenue generation. The theory makes superfluous the question of whether bad pre-existing institutions generate the resource curse or whether it is the other way around (see Frankel 2010, p. 18). The institutions that build on the extraverted relationships are those of dictatorship and state control, secrecy and inequality, simply because these are deemed necessary to keep the relationships with the outside world going. As organizations such as Publish What You Pay, Global Witness and the Revenue Watch Institute are discovering, the resistance to increasing transparency or changing these institutions is equally strong from both the resource-rich state and the foreign corporations who are engaged with it as purveyors of mineral extraction.

The cases we have seen provide a window into the complex nexus of relationships that have developed between local elites and the external world, shaped by a history of colonial intervention that specified who could be assimilated and who not, followed by Cold War geopolitics, and finally a globalized network of rent extraction involving local elites as much as banks, multinational corporations and private security companies. The resource curse can be described as the long-term effects of local history and geography in external relationship with globalized interests coming into rent-seeking play over the extractive enterprise. The social consequences are indeed dependent on the pre-existing domestic institutions available to manage resources, but local agents as well as foreign interests enter into a dynamic political relationship with these institutions to exploit the situation for their needs.

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