

- ET Bureau (13 December 2014), “Need to rethink ‘ Make in India’ ; must strengthen Indian economy from within: Raghuram Rajan”, The Economic Times, Bennett, Coleman & Co. Ltd. Retrieved from - [http://economictimes.indiatimes.com/articleshow/45499427.cms?utm_source=](http://economictimes.indiatimes.com/articleshow/45499427.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)
- Rajesh Kumar Singh (9 January 2015), “Calls for higher spending put deficit targets in jeopardy”, Reuters. Retrieved from - <http://in.reuters.com/article/2015/01/08/india-budget-idINKBN0KH28C20150108>

Resource Curse – An Inevitability?

Pranjal Begwani

Ambedkar University

Abstract: *This paper is an attempt to draw a relation between the abundance of hydrocarbon wealth and the prospects of economic growth and good standards of democracy in oil-rich countries. It stitches together a connective link between the three in the course of this essay⁷⁷. Initial explanations of hydrocarbons and why it’s synonymous with wealth, the correlation of wealth with growth and democracy and the working definitions of economic growth and good standards of democracy which are contentious terms and cannot be defined in black and white, set the tone for two case studies of separate oil-rich states and how both dealt with oil discovery in different ways. The two oil rich states analyzed in this essay are – Norway, considered a full democracy and highly ranked on all democratic indices, and Nigeria, with an authoritarian regime and a dismal and rankling democratic record. Norway is an exception while Nigeria is representative of most other oil-rich states. The prime objective of this paper is to conclusively put forward evidence to show that the resource curse is not a predestined inevitability; rather it can be a boon if sound economic policies are pursued.*

Hydrocarbon wealth or crude oil (as it is known in its liquid extracted form) is today, one of the world’s prime sources of energy. Its use is widespread in industry, transportation (as automobile and airline gasoline), electricity generation and various other economic activities. According to the International Energy Agency, oil as a percentage of world total primary energy supply is the single largest source at 32.4 % (IEA 2010), even though its contribution has come down from 46.1% in 1973 to 32.8% in 2009. This

decline in no way reduces oil’s importance in today’s global scenario. Rather it simply highlights greater awareness of issues such as global warming, and the need of alternative energy sources such as nuclear, hydro, wind and solar power. The binding agreements with regard to bringing down carbon emissions signed at the Copenhagen Climate Change Conference 2009 have played their part in this. The predominance of oil as an energy resource can be judged from its consumption patterns – up from 57 million barrels per day in 1970, (Wright, Oil: Demand, Supply and Trends in the United States, p. 1) to 89 million barrels per day as of 2011. (IEA 2011) And oil is here to stay at least in the foreseeable future, as alternate sources of energy are a lot more expensive and aren’t ‘ qualitatively superior’ either (Smil, 2006).

Thus, a direct link may be drawn between these patterns of consumption of the scarce resource that is oil and the massive capital receipts from exports by countries endowed with hydrocarbon riches. No wonder then that the term ‘ hydrocarbon wealth’ is used to refer to these reserves. This term is justified as oil is a non-renewable scarce resource, and it is thus a resource which can be exploited by states in possession of it, as per the demand supply scenario and in line with current consumption trends to maximize their revenues and hence wealth.

But, does this unearned wealth have a correlation to wider economic growth and the flowering and sustainability of democracy in such states? We may be slightly mistaken here. Rather the usage of the word ‘ slight’ is a gross understatement. The existence of authoritarian regimes and a dismal performance on democratic and developmental indices faced by many

such hydrocarbon, oil rich countries suggests otherwise. These states face what British economist Richard M. Auty called the ‘resource curse’ i.e. states where regardless of the plenitude of resources (in this context oil) and wealth inflows caused thereby, the benefits derived for the common people are negligible. Georgina Allen plainly defines the ‘resource curse’ as a phenomenon when countries rich in natural resources remain relatively undeveloped because of government mismanagement and corruption (Balaam, 2011, p.498). Dystopian tendencies in such states therefore glaringly highlight that wealth is not necessarily an indicator of all-round development.

States afflicted with the ‘resource curse’ may be described using the rentier oil state effect. Preconditions for the existence of a rentier state include the dominance of external rent, and the concentration of rent exclusively in the hands of the state government. This concentration is an existential reality in oil-dependent economies as major ownership of oil production is in the hands of state firms as opposed to private enterprises. The rentier effect derived eponymously from the term ‘rent’ is a widely accepted explanation for the existence of authoritarian rule in such states. Wealth generated through oil production is the major form of income in oil rich states. This wealth may thus substitute the tax burden on citizens, in the process dissolving resistance for democratic accountability and subsidiary democratic rights which come attached with taxation. Additionally, this wealth can purchase political support and vitiate civil rights groups. Also as is increasingly evident, this entrenching of authoritarian regime goes hand in hand with increasing corruption in government departments, bureaucratic inefficiency and resultant stagnation of various economic sectors with the obvious exclusion of the petrochemical sector.

Before getting into in-depth case studies of two oil rich states with opposing governmental systems, analyzing the strength of their economies and democratic standards, and putting the same into perspective with respect to their hydrocarbon wealth, it is of immense empirical value to define beforehand the indicators of democracy and economic growth so as to make observations and comparisons of a fairly uniform nature. In the process ambiguity will be minimized.

According to the Economist Intelligence Unit Democracy Index 2012, the key indicators of democracy are electoral process and pluralism, functioning of government, political participation, political culture and civil liberties. Apart from citing the ‘Democracy Index’, other indicators such as unemployment and literacy rates will also be referred to. Widely used indicators of economic growth are Gross Domestic Product and Gross Domestic Product per capita, which again will form the basis for further analysis. Additionally, the Index categorizes states around the world into four broad groupings – full democracies, flawed democracies, hybrid regimes and authoritarian regimes. Full democracies in all obviousness are the best form of government while authoritarian regimes fall at the extreme of the spectrum.

These groupings form the basis of the selection of the two oil rich states to be analyzed in this essay – Norway, considered a full democracy and highly ranked on all democratic indices and Nigeria, with an authoritarian regime and a dismal and rankling democratic record.

THE NORWAY EXCEPTION

Norway is an exception of sorts when it comes to states with a plenitude of oil wealth. It stands out like the veritable knight in shining armor amongst nations such as Iran, Iraq, Saudi Arabia, Chad, Nigeria, Equatorial Guinea and Venezuela when it comes to performance as far as democratic and economic indices is considered. In Norway, post oil discovery, there has been a burgeoning of economic growth and welfare. The only probable similarity between these states is the presence of and the reliance on oil reserves. Therefore within these oil rich states it wouldn’t be wrong to group them as Norway and the rest, apart from the other obvious grouping of OPEC (Organization of Petroleum Exporting Countries) and non-OPEC oil rich states.

How has Norway managed to escape the ‘resource curse’, which has brought down each of the oil rich states previously mentioned to a situation where finding oil is synonymous with the state and its economy heading into an impending dystopian future? Has Norway done something differently or is it just a

coincidence? The answers to these will become clear in the following paragraphs.

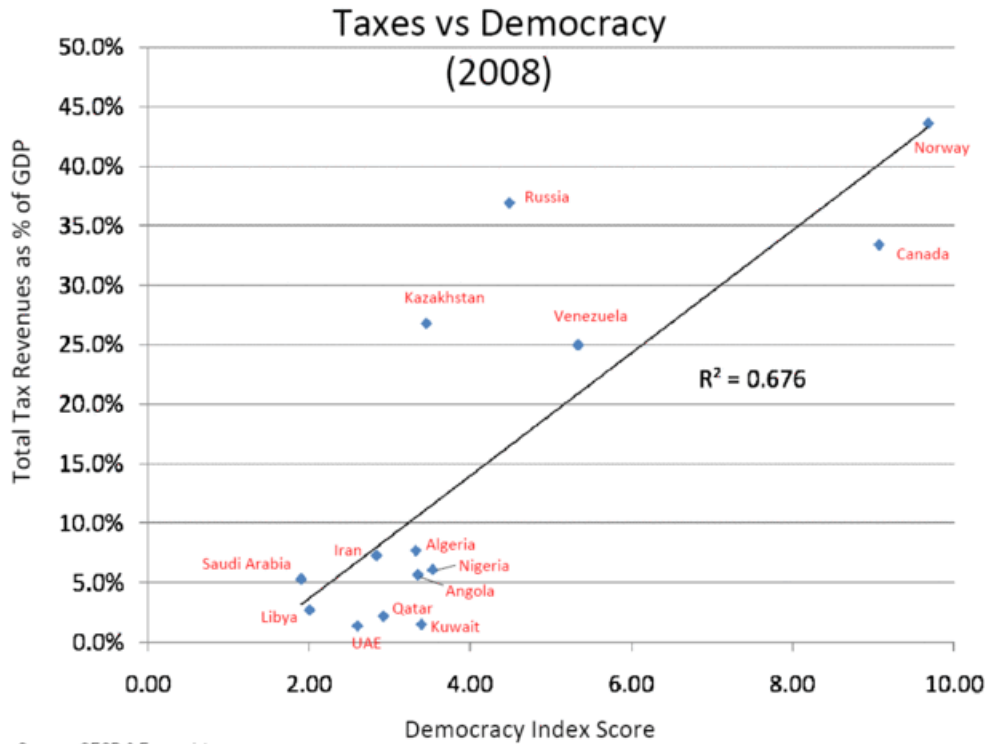
In countries with producer friendly institutions, with good protection of property rights, reliable public bureaucracy, and little corruption, natural resources are more likely to lead to economic growth (Mehlum, Moene and Torvik, 2006, 2008). Norway has had a long-standing democratic tradition since 1814. Oil was discovered in Norway in the 1960s. This therefore implies that by the time Norway discovered North Sea oil, democratic traditions had already set in and it was a way of life in Norwegian society. The bureaucracy was efficient and accountable, and equally efficient and effective was the government framework in place.

Nevertheless the discovery of oil was sudden since the National Geological Survey had all but given up hope of finding oil. Equally sudden would have been the spiraling of the state and economy such that it would have succumbed to the 'resource curse' and rentier state tendencies had the government not come up with strict policies and frameworks, which prevented any such occurrence.

One such policy was of giving out only two drilling permits a year to limit the money made from oil fields and in the process preventing the oil money from destroying Norway's already existing industries. (Blumberg, 2011) Despite the skepticism of the oil industry, the government did not dither from safeguarding the economy. In addition to that, it came up with the '10 Oil Commandments' underlining the principles of Norwegian oil policy (Norad, Norway's Oil for Development Program, 2012). In this context, three of the original Ten Commandments are rather important and should be taken note of. These three commandments relate to the national supervision of all drilling activities, the development of new business activity and industries based on petroleum and the safeguarding of existing commercial activity regardless of the development of the oil industry. Now the consequences of these three commandments in all likelihood would have been as follows – supervision would have led to development of the oil industry within acceptable limits so it did not hinder other economic commercial processes; development of new jobs as a result of the subsidiary industries based on petroleum; and, protection of already existing jobs.

Now these consequences in essence show why Norway did not fall into the 'resource curse' trap. For one, sectors of the economy apart from the petro-industry were protected. And it is a truism that the economy cannot grow only on the back of growth of one industry (say, the oil industry) because in such a case benefits would be lopsided and unevenly distributed, as we will later see in the case of Nigeria (a classic example of a 'resource cursed' nation). Additionally, there was conscious job creation apart from protection of already existing jobs. This was another effective measure at blinding the effects that are seen in traditional 'resource curse' afflicted oil reliant states. Oil industries are capital intensive in nature, thus job-creation is minimal and unemployment rates in such oil dependent states are relatively high (though not without exception). Jobs further reduce when other industries are neglected, as the oil industry in itself is a massive generator of revenues. An unemployment rate of merely 3.3 for Norway (a result of policy-success) stands in contrast to 23.9 for Nigeria and 12.3 for Iran as a percentage of their respective total population, thereby reflecting the resource curse phenomenon in Nigeria, Iran and other such states (IMF 2011). Add to that, oil exports inflate the exchange rate so that whatever else a country manufactures is less competitive abroad (Rosenberg, 2013).

In addition, the bulk of petroleum revenues in Norway are deposited in a state-owned sovereign fund called the Government Pension Fund – Global. Only the government spends the interest generated from this fund, while the principal remains largely untouched. As a result of this fund being invested primarily outside Norway and the annual maximum withdrawal being maintained at 4%, Norway managed to avoid hyperinflation or the so-called 'Dutch disease'⁷⁸. The tax levels in Norway are also consistently sustained at a high level, which implies two things. One, the petroleum revenues are essentially being saved in the form of the sovereign fund at the same time reducing the economy's reliance on it. And two, higher taxes mean the government is expected to be accountable to the people which results in the perpetuation and sustenance of high economic and democratic standards, while escaping the rentier state and thus, the resource curse trap. Unconnected but lastly, oil policies cannot be used as an election campaigning



Source: OECD, Economist (2008)

tool which means that regardless of the political party in power, the stability of the economy remains intact.

This graph reflects the relation between tax rates and democracy. It justifies the incidence of the rentier state-resource curse trap on states with low tax rates which results in lower governmental accountability. The ability of Norway to escape the resource curse trap and come out on top with regard to democratic standards corresponds to it maintaining a high tax rate (as has been previously explained), while states such as Nigeria and those in the OPEC have visibly taken a hit in democratic standards while having low tax rates.

This brings us to the robustness of the Norwegian economy and democracy. Its GDP stands at 485.8 billion dollars, with its per capita GDP valued at 98,080.91 USD (World Bank 2011). Even though oil amounts for a little more than half of Norway's total exports, it is very strong in other sectors such as sea and fish-food, and the paper-pulp industry as well. In fact, total fish and sea food exports amounted to 7.1 billion USD (The Globe and Mail, 2009). Also, Norway's second largest export sector is 'supplies for

the petro industry', thus generating employment, (apart from revenues) through the petro sector itself.⁷⁹

In 2012, Norway's real GDP grew by 3%, which compares fairly well with other developed European economies (The Economist). With respect to Norwegian regard for democracy, Freedom House gave it the highest possible rating in dispensation of political rights and civil liberties. In addition, grouped under 'full democracies', it was Numero Uno on The Economist's Democracy Index 2012, with all of its indicators falling between 9 and 10 (10 being the maximum possible).⁸⁰ Norway's literacy rate stands at an impeccable 100% (CIA World Factbook 2013). To infer, almost all studies without exception point to Norway as a successful economy as well as a democracy, with the latter being pronounced in almost gushing terms. Norway's hydrocarbon wealth has led to its prosperity rather than dampen prospects of economic growth and good standards of democracy. It has used its subsequently generated wealth to its advantage – it has put in place firm frameworks, created a sovereign wealth fund diverting oil revenues into it, and utilized the interests thus generated by pumping it back into the economy. If there is a nation

that has undermined the ‘resource curse’, it has to be Norway.

NIGERIA AND THE RESOURCE CURSE

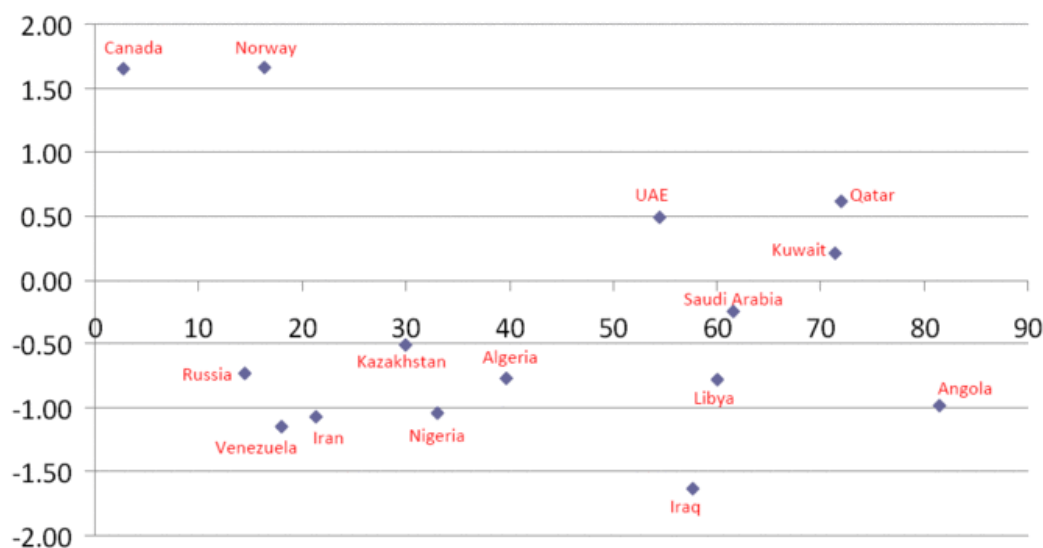
Nigeria on the other hand, is an oil-rich state at the other extreme end of the spectrum. It is one of the prominent examples of ‘resource curse’ afflicted nations – a state where oil revenues haven’t translated into development and progress on the ground. But it is not an isolated example with most other oil-rich states facing a similar paradox.

Nigeria struck oil in 1956. But since then little has changed. According to Rosenberg, petro-dependence may lead to conflict (Rosenberg, 2013). This may be justified by the studies conducted by economists Collier and Hoeffler which showed that the likelihood of conflict was 22% when a third or more of a country’s GDP came from the export of primary commodities, and was 1% for countries which did not export primary commodities (Collier and Hoeffler, 2002). Nigeria seems almost tailor-made to justify this theory: 95% of its export earnings are in the form of oil revenues (U.S. Energy Information Administration 2012). And Nigeria is conflict ridden. It has fought two civil wars

in 1967 and 1980 respectively. Though the causes for these civil wars were more political than anything else; the current state of conflict - the rise of militancy and the recently declared state emergency clearly point at something else.

The answer lies in the link between oil, oil revenues and conflict that I wish to draw attention to. If we read between the lines, the link seems obvious. When oil was initially discovered in 1956, there were expectations from the Nigerian citizens of emancipation, better opportunities and the ushering of a new era. In contrast, it was only the government and a few people in power who benefitted. According to the Standard Bank, the government which is a majority shareholder in Nigerian oil fields, has made over 1.6 trillion USD from oil revenues in the space of 50 years, while over 70% Nigerians still languish below the poverty line (as of 2010) living on less than 2 USD a day (CIA World Factbook). In light of this, the rise of militancy seems almost inevitable – masses of people who have become disillusioned over time while Nigerian government seems to be amassing wealth shrouded in an invisibility cloak i.e. the only beneficiaries of this wealth are the corrupt government officials.

% of GDP from oil vs Average Governance Indicator (2008)



Source: World Bank, EIA (2008)

This graph reflects the % of GDP from oil (X axis) against the average governance indicator (Y axis). This graph is self-explanatory and simply reinstates Norway as a state, which can be emulated for its governance, while Nigeria and all of the other prominent oil-rich states have dismally low levels of governance. These low levels in turn indicate corruption, the ineffectiveness and the weakness of government institutions and economies, which thus cannot perform at their best.

We see a carry-over of this in most measures and indicators in studies conducted by international agencies. Nigeria's GDP stands at 244 billion USD, with its GDP per capita holding out at a low 1,501.72 USD (World Bank 2011), even though it rakes in massive annual oil revenues. It had a growth rate of 7.4% in 2011 (World Bank), but it is important to take note that this growth is concentrated primarily in southern Nigeria, and a double-digit growth is a bare necessity to see a perceivable improvement in living standards. Norway's growth rate of 3% would seem a pittance when compared to Nigeria's, but it would not be right to compare their growth rates since Norway is considered a developed nation, while Nigeria is as yet developing.⁸¹ Additionally, Nigeria has low tax rates making it susceptible to the rentier state - 'resource curse' trap. The Economist Democracy Index for 2012 ranks Nigeria a lowly 120 (amongst 167 nations), and groups it under countries having the worst form of government with minimum respect for democracy i.e. authoritarian regimes. On all its democratic indicators, Nigeria comes up short, with an average of 3.77 (0 being the worst possible score and 10 being the best). According to the Human Rights Watch, the government has doled out financial incentives to the tune of an annual 400 million USD from additional oil revenues, but it has still not addressed the underlying causes of violence and discontent in the region, such as poverty, government corruption, environmental degradation from oil spills, and impunity for politically sponsored violence (HRW, World Report 2013).

Despite the presence of oil production activity, very few Nigerians are employed. For example, Shell in Nigeria employs 5000 people most of whom are foreigners. Shell in turn laments the lack of suitable labour amongst the native Nigerians. Only 1% of Nigeria's total labour force is employed in the oil

industry, which in turn generates more than 95% of its export revenues. The malaise runs deep with Nigeria's adult literacy rate at 56.9% (National Literary Survey 2010, National Bureau of Statistics, Nigeria) well below the world average of 84.1% (UNESCO 2010), and with a ghastly unemployment rate of 23.9% (IMF 2011). Comparing this data with nearby African countries (taking Cameroon and Ivory Coast as examples) that are unlucky or lucky not to be as oil-rich as Nigeria (depending on how one looks at it), the findings are staggering and reinforce the resource curse argument. Data suggests they sure are lucky. Cameroon and Ivory Coast had literacy rates of 71% and 56% respectively (UNESCO 2007-2011), the former being much higher than Nigeria's while the latter being almost as good as Nigeria's. Ideally Nigeria should have been better off had it used its oil revenues judiciously. But, most importantly this is the consequence of government embezzlement of oil revenues and lack of any framework in place.

CONCLUSION

The case studies of the two oil-rich states i.e. Norway and Nigeria have been chosen for a reason. Nigeria and the 'resource curse' it faces with respect to oil is representative of most oil-rich states including most of the OPEC countries such as Iran, Iraq, Venezuela and Saudi Arabia. Thus, the Nigerian case study serves as a mirror for a lot of the other oil-rich states. Norway on the other hand is an exception, and that is exactly why it was important to put forward its case. What was it that it did right, that others didn't, and what is it that others can do to escape the 'resource curse'? Norway shows us that the resource curse is not as inevitable as it seems.

It is perhaps to Norway's advantage that pre oil discovery, it already had a flourishing democracy in place. That is something which cannot be replicated by its oil-rich counterparts, as that would require changing the past and so much more and time-travel is as yet not a reality! But what can definitely be replicated is Norway's management of the economy, post oil discovery. Its stable governance frameworks which don't change with the coming and going of political parties; its regulations which foremost have the welfare of citizens in mind; government accountability which can be equated to a stable and high tax rate and the creation of an independent oil

fund, (which is a necessity as oil markets are susceptible to high levels of instability). Nigeria did not adhere to any of these including the creation of an oil fund and is consequently facing severe economic woes, domestic inflation and balance of trade problems apart from issues listed previously.

Other oil-rich states would thus do well to implement Norway's policies with necessary tweaks to suit their domestic environments. But how should the 'resource curse' plagued oil-rich states bring about the policy change is a big question in itself? There is not much incentive for the ruling class in such states, as they are already 'raking in the moolah'. Expecting international organizations such as the United Nations, the IMF and the World Bank to bring in change would amount to being overoptimistic, as these organizations have often been criticized for serving vested interests and the United States' hegemonic designs (the support of the Saudi Arabian authoritarian regime by the U.S. to serve their own interests may be cited as a proof of this). This leaves only citizen uprisings as a means to bring in change. In the short term though, as the Arab Spring in Egypt shows, there is bound to be political instability. The long-term consequences are as yet unknown.

To infer and to reiterate, the current scenario shows that hydrocarbon wealth does in fact 'de-energize' the prospects of economic growth and good standards of democracy to a great extent in oil rich countries leading to what is commonly known as the 'resource curse', illustrated in Nigeria's case and likewise evident in most other oil-rich states. Yet, Norway's case shows that this 'resource curse' is not all encompassing and through it, is answered the question raised in the title. The 'resource curse' is not a predestined inevitability and can instead be turned into a boon. As Norway showed, all it takes is a little socio-political will, a motivated populace and some sound policies.

REFERENCES

- Accessed on 3rd July, 2013.
<http://www.theglobeandmail.com/report-on-business/economy/canada-competes/what-norway-did-with-its-oil-and-we-didnt/article11959362/>
- Accessed on 3rd July, 2013.
<http://www.iea.org/aboutus/faqs/oil/>
- Dependency and Resource Curses", Introduction to international political economy, Boston: Longman, pp.489-506.
- Blumberg, A. (2011), How To Avoid The Oil Curse, NPR. Accessed on 3rd July, 2013.
<http://www.npr.org/blogs/money/2011/09/06/140110346/how-to-avoid-the-oil-curse>
- CIA World Factbook 2013. Accessed on 6th July, 6th July, 2013.
<https://www.cia.gov/library/publications/the-world-factbook/fields/2103.html>
- Collier, P. and Hoeffler, A. (2002), Greed and Grievance in Civil War. Accessed on 3rd July, 2013.
<http://economics.ouls.ox.ac.uk/12055/1/2002-01text.pdf>
- Coopedge, M. and Gerring, J. (2011), Conceptualizing and Measuring Democracy, Perspectives on Politics, Vol.9/ No.2 , Accessed on 2nd July 2013
<http://people.bu.edu/jgerring/documents/MeasuringDemocracy.pdf>
- Economist Intelligence Unit Democracy Index 2012 3rd July, 2013, <http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=Democracy-Index-2012.pdf&mode=wp&campaignid=DemocracyIndex12>
- Freedom House, (via Global Finance) Accessed on 3rd July, 2013.
<http://www.gfmag.com/gdp-data-country-reports/206-norway-gdp-country-report.html#axzz2XyTiHEgW>
- Hsieh, E. (2013), "What Norway did with its Oil and we didn't", *The Globe and Mail*.
- Human Rights Watch, World Report 2013.
- International Energy Agency, Key World Energy Statistics, 2012.
- IMF, World Economic Outlook, October 2012 (Inclusive of 2011 Data).
- Mehlum, H., K. Moene and R. Torvik (2006), Institutions and the Resource Curse, *Economic Journal* 116, 1-20.
- Mehlum, H., K. Moene and R. Torvik (2008), Mineral rents and social development in Norway, Mimeo, University of Oslo.
- National Literary Survey 2010, National Bureau of Statistics, Nigeria
Via National Literacy Action Plan (2012), Nigeria, UNESCO Accessed on 4th July, 2013.
<http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ED/pdf/Nigeria.pdf>
- Norad Evaluation Department (2012), Facing the Resource Curse: Norway's Oil for Development Program.

Accessed on 3rd July, 2013.

http://eiti.org/files/Facing%20the%20Resource%20Curse_Norway-s%20Oil%20for%20Development%20Program%20%281%29.pdf

- Rosenberg, T. (2013), Avoiding the Curse of the Oil-Rich Nations, Opinionator: New York Times.

Accessed on 3rd July, 2013.

http://opinionator.blogs.nytimes.com/2013/02/13/avoiding-the-curse-of-the-oil-rich-nations/?_r=0

- World Bank Report, 2011.

- Smil, V. (2006), "21st Century Energy: Some Sobering Thoughts", OECD Observer 258/9.

- The Economist Intelligence Unit

Accessed on 3rd July, 2013.

<http://country.eiu.com/Norway>

- U.S. Energy Information Administration 2012

Accessed on 3rd July, 2013.

<http://www.eia.gov/countries/cab.cfm?fips=NI>

- Wright, J.C., Oil: Demand, Supply and Trends in the United States, University of California, Berkeley, pp. 1