This policy brief aims to clarify the developmental challenges posed by Africa's natural resource dependence and to outline ways of evading the dangers of the resource curse. I argue that the inevitability of dire consequences flowing from resource abundance can easily be exaggerated. Possessing resource wealth carries real challenges and dangers, but whether that wealth becomes a blessing or a curse turns heavily on how governments manage it. The experience of a country like Botswana – with its unusually strong record of economic and political governance – shows the possibility even within Africa of achieving sustained economic growth through the effective exploitation of mineral wealth.

THE ECONOMICS OF THE RESOURCE CURSE

Concerns that the exploitation of natural resources might not be the most promising route to economic development are nothing new within Africa. During the 1960s, most newly independent governments treated their dependence on raw material exports as a negative colonial legacy to be overcome as soon as possible. To the extent that a colonial strategy of economic development existed, it was inspired by classical liberal economists like Adam Smith and David Ricardo: by 'opening' the interior to international trade, Africa could benefit from its comparative advantage in minerals and tropical cash crops, exchanging them for manufactured goods imported from industrialized countries.

The experience of commodity exporters between the world wars contributed to the emergence of 'export pessimism' among development economists, especially those from developing countries. The Argentine economist Raúl Prebisch confronted liberal thinking on trade and development head-on. He argued that specialization based on comparative advantage did not put primary-exporting countries on the path to development, but instead consigned them to underdevelopment – locking them into supplying commodities to world markets whose international prices were declining steadily relative to the prices of the manufactures they imported. Prebisch argued that to break this pattern, developing countries should pursue 'import-substituting industrialization' (ISI) – that is, building domestic capacity to produce currently imported manufactured goods (in part, by using trade barriers to protect 'infant industries' from international competition).

The vulnerability of primary-exporting African economies was again highlighted by the global economic volatility beginning with the oil shocks of the early 1970s, which wreaked havoc on trade-dependent developing economies. Within Africa, reducing dependence on mineral and agricultural exports and promoting industrialization were key aims of most independent African governments' economic strategies until at least the early 1980s. The Lagos Plan of Action of 1980 advocated expanding the scope of ISI to the continent as a whole, as a central component of its programme of 'collective self-reliance'.

A second economic explanation for the disappointing performance of resource-rich countries is the so-called 'Dutch disease'. It focuses on how a boom in one sector can adversely affect other sectors' competitiveness. The label refers to the decline in Dutch manufacturing attributed to natural gas discoveries in the 1960s. The mechanism through which the 'disease' is transmitted is the exchange rate. The resource boom swells export earnings, causing the exchange rate to appreciate. This strengthening of the local currency reduces the international competitiveness of 'non-booming' export and import-competing sectors. Because African economies are not very industrialized (unlike the Netherlands), Dutch disease's negative absolute impact is concentrated in other primary export industries. For example, the discovery of oil in the Gulf of Guinea region appears to have reduced the competitiveness of 'traditional' agricultural exports (such as cocoa, in countries like Nigeria and Cameroon).

Though theories of Dutch disease emerged largely independently of Prebisch's critique of economic liberalism, they have distinct similarities. Most important, they share strong skepticism of the developmental potential of primary exports, although at times such exports may appear extremely lucrative. According to Prebisch, specialization in primary production is a mistake because in the long run, he believed, prices of primary commodities in world markets inevitably fall relative to the prices of manufactured goods. In theories of Dutch disease, resource booms create incentives that draw factors of production out of sectors (like manufacturing) with better prospects of long-term productivity growth. From both perspectives, the processes connecting primary resource dependence and disappointing economic outcomes are themselves *economic* – leaving governance-related issues in the background.

Governance and the Resource Curse

'Good governance' is central to current thinking about African development, and the resource curse may be less a narrowly economic affliction than a symptom of broader governance problems. Two dimensions of 'governance' are often distinguished – 'political governance', referring to the ways public authority is organized and exercised, with special attention to responsiveness, accountability, and transparency; and 'economic governance', referring to the state's capacity and performance in carrying out functions essential for economic development, such as coherent policy formulation, public-service effectiveness, and the control of corruption. Some skeptics have questioned whether improving political governance – by entrenching democracy and human rights – is the best route to improving economic governance in the continent. According to this view, good political governance, though desirable in itself, is a luxury African can only afford once it has made greater economic progress. In contrast, the continent's flagship initiative, the New Partnership for Africa's Development (Nepad), identifies good political and economic governance as joint 'conditions for sustainable development' and makes governance reform a central priority. Major external aid donors share this view, and evidence is emerging that economic governance is noticeably better in African countries that have made meaningful strides toward entrenching democratic institutions.

If governance is the key to African development, the resource curse may be caused by poor management of resource wealth more so than by the mere possession of that wealth. Resource dependence may affect economic performance indirectly – with resources contributing to bad governance, and bad governance in turn harming economic outcomes. Governance-based explanations for the resource curse emphasize these indirect paths, identifying various ways natural resources contribute to governance failures. With respect to economic governance, governments in resource-rich countries enjoy an 'easy' source of revenue, but they are also exposed to fluctuations in volatile international commodity markets – complicating economic policymaking and straining institutions of financial control. With respect to political governance, a major drawback is that resource wealth often emanates from an 'enclave' with limited linkages to the rest of the economy. If the government controls the enclave, it can use resource revenue to tighten its grip on political power through a mix of patronage and repression. But if the enclave is located in an uncontrolled outlying area, rebel movements can use resource wealth to finance their violent activities.

Natural resource dependence also threatens to weaken public financial institutions, especially those that impose formal restraints on government spending and prevent private appropriation of public funds. These restraints are essential for good economic governance in resource-rich countries, yet they are crucial precisely because incentives for governments and individual officials to transgress them are so strong. Adhering to institutional restraints may easily be seen as superfluous when resource revenues are flooding in, and as politically suicidal when they dry up. Financial transparency is a common casualty, with resource wealth diverted into channels that are 'off-budget' or 'off-the-books' entirely. The lack of financial transparency opens the door to corrupt officials seeking to benefit privately from their access to public resources. State-owned oil and mineral companies in Africa (and other developing regions) are notorious for opaque and corrupt financial activities.

Turning to political governance, natural resource wealth can profoundly affect the ways governments seek to consolidate their political power and shape the political challenges they face. With 'easy' revenues from resource wealth, governments may resort to political strategies emphasizing patronage and repression, rather than taking on the 'harder' task of building legitimate institutions of representation that would make them more politically responsive and accountable. Besides directly harming prospects for democracy and human rights, the public is more likely to come to see the state as nothing more than an instrument for the self-enrichment of those who happen to control it. Resource booms can trigger 'feeding frenzies' in which various factions resort to any means available to achieve dominance – leading to political instability and the premature depletion of resources that might otherwise have stimulated a broader process of economic development.

Perhaps the most troubling manifestation of the resource curse is resource-rich countries' greater susceptibility to violent political conflict. This is partly due to more general economic inequities and governance failures associated with natural resources. Yet the presence of resources, and their tendency to be concentrated in specific geographical areas, also appears to contribute directly to violent rebellion. Inhabitants of resource-rich areas are more likely to see the creation of their own independent state, linked to an ethnic or 'national' identity, as a financially viable and economically lucrative alternative to continued incorporation in a larger political unit. In fact, many of the best-known movements in Africa with secessionist overtones have been launched from resource-rich regions: Ibo nationalism in Nigeria and oil; Katangan nationalism in the Democratic Republic of Congo (DRC) and copper; and Asante nationalism in Ghana and cocoa. Since the end of the Cold War, with little chance of securing the sponsorship of a superpower, rebel groups have had to rely almost exclusively on resource wealth to finance their violent activities. Alluvial diamonds, extractable without heavy equipment and easily 'looted', have been central to several conflicts – sustaining Jonas Savimbi's rebels in Angola, Foday Sankoh's in Sierra Leone, and Laurent Kabila's ultimately successful movement in the DRC. These cases have inspired international efforts to prevent trade in 'conflict diamonds', such as the Kimberley Process Certification Scheme. To sum up, resource wealth provides a motivation for violent conflict, and also the funds to sustain violent insurgencies for long periods. Also, resource *dependence* and poor economic performance are both probably partly symptomatic of underlying governance problems.

Highlighting how governance issues are intertwined with the resource curse holds good news and bad news for policymakers. The good news is that it shows resource-rich countries are not automatically doomed to poor economic performance: With improved governance, Africa's natural resources can be a developmental blessing and not a curse. The bad news is that the adverse effects of natural resources on governance are potentially large, complicated, and admit to few easy 'fixes'.

EVADING THE RESOURCE CURSE – WHAT CAN BE DONE?

Economic diversification

All perspectives on the resource curse share the concern that natural resource dependence has negative consequences for long-term economic development. But leaving minerals or oil in the ground, or choosing not to produce lucrative cash crops, seems neither a plausible nor desirable approach. Most observers agree that promoting greater economic diversification – so that resource-*abundant* countries do not become resource-*dependent* countries – is, in general, a sensible way to reduce the dangers of the resource curse.

More controversial is exactly how to promote economic diversification. Though ISI need not necessarily be discarded entirely, another approach to diversification is to develop industries devoted to processing the continent's raw materials. Such processing produces exports with greater value added and helps spread the benefits of natural resources beyond established 'enclaves'.

Trade barriers imposed by advanced, industrialized countries create obstacles to this move into value-added resource exports: while raw materials face low tariff rates, effective rates of protection rise steeply on the value-added component of processed exports. The current round of World Trade Organization negotiations has been dubbed a 'development round', and much of the attention has focussed on reducing agricultural protectionism that shields farmers in the advanced, industrialized countries. But this should not be at the expense of challenging trade barriers that discourage greater processing of resource-based exports – an area potentially more important to many African countries.

Improving political governance

The many economically dysfunctional manifestations of the resource curse can be traced to a common origin – systems of political governance that create a sharp divergence between the immediate political incentives facing governments and the longer-term social and economic welfare of their populations. In such environments, 'bad economics' is 'good politics'. In contrast, where political institutions are stable and make governments responsive and accountable to the public, 'bad economics' becomes 'bad politics' as well. Governments in African countries that have made meaningful strides toward democracy have, not surprisingly, found it in their interests to improve the quality of economic governance

International institutions provide strong incentives for African governments to uphold commitments to good political governance. Democracy and human rights are desirable in themselves, and evidence shows that they are a solid foundation for economic development in Africa – discouraging governments from the kinds of economically disastrous policies and actions at the heart of the resource curse.

Improving financial transparency

If economic diversification and improving political governance are the main ways to establish a 'macro' environment for evading the resource curse, the more immediate 'micro' challenge is to enhance financial transparency in resource sectors. Revenues derived from resource sales are often not clearly and credibly accounted for, being channelled 'off-budget' through state-owned and private-sector companies – and even there often being obscured by dubious bookkeeping. The most damaging consequences of resource dependence for governance in Africa are made possible by failures of financial transparency.

The principles and spirit of Nepad's governance framework apply generally in the quest for greater financial transparency, but no specific priorities or guidelines for resource sectors appear to exist yet. Within the Nepad framework, the African Union has adopted codes on fiscal and budgetary transparency, and its corporate governance standards are intended to cover state-owned as well as private-sector enterprises. Moreover, Nepad's external partnership component provides a basis for engaging international organizations and non-African governments in efforts to regulate and monitor multinational corporations involved in the extraction and purchase of Africa's natural resources.

More explicit attention to financial transparency in resource sectors would bolster Nepad's efforts to improve governance quality in Africa – and in so doing help the continent to evade the worst effects of the resource curse. International initiatives to promote transparency have focussed on the oil and mineral sectors. While these sectors seem to pose the greatest potential dangers, the relatively large share of cash crops in Africa's exports justifies consideration of agricultural exports. Most important, the centrality of resource revenues to the financial and political architecture of many African states – and the potential for their inappropriate management to precipitate more general economic and governance collapses – should be reflected in the priority they are given within Nepad and the APRM process.

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