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Authors

Paul Collier
Professor of Economics
University of Oxford

Caroline Laroche
Researcher

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Natural resources do not need to be a curse (Part 1 – Explaining the resource curse)

Looking at the fate of several resource-rich sub-Saharan African nations, it's easy to see that an abundance of natural resources can be a real curse, and many blame natural resources for the poor economic outcomes of many sub-Saharan African countries. We, on the other hand, think natural resources can and should act as the backbone of growth on the continent. Below, we explain where the resource curse comes from and show that it can be avoided

The resource boom and the resource curse

Sub-Saharan Africa's resource sector is booming and shows no sign of slowing down. The resource discovery rate is high, growing, and is expected to be maintained at least over the next decade. Indeed, evidence suggests that most of Africa's subsoil resources are yet to be discovered. This means that more and more revenue will be generated by natural resource exploitations in the next decades.

With more resource exploitation comes more revenue. This inflow of revenue is at the origin of what is commonly called the 'resource curse', the idea that countries and regions with an abundance of non-renewable natural resources tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This idea is now widely accepted, but it is falsely construed as inevitable. It is this inevitability of the resource curse that we aim to challenge.

The origins of the resource curse

There are two main drivers of the resource curse: a political one, and an economic one.

The political drivers of the alleged curse are simple: conflict. Natural resources generate conflict over who will get the revenues, and what they will be spent on. Often, the state or province where the resource is exploited wants to keep a large part of the revenue, while the federal government believes the revenue should be centrally administered. Citizens expect the government to immediately spend this revenue on more and better services, while corrupt officials in the state prefer better services, while corrupt officials in the state prefer channelling it towards their own bank accounts. Conflict easily ensues.

The economic reason is more complicated: when a country generates much of its income from its natural resources, it tends to neglect other sectors of the economy, for example manufacturing. It adopts policies that benefit resource exports and hurts manufacturing and other exports, thereby hurting those sectors in the long-term. Once the resource boom is over, it is difficult for the country to recover as the other sectors of the economy have been stifled for so long they are no longer competitive. In addition, research shows that natural resources tend to reduce the overall national economic output of a country.

Avoiding the resource curse

The resource curse is both real and harmful. But it is also avoidable. For example, Malaysia successfully used its earnings from resource exports to diversify its economy. Chile has long been the fast-growing country in Latin America, largely fuelling its growth on mining exports. Botswana exploited its diamond resources – now representing about 40% of its GDP – to become the fastest growing economy in the world. Certainly, for these three countries, natural resources were a blessing, not a curse.

Properly managed, resource-driven development is the best growth opportunity for many favourably endowed African countries. Mismanaged, they lead to unsustainable consumption sprees, as politicians struggle to meet exaggerated popular expectations and often lead to corruption and conflict. However, this need not be the case. As we have just seen, some developing nations have successfully managed their natural resource wealth, and have had a path of sustained growth and development as a result.

What needs to be understood is that the resource curse is optional – the consequence of policy errors. In order to avoid them, governments of resource-endowed countries will need to get the natural resource management policy chain right. This will be the topic of our next blog post.

If you'd like to read more on this topic, you can also consult the **Growth brief** on this topic.