

# African Research Review

*An International Multidisciplinary Journal, Ethiopia*

*Vol. 9(4), Serial No. 39, September, 2015:237-248*

ISSN 1994-9057 (Print)

ISSN 2070-0083 (Online)

DOI: <http://dx.doi.org/10.4314/afrrrev.v9i4.18>

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## **Resource Curse: Micro and Macro Analysis**

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### **Abstract**

The aim of this paper was to identify the different human agents and their different activities which cause resource curse – a phenomenon that has plagued Sub-Saharan Africa. In order to do the identification, the paper employed the levels of analysis approach. The approach shows that the relevant agents and factors can be analysed at the micro and macro levels. At the micro level, there are the individual, collective and corporate sub-levels, while at the macro level there are the state and the global institutional order sub-levels. The paper was divided into three parts. The first part explicated the different levels and sub-levels of analyses. The second part dealt with the micro level while the third part dealt with the macro level. The end-result is that despite the complexity of resource curse and the multifaceted nature of the activities that cause resource curse, we can still identify the different causal roles played by different agents, and thus attribute causal responsibility to the agents.

**Key Words:** Dutch Disease, Macro, Micro, Rent-Seeking, Resource Curse

## Introduction

In Sub-Saharan Africa, there are not many political economy cases that typify the problems of poverty and underdevelopment more than a phenomenon called resource curse. There is nowhere in the world that the resource curse is more manifested than in Sub-Saharan Africa. Since the introduction of the term ‘resource curse’ into development economics by Richard Auty (1993), it has become the canonical term for the description of an unfortunate scenario in which in spite of the plentiful natural resources some countries are endowed with, these countries remain impoverished and their impoverishment is largely, or at least, due to the plentiful natural resources they are endowed with.

Resource-rich countries “often perform *worse* in terms of economic development and good governance than do countries with fewer resources” (emphasis is original) (Humphreys, Sachs, & Stiglitz, 2007, p. 1). *Ceteris paribus*, natural resource endowment leads to growth and development. Ironically, the reverse is the case for certain countries; consequently these countries are aptly described as being ‘resource-cursed.’ Examples include Angola, Democratic Republic of Congo, Equatorial Guinea, Nigeria, Sierra Leone, etc. The facts are: (i) given the natural resources they have, they should have been better-off; (ii) their being worse-off relative to non-resource-rich countries is directly or indirectly due to their being endowed with abundant natural resources.

Resource curse is a man-made phenomenon; it is caused by the activities of humans. This paper is aimed at identifying the different human agents and their different activities which cause resource curse. The end-result shall be that despite the complexity of resource curse and the multifaceted nature of the activities that cause resource curse, we can still identify the different causal roles played by different agents, and thus attribute causal responsibility to the agents.

Our methodological approach shall be levels of analysis. As shall be seen in the course of this discussion, the relevant actors or agents can be analysed at the micro and macro levels. At the micro level, there are the individual, collective and corporate sub-levels, while at the macro level there are the state and the global institutional order sub-levels. It is for this reason that we are employing the levels of analysis approach. The paper is divided into three parts. The first part explicates the different levels and sub-levels of analyses. The second part deals with the micro level while the third part deals with the macro level.

### Levels of Analysis: Micro and Macro

The Dutch disease and rent-seeking are the two major problems associated with resource curse. Alongside the Dutch disease and rent-seeking, there are other problems associated with resource curse such as unequal expertise, volatility, living-

off-your-capital, insufficient investments (in education, health, etc.), spoliation, weak and unaccountable states, threats to democracy, grievances in producing regions, military challenges to governments, political and economic interactions, etc (Humphreys et al., 2007, pp. 3-14). However, most of these problems are either generated by the Dutch disease or rent-seeking or a combination of both.

The Dutch disease simply means “the currency appreciation due to resource revenue and its negative effect on the competitive position of other industries” (Soros, 2007, p. xi). The Dutch disease has the following pattern:

A sudden rise in the value of natural resource exports produces an appreciation in the real exchange rate. This in turn makes exporting non-natural resource commodities more difficult and competing with imports across a wide range of commodities almost impossible (called the ‘spending effect’). Foreign exchange earned from the natural resource meanwhile may be used to purchase internationally traded goods, at the expense of domestic manufacturers of the goods. Simultaneously, domestic resources such as labour and materials are shifted to the natural resource sector (called the ‘resource pull effect’) (Humphreys et al., 2007, p. 5).

Shifting focus to the exploration and exploitation of natural resources leads to the abandonment of other sectors. For instance, in the case of Nigeria, shifting focus to the exploration and exploitation of oil and gas led to the abandonment of the agricultural sector. The solution is not that Nigeria should focus on agriculture rather than oil and gas. Rather the solution is that, taking into consideration absolute and comparative advantages, diversification is the best possible option. Because, a diversified economy, rather than a mono-product economy - or an almost mono-product economy - is a safer way to stable economic growth in particular and economic development in general.

As shown above, how the Dutch disease causes resource curse is simply due to bad economic policy, this aspect of resource curse is neither multifaceted nor complex. Consequently, we do not need different levels of analysis to understand the Dutch disease. Our focus will be on rent-seeking which is the multifaceted, complex and complicated aspect of resource curse. It is the rent-seeking aspect of resource that requires different levels of analysis in order to understand the different causal roles played by different human agents in resource curse.

Rent-seeking has to do with using political means at the political realm to try to get economic rent. In the context of extractive industry, economic rent would mean “the difference between the value of production and the cost to extract it” (Humphreys et al., 2007, pp. 379 - 380). Rent-seeking is rife because the value of the natural resources usually far outweighs the cost of their extraction; anyone who is able to secure the

license to exploit the resources is automatically in a lucrative business. In such cases, individuals, private sectors or politicians, have incentives to use political mechanisms to capture these rents. For this reason, there is usually a scramble for exploration of natural resources which often leads to negative political and economic consequences.

The factors responsible for rent-seeking in particular and resource curse in general are the handiwork of human agents. The activities of these human agents can be analysed at the micro level and the macro level. The micro level consists of the individual, collective and corporate sub-levels while the macro level consists of the state and the global institutional order sub-levels.

At the individual sub-level we deal with individuals. By individuals we mean persons acting on their own accord, independently, *sui generis*. While at the collective sub-level we deal with collectives. By collectives we do not mean an institution or a group of individuals forming an institution, a corporation, etc. We simply mean two or more individuals - a group of individuals, a bunch of individuals or a plurality of individuals – that act jointly in a case of resource curse.

At the corporate sub-level we deal with corporations. In the context of resource curse, in the narrow sense of corporation although oil companies are the obvious ones, banks and law firms which aid money laundry, etc. are part and parcel of ‘corporations’ in the wider sense. So, by corporation we mean multinational corporations, mainly those in the extractive industry, but also financial institutions, law firms, and lobby groups and to a lesser extent the media and public relations firms.

At the state sub-level we deal with the state. By the state we mean the resource-rich and resource-cursed state (visibly represented by its government). While at the global institutional order sub-level we deal with the global institutional order. By the global institutional order we mean the current set of political, economic, legal and social institutions, rules, regimes and norms which systemically, directly and indirectly regulate, shape and affect the relationships, interactions, competitions and cooperation among persons, collectives, peoples, states, corporations, and organisations globally. In this sense, organizations such as the United Nations, the International Monetary Fund, the World Bank, the World Trade Organisation, etc are part of the global institutional order just as regimes such as free trade, intellectual property right, etc are part of the global institutional order. Although different organisations and regimes carry different weights and are important to different degrees, fundamentally they are all part and parcel of the same global institutional order.

### **Micro Level: Individuals, Collectives and Corporations**

At the individual sub-level, individuals can be said to contribute to the causes of resource curse in various ways. Generally these ways can be summed up in twelve ways. I shall outline the twelve ways, neither by precedent nor antecedent, and neither

in chronological, lexical nor in hierarchical order. They are outlined below without any special order.

- Individuals contribute to the causes of resource curse when, *sui generis*, they seek rent for themselves; corrupting or being corrupted for their own sake – giving or taking bribes for themselves. When the individual agents, *sui generis*, seek rent or give or take bribe for themselves, they place priority on their selfish needs at the expense of the rightful owners of the resources, i.e., the citizens of the resource-rich states.
- Individuals can contribute to resource curse by acting as corrupt agents of the government or other sectors of the resource-rich state. When the individual and collective agents as officials of the government or other sectors of the resource-rich state allow themselves to be corrupted in order to facilitate rent-seeking, they place priority on their selfish interests at the expense of the citizenry they are supposed to be representing.
- Individuals can contribute to resource curse by acting as agents of a rent-seeking foreign government. The individual as an agent of a rent-seeking foreign government is not seeking rent for him/herself. Rather, the individual agent is seeking rent for the government which s/he represents. Since the government in turn represents its citizenry, by extension or ultimately the individual is seeking rent for the foreign citizenry. By so doing, s/he is not only placing priority on the interest of the foreign government at the expense of the citizens of the resource-rich state, but also s/he places priority on the foreign citizenry at the expense of the citizenry of the resource rich-state.
- Individual agents contribute to the causes of resource curse by acting as agents of rent-seeking multinational corporations. When the individual agent seeks rent on behalf of multinational corporations (often oil, gas and mining companies) s/he does not seek rent for him/herself. But by seeking rent for the corporations s/he represents, in the process or as a means of getting rent, s/he corrupts officials of the government or other sectors of the resource-rich state which is detrimental to the citizenry. By so doing, s/he is placing priority on the interest of the corporations, in reality on the interest or profit of the shareholders of the corporations, at the expense of the citizenry of the resource-rich state.
- The individual can contribute to resource curse as an agent of financial institutions, e.g. banks, which aid money laundry and other financial transactions concerning resource curse. It is abundantly clear as a matter of historical fact that without their aid many corruption cases related to resource curse would not have been able to be executed. Infamous Swiss accounts,

secret accounts in Seychelles, Cayman Islands, etc aided by financial agents are some of the major routes for capital flight, money laundry and other illicit financial transactions concerning resource curse.

- Individuals also contribute to the causes of resource curse as lawyers helping to facilitate corruption. This can be done legally by looking for loopholes in legal systems or illegally by helping companies escape prosecution from their activities that resulted in negative externalities, providing cover-ups to corrupt clients, etc. These lawyers may often represent their legal firms or act on their own. In any way they act, they are basically putting priority on the interest of their clients, firms and their own selfish interests to the detriment of the rightful owners of the resources from which the money is gotten by their clients.
- Individual agents can also contribute to the causes of resource curse by representing public relations companies, the media or a medium that misinforms or ‘disinforms’ the public concerning the roles of certain actors in resource curse. For instance, when people are misinformed about the activities of a company that is causing resource curse, rather than taking action, say, protesting or suing the company, they might just decide not to act against the company believing the company is doing no harm.
- Individual agents can contribute to resource curse as law makers responsible for laws that aid resource curse. This happens when the individual agents as legislators are part of the machinery that made a law that aids resource curse. For instance: sponsoring a bill that is passed into law, or voting for a bill, that allows oil companies to abnegate their corporate social responsibilities or community development in extraction areas or communities; or voting against bills that were meant to check the negative externalities of oil companies.
- Individuals can contribute to resource curse as law enforcement agents failing to enforce laws that mitigate resource curse, for instance failing to prosecute ‘suspects.’
- As members of the judiciary, for instance judges miscarrying justice, individual agents can contribute to resource curse. This can be illustrated in the following simple way. The individual as a judge miscarries justice in order to let off the hook defendants who, beyond any reasonable doubt, have been proven to have engaged in gross illegalities which are connected to resource curse, and the judge must have acted due to ulterior motif.
- Individuals can contribute to resource curse as policy makers responsible for bad or poor policies that aid resource curse.

- Individual agents can also contribute to the causes of resource curse by lobbying on behalf of lobby groups or multinational corporations in order to get law makers and policy makers to make laws and policies that will benefit the corporations even when those laws and policies will contribute to resource curse and will be detrimental to the citizenry.

At the collective sub-level, whatever was said about the singular individual at the individual sub-level is also true of the plurality of individuals at the collective sub-level. So, to understand how collectives contribute to causing resource curse, we simply ‘collectivise’ the individual, or ‘pluralise’ the ‘singular individual’ at the individual sub-level. Nevertheless, I note that the actions or omissions of the individual acting alone or failing to act are not as *powerful* as those of a collective acting together or failing to act.

At the corporate sub-level, corporations contribute to the cause of resource curse in different ways. In the extractive industry, oil and gas companies, mining companies, some other energy companies, etc contribute to the cause of resource curse mainly through seeking rent and creating negative externalities. In the context of the extractive industry, there are two sides of the coin called negative externalities. The first side of the coin is that corporations benefit from it. The flip side is that individuals, local communities in particular and the country in general suffer from it.

Such companies exploit or use resources, e.g. the natural resources of the oil-rich communities, freely without any form of compensation. An oil or gas company in the process of drilling, or a copper, or gold, or uranium company in the process of mining, causes environmental pollution. When the activities of the companies are unchecked and the companies, as they often do, act irresponsibly with impunity, the environmental pollutions are devastating. Land, water and air are polluted, and the economic, health and social hazards are borne by the local communities.

By seeking rent, companies get involved in corruption especially bribery. “Extractive industries are notoriously subject to bribe requests” (Nichols, 2013, p. 10). A common bribery phenomenon is grease payment, also known as facilitating payment. Philip Nichols (2013) defines grease or facilitating payments as “bribes paid to secure routine, non-discretionary acts from government officials” (p. 1). In some of the countries where many multinational corporations have their headquarters it is legal for multinational corporations to give certain bribes, and these bribes are classified as tax deductibles or expenses of running business. As Thomas Pogge (2005) says, “Most affluent countries, until quite recently, allowed their firms to bribe foreign officials and even made such bribes tax-deductible” (p. 200). Furthermore, “the international regime does not require countries to criminalise the payment of these bribes abroad” (Nichols, 2013, p. 1).

Massive corruption that involves billions or multimillion dollars is impossible or at least almost impossible without the help of financial institutions (notably banks) and financial practitioners, and often without the help of financial and business lawyers too. So, in terms of corporations, alongside the multinational corporations in the extractive industry (which are the main corporate contributors to resource curse), the next in line are financial institutions notably banks, and then law firms. As Alpha Conde (2013), the president of Guinea, says, “too many of the world’s financial centres enable the predators, who rely on offshore corporate vehicles to mask their identities, to loop their finances through exotic jurisdictions, while using prestigious law firms, accountants, financial advisers and public-relations firms to give their destructive behaviour a veneer of respectability.”

While the banks do the financial transactions, the law firms provide legal support or illegal cover-up. Looking for loopholes in legal systems to exploit, the latter assist both the multinational corporations in the extractive industries, the banks in the financial sector, and corrupt individuals and collective agents to facilitate (il)legally the movement of money related to resource curse, or to escape prosecution from their activities that resulted in negative externalities, etc.

Another form of corporation is lobbying groups. These groups have only one interest; to help their client-corporations. They contribute to the cause of resource curse by lobbying on behalf of multinational corporations in the extractive industry in order to get law makers and policy makers to make laws and policies that will benefit the corporations even when those laws and policies will contribute to resource curse and will be detrimental to the citizenry. Lobbying can degenerate into corruption. Often, rent-seeking is done through negative lobbying.

Also, public relations companies and the media, whether international or local, can contribute to resource curse. They can ‘disinform’ or misinform the public concerning activities related to resource curse. This usually happens when the media are favourable to the multinational corporations, governments, individuals and collective agents responsible for resource curse. As we know; some of the public relations companies and media are either owned, controlled, or are connected to these agents of resource curse.

Alongside all the above forms of rent-seeking in general and corruption in particular, tax evasion, transfer pricing and other forms of corporate opacity are means by which different sorts of corporations and individuals collude to contribute to the causation of resource curse. Many big corporations have become so powerful that even powerful, ‘developed’, high income and well-governed states rarely dare upset them or are very cautious when dealing with them. If these big corporations can almost always do whatever they will in powerful and well-governed states, then doing whatever they will in less developed and non-well governed states like Angola, Democratic Republic

of Congo, Equatorial Guinea, Nigeria, Sierra Leone, etc. is almost a walkover. As Brown and Ainley (2005), in paraphrasing Keohane and Nye's argument, succinctly put it:

the decisions and actions of non-state actors can affect our lives as much as, if not more than the decisions and actions of states....it can no longer be assumed that states have the power to regulate effectively these actors; in principle, some states may have this capacity but, in practice, they are loath to exercise it given the potential costs of so doing in economic, social and political terms (p. 35).

Some of these corporations, especially those in the extractive industry, have a huge incentive to play illegal games and, more often than not, immoral games. Given the immobility of many natural resources especially in the extractive industry, many corporations in the extractive industry cannot easily relocate their businesses from one country to another. For this reason, they are more likely to collude with politicians in order to maintain their business interests in a country. This collusion usually manifests in illegal and immoral practices which take the form of political interference (Brown & Ainley, 2005, p. 157).

### **Macro Level: The State and the Global Institutional Order**

In resource curse, the state sub-level is *primus inter pares* because the government and state factor is the most critical of all the factors; the collapse of the constitutional framework leaves the state itself and other factors unchecked. We can look at how the state or government contributes to the causation of resource curse by looking at crucial functions of the state or government.

Within the remit of the legislature, we can look at law making. By commission or action, the state or government makes bad laws that aid resource curse. And by omission or inaction, it fails to make good laws that prevent or fight resource curse. Within the remit of the executive and civil service, we can look at policy making. By commission or action, the state or government makes bad policies (especially economic policies) that aid resource curse. And by omission or inaction, it fails to make good policies (especially economic policies) that can prevent or fight resource curse.

Also within the remit of the executive and the civil service, we can look at policy implementation. By commission or action, the state or government implements bad policies (especially economic policies) that aid resource curse. And by omission or inaction, it fails to implement good policies (especially economic policies) that can prevent or fight resource curse. Furthermore, the state or government contributes to the causes of resource curse in terms of law enforcement when, by commission or action, it enforces bad laws that aid resource curse. And when by omission or inaction it fails to enforce good laws that can prevent or fight resource curse.

Regarding the judiciary, the state or government contributes to the causes of resource curse in terms of inefficient or corrupt judicial system. This usually happens when the judiciary is so inefficient or corrupt to such an extent that rather than being the last hope of the common man, it becomes a safe haven for corrupt individuals, collective agents, and companies involved in resource curse activities because the courts are always letting them off the hook.

At the global institutional order sub-level, regarding how the global institutional order contributes to resource curse, Wenar (2008) argued that “the ‘curse’ results from a defect in the rules that allocate control over these resources. The fault is... in human institutions....Only human practices can turn what should be a national asset into a collective liability” (pp. 8 – 9). Hence, Wenar (2008) opined that the story of resource curse has to do with the revenue or foreign exchange dictators and corrupt regimes earn from exploiting these resources (p. 8).

In the same vein, Pogge (2001) argued that regardless of how any group comes to power - how it exercises power and whether the citizenry supports or opposes it - as long as such group has the preponderance of the means of coercion or near monopoly of force within the state, it is internationally recognised as the legitimate government of the state (pp. 19 – 20). This, in spite of the fact that the nature of its coming to power, the nature of its exercise of power and the opposition of it by the citizenry makes it illegitimate. By recognising such group as the legitimate government the international community consequently bestowed upon it two crucial privileges namely international resource privilege and international borrowing privilege. These privileges respectively allow the government to sell the natural resources of the country and to borrow money in the name of the country (Pogge, 2001, p. 20).

Because of the international borrowing privilege, such despotic governments - given their corrupt and unaccountable natures - borrow at will without considering the impact it will have on the population. Worse still they use the money to perpetuate themselves in power and for other self-aggrandisements and for their cronies, without any commitment to developing the country or making the plight of the population better. Nevertheless,

any successor government that refuses to honour the debt incurred by a corrupt, brutal, undemocratic, unconstitutional, repressive, unpopular predecessor will be severely punished by the banks and governments of other countries.... Such refusals are therefore quite rare, as governments, even when newly elected after a dramatic break with the past, are compelled to pay the debts of their ever so awful predecessors (Pogge, 2001, p. 20).

The international resource privilege involves the global institutional order recognising both *de facto* and *de jure* the group in power as having the power and authority to legally, validly transfer the ownership rights of their country's natural resources to whoever they wish (Pogge, 2001, p. 20). When this happens, while the benefits are usually very lucrative for the benefactors, the consequences are usually very dire for the helpless victims.

Compare the above international case with a commercial law case; then you can deduce what is wrong with the former. "A group that overpowers and takes control of a warehouse may be able to give some of the merchandise to others, accepting money in exchange" (Pogge, 2001, pp. 20 - 21). Neither the group nor the buyers are legally recognised as the rightful owners of the merchandise. But in the case of a group that illegitimately takes over power by force and sells off the natural resources of the country, "the purchaser acquires not mere possession, but all the rights and liberties of ownership, which are supposed to be – and actually *are* protected and enforced by all other states' courts and police forces (emphasis is original) (Pogge, 2001, p. 21).

While military regimes gain possession of natural resources through force (having come to power through the barrel of the gun) corrupt civilian regimes usually gain possession of natural resources through fraudulent means either by stolen ballots, administrative opacity or both. But the international system treats them as if they were the rightful owners of the resources. The foreign states and corporations that buy these resources know too well how they are ill-gotten.

In view of the foregoing discussion, Wenar argued that international trade, as it is today, permits the selling and buying of stolen goods.

The raw materials used to make many of these goods have been taken – sometimes by stealth, sometimes by force – from some of the poorest people in the world. These goods flow through the system of global commerce under cover of a rule that is little more than a cloak of larceny (Wenar, 2008, p. 2).

Therefore, for him, many of the products sold and bought can be considered to be stolen goods.

### **Conclusion**

In view of the foregoing discussions, we can see that there are different levels namely micro and macro, and there are different sub-levels namely individual, collective, corporate, the state and the global institutional order, at which we can analyse resource curse. At the micro level, we saw the roles played by individuals, collectives and corporations. While at the macro level we saw the roles played by the state and the global institutional order.

Moreover, the analysis showed that there are different factors and agents involved in causing resource curse. There is no one simple or single factor or agent that can be said to be the cause of resource curse; every single factor or agent is a contributing factor or contributing agent to causing resource curse. It is the combination of these contributors that result in resource curse.

More importantly, we recognised that lumping all the factors and agents together and dealing with them merely as complex factors or seeing them only as multiple agents would not have allowed us to properly ascertain the causal role played by different agents and to assign causal responsibility to different agents based on their causal roles. Hence we employed the levels of analysis approach which shows that in spite of the multifaceted, complicated and complex nature of the human activities that cause resource curse, it is still possible to understand what role different factors or agents play.

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