

The Resource Curse- Resource Nationalism Nexus: Implications for Foreign Markets



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While the resource curse and resource nationalism both concern negative effects derived from the possession of natural resource wealth, these two energy-related phenomena present quite different challenges for policy makers. On the one hand, resource nationalism is strongly associated with discussions of energy security. One thinks, for example, of [Thomas Friedman's](#) "first law of petropolitics" that stresses the link between increased resource wealth in oil and gas producing countries and increasingly assertive producer state behavior. Likewise, concern voiced by the US military's [Southern Command](#) over supply restrictions from Latin America following the nationalization of a number of Western oil companies in the mid-2000s attests to the same link between resource nationalistic behavior and energy security. In contrast however, the resource curse has normally been analyzed in terms of domestic political transformations and the socio-economic development of oil producing states (or lack thereof). The focus of resource curse analysis has tended therefore to be directed towards the internal domestic political and economic behavior of energy producing states. As a result, energy security has played a much smaller role in this resource curse context.

This lack of an energy security perspective is erroneous. While often disastrous for the citizens of countries afflicted by it, the resource curse also presents a profound set of energy security challenges for energy importing countries. These issues have particular significance for the European Union which is surrounded by a ring of countries rich in energy. These include (to differing extents) Algeria, Libya, Egypt, Syria, Azerbaijan, Iran, Turkmenistan, Uzbekistan, Kazakhstan and Russia. It can be argued that many of these countries show symptoms of both the resource curse and rentieristic state structures. It can also be argued that a number of these countries (Russia, Turkmenistan, Egypt for example) have at times pursued various forms of resource nationalistic behavior, particularly since the mid-2000s. Likewise, the US also faces similar risks derived from import dependence on suppliers in the Middle East and Latin America who exhibit similar resource curse characteristics (such as Venezuela).

The argument forwarded here is that the resource curse presents a threat to energy security in at least two ways. Firstly, the risk of resource nationalism is exacerbated by the resource curse. While the effects of both resource nationalism and the resource curse are well documented independently of one another, the potential for an explicit cyclical interaction between the two is seldom stated and consequently the energy security consequences of the resource curse tend to be downplayed. In reality the effects of the resource curse provide a strong motivation for producer states to engage in deliberate resource nationalistic behavior. Consequently, no real understanding of the risks resource nationalism poses to energy security can be gained without an appreciation of its potential resource curse antecedents.

Secondly, the resource curse produces unintended consequences that can have serious energy security implications. In the light of the recent Arab revolutions in North Africa and the Middle East, the impact of the negative political and economic effects of the resource curse cannot be thought of as a domestic issue relevant only to the country in question. Rather, as will be discussed, these issues have a significant impact on state stability, particularly given the fact that the resource curse tends to create precisely the sort of destabilizing underlying political and economic factors that have given rise to the Arab Spring (corruption, unemployment, repressive state practices etc). As it is impossible to foresee what sort of impact such instability might have or when it is likely to occur, the destabilizing tendencies of the resource curse in energy-rich countries need continuous attention from those tasked with ensuring the security of overseas energy supplies.

In sum, the argument here is that the resource curse can contribute to energy security risks through both the deliberate and unintentional producer state actions it elicits. Firstly, increases in the effects of the resource curse augment the prospect of intentionally assertive resource nationalistic producer state actions. Secondly, the political and economic consequences of the resource curse can have an unintended negative impact on political stability in energy-producing states (and thus energy security). If the argument presented here is correct, then the resource curse is important to major energy importers (such as the states of the EU and the USA) from an energy security point of view as well as from the more traditional development perspective. This is particularly the case for the EU given the proximity of the Europe to these energy-rich countries and the fact that many of these countries represent both current supplies and prospective sources of energy diversification for the EU. The negative effects of the resource curse are therefore a factor that must therefore be born in mind by strategists when considering how to manage the on-going diversification of European energy imports.

The resource curse and resource nationalism

European diversification efforts are targeted towards countries on its periphery that are afflicted by various degrees of rentierism and the resource curse (Turkmenistan, Azerbaijan, Kazakhstan, Uzbekistan, Egypt, Iraq, amongst others). However, before turning attention to the security implications of the resource curse, it is necessary to outline exactly what the terms

resource curse and resource nationalism mean in practice.

The debates and discussions that surround the resource curse are animated by a paradox. Why is it the case that significant GDP growth, normally expected to have positive political and economic effects for citizens, often does not lead to higher levels of socio-economic development when derived from natural resources such as oil and gas? Answers to this problem tend to focus on the specific [negative economic and political effects](#) that surround the exploitation of natural resource abundance.

Economically, large inflows of capital from the development of the energy sector are thought to contribute to a phenomenon known as the “Dutch disease”. The Dutch disease, so called because it was originally identified in the Netherlands after the start of rapid natural gas production there beginning in the late 1950s, refers to a series of potentially negative economic effects caused by the development of natural resources. As money pours into resource-rich states following the export of oil or gas, it can cause currency appreciation, raising a state’s exchange rate value. Under these circumstances, goods produced become consequently more expensive both on domestic and international markets, whilst imports become relatively less expensive. This has the negative effect of discouraging the non-extractive economy (particularly export-orientated industries, manufacturing, agriculture etc) whilst at the same time increasing domestic political and economic reliance on the hydrocarbons’ industry. As the extractive industries are generally capital rather than labor intensive, the job-creating parts of the economy falter and the oil and gas sector, that employs fewer people, continues to grow in importance.

Due to these problems in the broader economy, governments of resource-rich states will often cross subsidize businesses that are outside of the extractive sector in an attempt to boost the national economy and create jobs. Yet due to high levels of corruption and clientelistic practices, this subsidization is frequently apportioned to powerful business and regional elites on whom the state elite depend for political support. This cross-subsidization is often awarded for political reasons (including elite patronage) rather than commercial viability and can thus have the effect of rewarding inefficiency. State elites can be very reluctant to stop or reduce it however, as they are [politically dependent](#) on the support it generates. As [Coronel has argued](#) for example, the management of PDVSA in Venezuela by Hugo Chavez along political rather than technical-commercial lines has contributed to a considerable weakening of PDVSA’s financial position, precipitated a significant reduction in oil production output and led to increased allegations of corruption and mismanagement. Since radical changes made to the energy sector were implemented in Venezuela, including the cross subsidization of non-oil industrial sectors, oil production has fallen from 3.2 to roughly 2.6 million barrels per day (b/d). Reductions in output such as these represent a risk for both oil consumers such as the US who rely on overseas imports, but also for the Venezuelan population who miss out on 600,000 b/d of lost revenues (furthermore, that figure does not include the potential increases in production that would likely have occurred since 1998).

The negative effects of the resource curse are not limited to the economy however. The resource curse is in fact a particularly prominent form of the much broader trend of rentierism. Rentierism refers to the tendency of elites in closed political and economic systems to be able to capture excess profits (rents) from highly profitable and easily controlled industries (minerals, hydrocarbons, tourism etc) and then, once captured, use these rents to pay-off supporters and to repress detractors.

Rentierism generally, and the resource curse specifically, are thought to have significant detrimental consequences in terms of the development of political pluralism and personal freedom. Looking at the countries in the EU’s periphery for example, the twelve non energy-rich countries have an average Freedom House “freedom rating” of 4.29 with only two (Belarus and Jordan) recorded as “not free”. By contrast the nine energy-rich countries of the EU periphery have an average freedom score of 6.11 with all of them rated as “not free”. Michael Ross accounts for this with what he refers to as the ‘rentier effect’. In resource-rich countries, state elites feel little need to take the general will of the population into account when they have an abundant source of easily controllable income that bypasses the citizenry and negates or reduces the need for taxation.

As has been well-documented, oil and gas-rich countries tend to have higher levels of political repression, corruption and authoritarianism and lower levels of democratic pluralism than most states. These trends appear to become more pronounced as the percentage of state revenues derived from natural resource exports increases. While oil wealth does not seem to be an important factor in increasing the likelihood that democracies will slide into authoritarianism, it does appear to play a strong role in hindering mineral rich states’ transitions to democracy. [Those few energy-rich countries which do manage to move from authoritarianism to democracy, such as Nigeria and Russia, often have considerable difficulty in consolidating their democratic transition.](#) It should be noted at this point that there is some debate about the extent to which natural resource abundance is a root cause or an exacerbating factor in poor governance outcomes in some resource-rich states. Charles Kenny, for example, argues that it is poor institutions that lead to the mismanagement of natural resources rather than the other way around. It is certainly not the case that the presence of resource wealth automatically leads to authoritarianism (as evidenced by a number of well governed resource rich countries such as Australia and Norway). Countries with effective, transparent institutions tend to mitigate both the political and economic downsides of resource wealth effectively. Natural resource wealth does however appear to increase the durability of authoritarian governance structures as corrupt leaders in poorly governed resource-rich countries are able to utilise their riches to maintain undemocratic rentier systems of governance and resist pressure to change, both from their citizens and abroad.

Indeed high levels of resource wealth permit states to quell dissent and maintain political support through elite patronage, generous state spending programs (often only to select groups) and large repressive state apparatuses. While elite patronage is common to most rentieristic resource-rich states, generous state spending is more common in states with low population to resource wealth ratios whilst repressive tactics are more common in those states with smaller resource streams and higher populations. One could compare here the generous state provision seen in Kuwait or Saudi Arabia with more repressive state structures in Saddam's Iraq or Gaddafi's Libya for example. This is not to say that repression in energy-rich countries is entirely attributable to the resource curse. Many repressive energy producers would have likely been repressive without ever having energy resources. Rather the resource curse here can be seen as an exacerbating factor that provides additional resources for repression (and provides a strong motivation for staying in power and limiting political representation and participation). When combined with poor socio-economic prospects and high corruption, such repressive measures can, however, have the effect of inciting the very dissent and domestic instability they are designed to quell.

The economic and political aspects of the resource curse are mutually reinforcing. As the economy becomes more and more concentrated on high inward financial flows from the resources sector, the government becomes more independent of its population and has less incentive to take the opinions of its citizens into account. However, at the same time, as the economy becomes more dependent on hydrocarbons and the effects of the Dutch disease augment, the prospects for dissatisfaction with the economic and political system increase. In these circumstances the ability to control dissent through elite patronage, generous spending programs and repressive apparatus becomes all the more crucial for leaders. Yet these mechanisms of state control are highly dependent on ensuring continued adequate flows of capital from the extractive sector to meet these spending requirements. As will be discussed further below, one of the core concepts here is elite autonomy. High levels of easily controlled natural resources increase the autonomy of the elite from their citizens in energy-rich states. This however in turn augments their dependence on the energy sector so as to be able to maintain their power and autonomy over a longer period. It is in this sense that the politico-economic effects of the resource curse heighten elite dependence on the petroleum sector.

Resource nationalism however is a separate, but interrelated phenomenon. It concerns efforts by energy-rich countries to increase their control over (and the benefits from) natural resource exploitation by limiting the role of international companies and other states in the energy sector. These kind of actions range from soft resource nationalism that involves tweaking fiscal arrangements to get a bigger tax share for the state, to outright expropriation and nationalization of foreign-owned companies. Resource nationalism is often thought to come in waves reflecting the broader cyclical balance of power between producing states and foreign companies, a balance that it is itself related to the fluctuating price of oil. This trend of shifting balances of power between foreign companies and host states is described by [Wilson's famous 'petro-political cycle' model \(PPC\)](#). The PPC model argues that the politicization of oil markets and the prospects for resource nationalism are driven by changes in oil prices. Because oil is of such strategic and economic importance to both producers and consumers, instances of boom or bust in the oil market are likely to be widely politicized. At times of higher prices, producing states become less dependent on foreign companies as they have both more available capital and can buy certain technologies which they would normally rely on foreign companies to provide. Under these circumstances, and given the high sunk costs for foreign firms, producer states have a strong position from which to renegotiate contracts or ownership structures in the oil and gas sector. The oil prices rises throughout the 2000s saw a marked increase in assertive producer state behavior with the policies of both Russia and Venezuela towards foreign investments over the last decade providing several examples of this trend.

Apart from the risk to the financial health of international oil companies and the states that depend on them, resource nationalism also presents an energy security risk due to reduced efficiency and reduced investment capacity. National Oil Companies (NOCs), who are the usual beneficiaries of resource nationalism, are often unwilling to commit adequate investment into future supplies due to depletion policies that view oil in the ground as 'worth more than money in the bank' (due to expected price rises) and are [unable to invest](#) as many producer governments are not forthcoming with sufficient investment funds. Likewise, generally higher levels of inefficiency and opaque business practices amongst NOCs exacerbate this risk by restricting the ability of NOCs to attract financing from international capital markets.

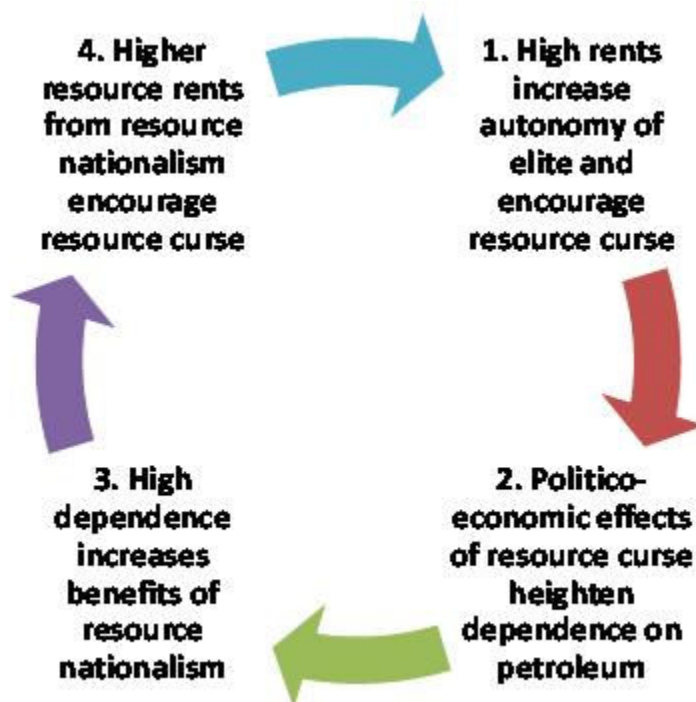
If national companies, such as Gazprom or PDVSA for example, do not make these necessary investments or do not permit international oil companies to do so, then there is an increased chance of international energy demand outstripping supply with price rises, supply disruptions and generally weaker energy security for those who are dependent on these supplies.

Deliberate actions: the resource curse- resource nationalism nexus

While the connection between them is rarely stated, the resource curse and resource nationalism are inherently interrelated. The key concept here is again elite autonomy. High influxes of wealth from hydrocarbons tend to increase governments' autonomy from both their citizenry and other international actors such as Western countries and foreign oil firms. However elites can only ever gain a certain degree of autonomy from the citizens over whom they rule. The negative effects of the resource curse, both economic (weakened non-petroleum sector) and political (stability through patronage and heightened repression) increase the dependence of authoritarian producer state elites on the hydrocarbon sector in order to maintain autonomy and ensure their political and economic survival. This over-reliance itself increases the propensity for states to

engage in resource nationalistic behavior because both the costs of not doing so and the rewards expected are higher the greater elites' dependence on hydrocarbon income wealth. In turn however, resource nationalistic behavior increases the producer government's shares of hydrocarbon rents and in turn further contributes to the resource curse effects.

Figure 1: The Resource Curse-Resource Nationalism Cycle



This cycle is underpinned by perceptions of legitimacy in resource-rich countries. In contrast to democratic energy producers such as Norway and Canada, most countries that exhibit high revenues from natural resources do not possess fully liberal-democratic institutions. As such, leaders of these countries do not derive their legitimacy entirely (and in some cases at all) from popular elections, but rather in large part through economic success at home and relations with foreign leaders and international institutions overseas. The resource curse undermines both of these sources of legitimacy as the negative economic effects challenge the government's ability to deliver economic progress and the anti-democratic political tendencies created by the resource curse draw in negative comments and international sanction from other states and multilateral organizations internationally.

However, in many resource-rich countries, populations exhibit a strong feeling that Western companies receive too large a share of the country's resource wealth. Often these ideas are tied up with perceptions of former colonial powers and/or geostrategic rivals. Cases of such sentiment exist amongst sizable sections of the population in Bolivia, Venezuela and Russia, for example. In the latter case, populations believing that the selling off of energy resources in the 1990s was an "outrageous giveaway". This means that resource nationalistic behavior has the potential, in these circumstances, to boost the legitimacy of leaders whilst at the same time providing them with more resources to off-set the negative economic and political effects of the resource curse. Just as the resource curse can undermine leaders' legitimacy so too can resource nationalism serve to provide leaders with an opportunity to bolster their eroded domestic legitimacy. Any legitimacy gains are a short term fix however, as they come at the expense of greater dependence on the resources sector rather than economic diversification and investment in the capacity of the economy and population at large.

Unintended consequences: The resource curse and destabilization in producer states

The resource curse has additional energy security implications for energy importers (such as the states of the EU and the US) beyond increasing the risk of resource nationalism. As Fraser and Bomford argued in the April 2012 edition of the *Journal of Energy Security*, micro level in-country developments are intrinsically linked to the macro level of global energy supplies. Major disruptions in oil producing states, large-scale instability and revolutionary uprisings, such as those seen recently in Libya and Syria, all threaten to restrict the flow of specific energy exports and place a security margin on all barrels of oil internationally. There are however differences between alternative types of supply here. Oil (and liquefied natural gas) is traded on world markets and supply disruptions (particularly from large-scale producers) tighten global markets and increase prices globally. Disruptions to pipeline gas have less of a direct effect on global markets, but can hit the normal recipients of that gas severely, especially when they do not have alternative pipeline, LNG or indigenous supplies to make up the shortfall.

It would of course be an exaggeration to suggest that the Arab Spring was caused by the resource curse. Multiple factors, economic, political and cultural combined in 2011 to ferment the ouster of incumbent leaders across North Africa and the Middle East. However, it certainly is the case that many of the forms of dissatisfaction that led to the demise of the likes of Gadhafi, Mubarak and Ben Ali were certainly exacerbated by the resource curse. To be specific, it is the broader economic trend of rentierism, of which the resource curse represents one variant, that is at play in many Middle Eastern and North African societies. Yet, oil and gas resources present the opportunity for particularly a strong form of rentierism in energy rich countries.

The countries that have experienced revolution in North Africa and the Middle East were, prior to upheaval, characterized by a form of negative stability. This fooled many into thinking they were stable for the long term. However, rather than possessing the institutional democratic release valves that allow populations to vent frustrations and appoint alternative leaders, these countries relied on palliative measures, such as distribution through patronage networks and repressive state apparatuses as discussed above, to maintain stability. This kind of negative stability has the uncanny characteristic of seeming like genuine stability on the surface (which is why so few predicted the Arab Spring). However, as the institutional mechanisms for expressing dissent are non-existent or largely cosmetic, like in post-uprising Libya, the transition from 'stability' to revolution can be very quick indeed with precipitant detrimental effects for energy supplies.

Furthermore, the resource curse is not limited to the Middle East and North Africa. It is also present in other countries on which EU states rely, including several countries across the former Soviet Union. A number of these states exhibit various degrees of negative stability similar to those seen in North Africa and the Middle East. Many of the effects of the resource curse are present in Russia, for example, and perhaps even more so in countries such as Turkmenistan from where the EU hopes to source substantial gas resources in the near future. This is not to claim that revolution is likely in Russia or Turkmenistan in the short term, there are also many differences between these states and those that have seen upheaval during the Arab Spring. However it should be borne in mind that the effects of rentierism and the resource curse can have a corrosive effect on all poorly governed resource-rich states and the way in which these trends play out in practice is very hard to predict.

Conclusion

Whilst normally thought of in terms of the socio-economic development of energy-producing states, the resource curse also presents significant risks to the energy security of energy importers, including the EU. Surrounded by a number of resource-rich countries that represent significant sources of current EU energy supply and potential sources of future diversification, these issues are of significant importance to the European Union. Most of the energy producing countries in the EU's periphery suffer from a broader economic and political malaise that is in part created, and certainly exacerbated, by the effects of the resource curse. Unchecked, the resource curse can increase the risk of assertive, resource nationalistic state behavior and result in a series of destabilizing trends that can contribute to producer state instability and thus undermine the security of energy supplies. With ambitious attempts to increase supplies from countries such as Iraq, Egypt and Turkmenistan, the EU needs to be well attuned to the challenges posed by the resource curse.

As such, the resource curse and the risks it presents to energy security need to represent a key factor in the EU's energy security strategy towards its neighbors, particularly in light of on-going plans to increase the regional diversification of European energy suppliers. In conjunction with its on-going attempts to reach new sources of energy supply, the EU should seek to analyze the resource curse effects that increased revenues from its successful diversification attempts will have on producing states and aim to further incentivize economic diversification and sound resource management in oil and gas rich countries with a view to reducing elite dependency on the energy sector. Likewise EU promotion of transparency initiatives (such as the Extractive Industry Transparency Initiative and the recent Accountancy and Transparency Directives) should continue to be strengthened, particularly with regard to those countries such as Libya who have recently seen a change in the ruling regime. Furthermore, greater involvement in EU programs of countries that have successfully developed energy resources, such as Norway for example, may prove attractive to some oil and gas producing countries and could help to reduce the division that exists between the perceived objectives of democratic importing countries and authoritarian producing states.

The key defining concept here is elite autonomy. While difficult in practice, the policies implemented by the EU (and others such as the US) should seek to reduce elite (and the broader economy's) dependence on the petroleum sector and in doing so reduce the independence of elites from their populations. Achieving this in many energy-rich states with entrenched state elites is likely to prove very challenging. However, the recent revolutions of the Arab Spring do present a crucial opening in some countries. The removal of leaderships in Libya and Egypt, for example, provides a rare opportunity to foster a less dependent relationship between state elites and the hydrocarbons sector, thus in turn dampening the risks of the resource curse and its energy security implications.

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