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The Need for Policy Coherence  
and New Partnerships



**Managing conditional trust -  
The resource curse and the factors affecting conflict  
(resume of presentation)**

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The main paper of this resume, draws on a first version that resulted from a PhD seminar on “The Resource Curse”, held between June 20-24, 2005, organized jointly by the Department of Economics of the Norwegian University of Science and Technology (NTNU), the Centre for the Study of Civil War at the International Peace Research Institute, Oslo (PRIO), and the Nordic network on ‘The Political Economy of Governance and Conflict’ (PEGC). The author wishes to thank the organizers, speakers and all the participants in the seminar for the discussions.

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The presentation reviews a body of literature on the “Resource Curse”, mainly quantitative, highlighting relevant factors and determining which of these are the most significant for the onset of “conflict episodes”. Resource curse is a term used to describe the failure of resource-rich countries to benefit from their natural wealth.

The analyses is organized in six categories: external environment, governance, economy, social, geography and historical factors.

Regarding the **external environment** countries face a series of factors which are, to some extent (especially in the case of weaker economies), out of their control, and in some cases can be directly related to conflict situations. The most relevant factors are:

- a) international markets in terms of the declining terms of trade of primary commodities vis a vis manufactures and instability of commodity prices which may lead to decreased social welfare and destabilization of the political system (Mendoza, 1997 and Ross, 1999);
- b) international agreements, such as TRIM – Trade-Related Investment Measures, GATT – General Agreement on Tariffs and Trade in Services and TRIP – Trade Related Aspects of Intellectual Property Rights, and its relation with peace initiatives (Wade, 2003 and Bó and Bó, 2005);
- c) the aids industry (the MDGs and “palliative economics” - Reinert, 2005), arms industries (and proliferation of small weapons - Commission for Africa Report, 2005)) and natural resources industries (and the role of alluvial diamonds and oil in financing conflict) ;
- d) regional economic and political conditions (both in promoting peace and conflict as well as a multiplication effect of good policies – Easterly and Levine, 1995); and
- e) international relations and geopolitics (such as the cold war and post-cold war period).

Resource-rich countries (particularly with oil resources) develop specific **governance** processes in terms of regime type, institutions and quality of policies. These countries:

- 1) Regime type: a) are more likely to be less democratic, because such countries tend to be less accountable to the people, use rents to buy political support (Damania and Bulte, 2002); b) spend more money on the military (Ross, 2001); c) develop an elite that delays the transition to democracy (Wantchekon, 1999, in Jensen and Wantchekon, 2004); d) are prone to more corruption (Treisman, 2000, in Robinson, 2003); and use executive discretion in the distribution of rents (Jensen and Wantchekon, 2004);

2) Institutions: a) have less pressure (from above and below) to develop sound institutions (Ross, 1999); b) if with low national income can lead to weak state apparatus to repress rebellion (Fearon and Laitin, 2003);

3) Quality of policies: a) prefer “egalitarian current consumption policies” over “development policies”; b) chose policies which might not comply with the aid industry development paradigm of the time; c) fall short on the willingness to undertake the government agency necessary for instituting the change process as apparently they are too dependent on factors out of their control.

Nevertheless, Gelb (1988), for instances, concluded that it is difficult to infer the relationship between the political system and political efficiency from the use that is made of rents. Recently, Aslaksen and Torvik (2005) added that a key factor could be the relative pay-off of conflict versus democracy, whereas “countries will not pass the test of democracy if the resource wealth is sufficiently high, labour productivity sufficiently low, political competition sufficiently strong or politicians sufficiently short-sighted” (p. 16). Furthermore the institutional challenge lies in reverting to the equilibrium point, whereas “only countries with grabber-friendly institutions are captured by the resource curse, while countries with producer-friendly institutions escape the resource curse” (Mehlum, Moene and Torvik, 2005: 16).

The **economic** development of resource-rich countries faces not only the challenges of integration into the world economy, modernization and development paths chosen (for instances pro-poor growth or the rentier or petro states), but also the careful management of the Dutch disease, the materialization of backward and forward linkages and the voracity effect associated with the volatility of revenues (whereas under a windfall gain there is a more than proportional increase in fiscal redistribution and illegal appropriations).

Compounded with this is the management of political rivalry for the appropriation of resources and rents and the vertigo of becoming caught up in violent competition.

Regarding the latter, the literature has identified significant relationships between a dependence on different types of natural resource exports and conflict (although such relationships may be explained differently and may not be found in other studies). Examples of these relationships are: a) oil increases the risk of the onset of conflict (Fearon, 2005; Ross,

2004); this risk increases with oil dependence (Collier and Hoeffler, 2004) and in lower-income countries (Blattman, 2005), particularly in the case of separatist conflict (Ross, 2004); b) lootable gemstones increase the risk of the onset of ethnic conflict and its duration (Lujala, Gleditsch and Gilmore, 2005); c) case studies suggest that drugs (cocaine, opium and cannabis) and timber can be associated with the duration of conflict (Ross, 2004); and d) both the onset and the duration of conflict are very strongly linked to increases in the quantity of some agricultural goods, especially coffee, cotton, and (in low-income countries) cocoa, while other agricultural goods seem to be unrelated to conflict (Blattman, 2005).

A study which overcomes the endogeneity problem of many studies is the Miguel, Satyanath and Sergenti (2004) which identified that the link between GDP growth and the incidence of civil war is extremely strong: a 5% drop in annual economic growth increases the likelihood of a civil war (more than 25 deaths per year) breaking out in the following year by over 12% (which amounts to an increase in the likelihood of war of more than a half). Other variables, such as the GDP pc level, democracy, ethnic diversity and oil exporter status, do not display a similarly robust relationship in Sub-Saharan Africa.

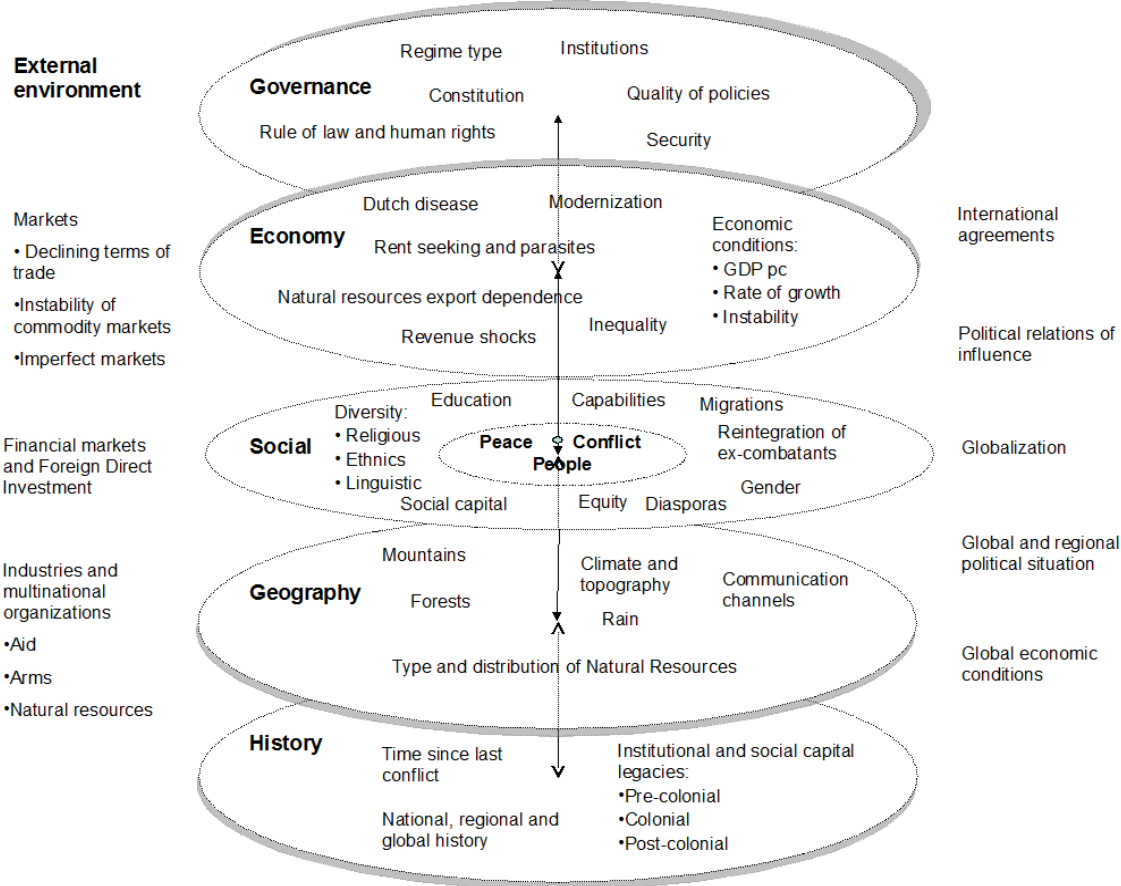
Of the **social** factors one interesting conclusion is that societies that are characterized by ethnic and religious diversity are safer than homogeneous societies, as long as they avoid dominance (Collier, Hoeffler and Soderbom, 2001). Ethnic dominance, together with social fractionalization, is found to be associated with conflict onset (Collier and Hoeffler, 2004). Or that ethnicity seems mainly to increase the risk of (ethnic) wars in countries with alluvial diamonds, especially in poor countries (Lujala, Gleditsch and Gilmore, 2005; Ross, 2004). And a recent survey done in Africa (Miguel and Prosner 2006) identifies that only 41 percent of 24.000 respondents rank their ethnic group as their most important associational membership and that the source of this ethnic identification lies in exposure to competition for jobs in the non-traditional sectors and political power as in the form of proximity to a competitive national election.

Secondary school enrolment is identified significantly associated with reducing conflict onset and duration and diasporas with onset. Other social variables, such as health or housing, do not produce significant results in some of the tests, although the infant mortality is regularly referred to as an important indicator of a existing or potential failed state.

There are specific **geographical** conditions such as forest cover (Collier, Hoeffler and Soderbom, 2001) which favour the activity of rebels and determine their strategies for gaining control over resources. The climate, and in particular rainfall, has been found to be statistically related to conflict in sub-Saharan African societies, operating through the resulting economic conditions.

Of the **historical** factors the time that has elapsed since the last conflict is the most relevant factor in predicting the re-emergence of conflict, explained mainly by the depreciation of human and physical conflict capital, as in hate and military equipment.

Figure I – Main factors associated with peace and conflict in countries rich in mineral resources or dependent on commodity exports



Summarizing the critical dynamics of the process of conflict:

The main motive for violent conflict seems to be the need to exercise control in a context of poverty (measured by the GDP pc in these studies). In such cases, we have two extreme situations in which people are more prone to violent conflict: a) people who have almost no

control, living in extreme poverty, and who take part, for instance, in rebellious activities; and b) people who have almost absolute control, such as an elite in an authoritarian regime, who might take part in rebellions but can also become involved in coups. This relationship is symbiotic.

The assessment made by these groups in taking action is:

> time and trend dependent: 1) dependent on the instability of control or the volatility of the revenue from resources, for instance negative shocks to agricultural commodity prices, which result in both increased poverty and the instability of the political centre, and 2) dependent on the expectations for the future, for instance continued positive or negative economic growth; and

> based on the viability of conflict, namely how much can be gained in return from a rebellion or coup, determined by: 3) ongoing domestic and foreign finance during conflict, 4) the capacity to maintain a conflict group, 5) the likelihood of failure (state resistance or the probability of death), and 6) the prize of victory.

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