

**Challenging the Curse:
Creating a New Framework for Understanding the Resource Curse**

**Molly Cramsey
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Introduction

At first glance, there appears to be strong evidence supporting the resource curse hypothesis or what scholars have referred to as the *paradox of plenty*, which is used to explain why countries rich in a particular natural resource are among “the most economically troubled, the most authoritarian, and the most conflict-ridden in the world.”¹ The resource curse seems most capable to explain why states that are overwhelmingly dependent on oil revenues suffer from declining per capita incomes, great budget deficits, and weak and undemocratic state institutions. One might only need to look as far as the 1999 Corruption Index compiled by Transparency International to notice that oil-producing countries rank at the top of the charts with Nigeria holding the title of the most corrupt, followed by Venezuela, Algeria, Iran and Saudi Arabia.² Given the great amount of empirical evidence that has surfaced to support the resource curse hypothesis, it is really no surprise that it has become a widely accepted fact by political scientists, economists, and development scholars alike.

The following discussion does not aim to disprove the resource curse. However, its purpose is to prompt further analysis on this otherwise unchallenged explanation in order to reveal that the existing discourse is riddled with inconclusive claims and certain anomalies that require further examination. This is not the first academic essay to find fault with the resource curse. In fact, a number of academics have written on the topic. This essay will incorporate and summarize the existing criticisms in order to demonstrate that even though the resource curse hypothesis is accepted by scholars, opponents of the curse have successfully formulated a position that may have the power to discredit the resource curse and its assumptions if not taken into account. Upon closer examination, these criticisms and the political and theoretical implications of a more analytical

¹ Terry Lynn Karl, “Understanding the Resource Curse,” Covering Oil: A Reporter’s Guide to Energy and Development, Open Society Institute (2005) 21.

² Terry Lynn Karl, “The Perils of the Petro-State: Reflections on the Paradox of Plenty,” Journal of International Affairs 50. 1 (Fall 1999) 39.

understanding of the resource curse hypothesis may upset the traditional balance of how oil-abundant states and their development patterns are viewed in the international system.

To organize this discussion, I will first define what exactly the resource curse is and include a detailed discussion on how scholarly thought on the subject has evolved. Next I will include a series of criticisms that have recently surfaced disputing the resource curse. Substantiating each of these criticisms will not be the goal of this paper. Instead I will include the current debate on the resource curse to argue that until more qualitative and quantitative analyses are conducted, the paradigm under which we understand the current economic development of resource-rich and especially oil-rich states will be insufficient. I will highlight those areas that warrant greater attention and research. The third section will address development studies of the oil-abundant states in the Gulf Cooperation Council³ (GCC).

By including the discussion on the oil-rich Gulf States, the goal is to demonstrate that although the resource curse seems to account for most of the difficulties that these states have been confronted with, a different picture is revealed when the Gulf's development is viewed in relative rather than absolute terms and the resource curse no longer seems as inevitable or inescapable. I will include these two different perspectives on Gulf development, as well as a brief discussion on areas where the Gulf States should focus to improve upon their past successes. The hope is for this discussion to prompt more academic study on the Gulf region; especially with regard to the resource curse literature because some scholars have argued that the Gulf has been able to avoid the alleged curse. The overarching theme will be to argue that the diversification strategies the Gulf States have implemented recently can be used as models and recommendation to other oil-exporting states and may help them avoid falling ill to many of the issues prescribed by resource curse theorists.

Defining the Resource Curse

³ The Gulf Cooperation Council was created in 1981 in order to coordinate policies and strengthen ties between the Arab states of the Persian Gulf.

To help define what exactly the resource curse is Terry Lynn Karl, a leading proponent, explains that it is imperative to first understand what the curse is not. She notes that the resource curse cannot be applied to any state that possesses a natural resource. Rather only states that are highly dependent on a particular resource that is held in great abundance can be categorized as cursed, i.e. oil revenues in oil-exporting states where no other substantial economic sectors exist. Karl also states that resource curse scholars are not trying to say that states rich in natural resources would be better off without those resources. Instead, the resource curse literature only attempts to explain why many resource-curse states experience similar failures in development. She defines the resource curse as the inverse relationship between high natural resource dependence and economic growth rates, and she argues that empirical evidence exists supporting the claim.⁴

Generally through acceptance of the resource curse, scholars have acknowledged that states with a large natural resource endowment will experience slower economic growth. But rather than explore this causal relationship further to determine whether the correlation is constant, reliable and unaffected by other variables, most scholars have instead researched the different ways through which this slower economic growth is manifested. Thus we find few academics disputing the curse, but rather an emergence of literature that analyzes the connection between natural resource abundance and Dutch Disease, rent-seeking tendencies, neglect of human capital development, decline in savings and investment, and income inequality to name a few.⁵ The literature also now includes studies on the correlation between natural resource abundance and regime type, likelihood of conflict, and institutional quality. These other sub-literatures have transformed the resource curse into “a multidimensional phenomenon involving not simply poor economic performance but also civil war and authoritarianism.”⁶

⁴ Karl, “Understanding the Resource Curse,” 23.

⁵ Michael Alexeev and Robert Conrad, “The Elusive Curse of Oil,” Indiana University Department of Economics, (February 2008) 4.

⁶ Andrew Rosser, “The Political Economy of the Resource Curse: A Literature Survey,” IDS *Working Paper* 268,

This essay will focus primarily on the category of economic performance and will provide an overview of how scholarly work supporting the resource curse claim has evolved. However, a brief discussion of academic research claiming correlations exist between natural resource abundance and regime type and civil conflict will also be included. The fact that these new claims, unrelated to economic performance, all stem from the resource curse literature make it all the more pertinent to explore origins of the curse further. If the literature is being broadened to include correlations of this type, scholars must be sure that the foundation on which the resource curse rests is secure. I will not include specific criticism on the other sub-literatures, but hopefully this essay will highlight the need for these studies to also be analyzed with closer inspection.

Evolution of the Resource Curse

Natural resources were not always viewed as a curse to development. In his work, “The Political Economy of the Resource Curse,” Andrew Rosser documents how the debate on the resource curse has evolved over the years. Rosser notes that during the 1950s, 1960s, and 1970s, the conventional wisdom was that possession of a resource in abundance was considered advantageous for a state’s development. Even mainstream economists supported this view.⁷ In 1961 prominent development theorist Walter Rostow summarized this popular belief by arguing that “natural resource endowments would enable developing countries to make the transition from underdevelopment to industrial ‘take-off,’ just as they had done for countries such as Australia, the United States, and Britain.”⁸ The overwhelming opinion held that natural resources would facilitate industrial development, create markets, and encourage investment.

Some scholars, however, did oppose the conventional wisdom as early as the 1950s. Singer and Prebisch maintained that “the structure of the global economy and the nature of international

(Brighton, Institute of Development Studies, 2006) 7.

⁷ Viner (1952), Lewis (1995), Rostow (1961)

⁸ Rosser 7

commodity markets put developing countries that were reliant on natural resource exports at a serious disadvantage.”⁹ This argument is predicated on the assumption that global commodity prices should decline over time and that exploitation of a state’s natural resource would draw attention away from the manufacturing sector, which began to be considered the most productive and significant sector for economic growth.¹⁰ Beginning in the 1980s, this minority view became the dominant opinion is now the doctrine adopted by international financial and development institutions like the International Monetary Fund and the World Bank. Since this reversal in thought, natural resources are now always considered a curse, that have little positive effect on state’s development.

Empirical Studies

As mentioned above, studies advocating the curse of natural resources first began in the 1950s, but really came to dominate social and economic thought in the late 1980s after a number of empirical studies that emerged on the scene allegedly confirming the claim. First in 1979 Gabind Nankani argued that “the mineral economies performed relatively poorly in terms of agricultural growth, export diversification, and inflation compared to non-mineral economies and were more likely to be characterized by poor savings performance, greater technological and wage dualism, high unemployment, high external indebtedness and high export savings instability.”¹¹ Later in 1988, Alan Gelb posited that there was “a more serious deterioration in the efficiency of domestic capital formation” between 1971 and 1983 in mineral economies than there was in non-mineral economies.¹²

Other scholarly work modeled after Gelb and Nankani’s assumptions continued, but empirical study tests on the curse really took off after the 1995 working paper of Harvard professors Jeffrey Sachs and Andrew Warner. Their paper found that natural resource abundance was

⁹ Ibid 13.

¹⁰ The findings by Prebisch that global commodity prices should decline over time may not apply to crude oil given the cyclical nature of oil prices, its limited supply, and the unique role that oil plays in the world.

¹¹ Gabind Nankani, “Development Problems of Mineral-Exporting Countries,” *World Bank Staff Working Paper No. 35*, 1979.

¹² Alan Gelb, “Oil Windfalls: Blessings or Curse?” (New York: Oxford U P and the World Bank, 1988) 357.

negatively correlated with economic growth. In their 1997 article to follow-up on their original work arguing in favor of the resource curse, Sachs and Warner conducted a worldwide, comparative study to prove through statistical analysis that a resource curse exists. Their efforts produced the first scholarly work claiming to confirm the adverse effects of resource abundance on growth with empirical evidence and statistical analysis. Sachs and Warner showed that “economies with a high ratio of natural resource exports to GDP in the base year (1970) tended to grow slowly during the subsequent 20-year period 1970-1990” and that “this negative relationship holds true even after controlling for many variables found to be important for economic growth by previous authors.”¹³ Their study included 95 developing countries and compared each country’s annual growth rate between 1970 and 1990—measured as a percent of Gross Domestic Product (GDP). They defined resource-based exports as agricultural, minerals and fuels, and they measured resource dependence as the share of primary exports on GDP and per capita income as the measurement for growth.¹⁴ From this data, Sachs and Warner concluded that “on average, countries which started the period with a high value of resource-based exports to GDP tended to experience slower growth.”¹⁵ In their 1997 work, they then go on to discuss theories and other additional evidence to try and explain why resource-poor economies are frequently able to outperform resource-rich economies in economic growth.

Following the publication of Sachs and Warner’s empirical study, other scholars found the same results using quantitative techniques and larger data sets to confirm the resource curse. In 2001, Richard Auty concluded that from 1960 to 1990, per capita incomes of resource poor-countries grew two to three times faster than those of resource abundant countries.¹⁶ Next Eric Neumayer modified the testing variables and found that the resource curse holds true when measuring growth in terms of

¹³ Jeffrey D. Sachs and Andrew M. Warner, “Natural Resource Abundance and Economic Growth,” (Center for International Development and Harvard Institute for International Development: 1997) 1.

¹⁴ Raffaele Angius, “Slackening Growth, Fuelling Politics: Introducing the Resource Curse,” University of Oslo 2.

¹⁵ Angius 2

¹⁶ Rosser 8

genuine income rather than in GDP. More recently, the resource curse literature has extended way beyond the impact of natural resource abundance on economic performance into two new sub-literatures—connecting natural resource abundance to regime type and likelihood of conflict. In 1999, Leite and Weidmann claimed that natural resource abundance exacerbated corruption in states, and in that same year, Michael L. Ross concluded that a state with heavy reliance on oil exports will be less democratic.¹⁷ Ross added to his findings with a 2003 paper that found that oil wealth and non-fuel mineral wealth are associated with bad outcomes for the poor in terms of poverty and human development levels.¹⁸ Other research that has stemmed from the resource curse hypothesis has claimed that there is also a positive correlation between states that are abundant in a natural resource and the likelihood of civil war or conflict.¹⁹ I will next include criticisms of the Sachs and Warner's model that was replicated in other empirical studies confirming the curse.

Critics of the Resource Curse

The great outpouring of academic work on the resource curse that followed the original 1995 Sachs and Warner article has created a framework in development studies that the resource curse is without question inevitable. What currently dominates that literature is in effect little criticism of the curse itself, but instead articles that offer strategies and policies on how to avoid or mitigate the negative externalities associated with the curse. Yet despite this trend, a small genre has emerged challenging the assumptions and predictions of the resource curse hypothesis made by Sachs and Warner and numerous others. These criticisms come from different scholars, but for the most part contain the same message. Primarily, opponents of the resource curse find fault with the proxy measures used in empirical studies to confirm the resource curse including “conceptual disagreements over the correct measure of resource abundance, as well as appropriate statistical

¹⁷Michael L. Ross, “Does Oil Hinder Democracy?” *World Politics*, 53 (April 2001) 325-61.

¹⁸Michael L. Ross, “How Does Mineral Wealth Affect the Poor?” Department of Political Science at UCLA (April 2003)

¹⁹ Collier and Hoeffler (2002) ;Elbadawi and Sambanis (2002)

technique for measuring its impact.”²⁰ I will summarize the criticisms of four opponents of the curse and offer suggestions on issues that deserve greater attention in order to formulate a more robust discussion on natural resource abundance and what it means for oil-abundant states.

Andrew Rosser finds fault with the entire framework under which the resource curse is understood. He admits that while there does appear to be considerable evidence that natural resource abundance is associated with negative development outcomes, the evidence available is “by no means conclusive” because testing models for the resource curse literature are inaccurate.²¹ Rosser also argues the role that social forces or external political and economic environments play in shaping development outcomes in resource-rich countries is not properly taken in account in the current resource curse literature. He criticizes the resource curse proponents who offer recommendations on how to overcome the curse do so without considering if these policies are politically possible. His final argument is that scholars who have suggested strategies to avoid the resource curse “need to focus more on understanding variation in development outcomes between resource rich countries and the associated policy lessons.”²² Rosser’s criticisms advocate for a new framework of understanding the claims of the resource curse and whether or not it exists, and if it does, whether the strategies and policy recommendations that are currently discussed will mitigate the curse at all.

In their work *The Elusive Curse of Oil*, Michael Alexeev and Robert Conrad argue that the claims made by the natural resource curse literature are due mostly to misinterpretation of available data and that the opposite is actually true—“a large endowment of oil and other mineral resources on long-term economic growth of countries has been on balance positive.”²³ Following the research

²⁰ Daniel Lederman and William Maloney, ed. *Natural Resources: Neither Curse Nor Destiny*, (The International Bank for Reconstruction and Development/The World Bank and Stanford UP: 2007) 3.

²¹ Rosser’s reasoning behind this claim will be explained in the follow critique by Alexeev and Conrad.

²² Rosser 27

²³ Alexeev and Conrad 4

approach taken by previous scholars,²⁴ Alexeev and Conrad use GDP per capita levels to determine long-term growth rather than using growth rates calculated over a given time interval. They argue that “the direct determination of the impact of mineral resources on the rates of growth is hindered by the relative shortness of the time period for which more or less reliable data are available.”²⁵ The bulk of the literature supporting the curse uses a time interval beginning in 1965 or in 1970, which Alexeev and Conrad argue is troublesome because commercial exploitation began in the majority of oil-exporting states prior to 1950, which can leave more than 15 years out of the analysis. Thus they argue that “even if the existing empirical literature is correct, it is possible that a large oil endowment results in high growth rates in the early stages of extraction and slower rates when the oil deposits mature,” but that this is not accounted for in the current resource curse literature.²⁶

The regression models of resource curse proponents that estimate the impact of natural resource endowment on growth or institutions all control for ‘initial’ per capita GDP. Alexeev and Conrad note that natural resources increase per capita GDP, regardless of whether it is measured as current or initial, and it will affect other variables in the short run, and they argue that “such variables might then look worse in the countries where income has been increased by natural resources relative to other countries with similar income levels.”²⁷ In an analysis by Sal-iMartin and Subramanain supporting the resource curse, they attempt to correct for this issue by using GDP per capita for 1960, arguing that the majority of the oil discoveries were made after this ‘base’ year. However, Alexeev and Conrad point out that the issue still exists because “the club of major oil producers has not changed much since the 1940s.”²⁸ In their study, Alexeev and Conrad use exogenous geographical factors to estimate each country’s per capita GDP in the absence of atypical oil or mineral wealth and use this estimated GDP value as the control variable in the regressions of institutional quality on

²⁴ Hall and Jones (1999); Easterly and Levin (2003); Rodrik et al. (2004)

²⁵ Alexeev and Conrad 4

²⁶ Alexeev and Conrad 5

²⁷ Alexeev and Conrad 6

²⁸ Alexeev and Conrad 6

natural resource endowment measures. Doing so, they find that natural resource wealth that results in an “increase in GDP (i.e., exogenous growth) does not lead to better institutions, although it does not undermine the quality of the existing institutions either.”²⁹ Beginning with the assumption that strong institutions help to foster growth, their findings suggest that “countries that are rich only due to natural resource wealth will grow relatively slowly after the wealth has been depleted.”³⁰ However, these states will remain on average wealthier than they would have been without the natural resource wealth. They do not oppose the fact that growth generated by natural resources may be less beneficial over the long term than other types of growths (i.e. industry, exports, or education). Yet even though this may be true, one still cannot argue that natural resource abundance precipitates slower economic growth.³¹

Christa N. Brunnsweiler and Erwin H. Bulte come to same conclusion and argue the resource curse literature is actually a *red herring*. Similar to Alexeev and Conrad, Brunnsweiler and Bulte find fault in the common proxy used for resource abundance used in the majority of the resource curse literature. They argue that the proxy used (ratio of resource exports to GDP) actually measures dependence rather than abundance. Their explanation here provides a solid argument against using a ratio of resource exports to GDP as a measurement of resource abundance:

The denominator explicitly measures the magnitude of other activities in the economy.

Consequently, the scaling exercise—dividing by the size of the economy—implies that the ratio variable is not independent of economic policies and the institutions that produce them.

Moreover, not only the scale of economic activity, but also the comparative advantage in non-resource sectors is to a large extent determined by the government choices. Hence, the resource dependence ratio potentially suffers from endogeneity problems, and perhaps should

²⁹ Alexeev and Conrad 5

³⁰ Alexeev and Conrad 5

³¹ Alexeev and Conrad 6

not be treated as an exogenous explanatory variable in all growth regressions. Rather, it is the outcome of specific institutional settings.³²

Their study results in the following three conclusions: resource abundance, constitutions and institutions determine resource dependence; resource dependence does not affect growth; and resource abundance positively affects growth and institutional quality.³³ Brunnschweiler and Bulte maintain that other scholarly work that has used alternative measures of resource abundance, using both World Bank resource data and physical reserves calculations, also revealed no confirmation of the resource curse.³⁴ When using this data in their own analysis, they find that no paradox exists. Instead, countries that begin their exploitation of a natural resource with bad institutions will attract little outside investment and will experience slower growth, but it is not fair to say this result is caused by natural resource abundance. They argue that their mode of measurement for resource abundance is not completely perfect and can and should be challenged, however, they suggest “they are less prone to the policy endogeneity which plagues export-based measures, less subject to technology standards which influence production levels; and only reasonably affected by price fluctuations... which must be an issue for any measure that attempts to assign a ‘true’ (i.e. monetary) value to natural resource wealth.”³⁵

The final criticism I will discuss is a study by Lederman and Maloney, which also examined the empirical relationship between natural resource abundance and economic growth. They conclude that “regardless of econometric technique and in a panel context allowing better control for unobserved fixed effects, dynamics and endogeneity, several plausible indicators of the incidence of natural resource exports seem to have a positive rather than a negative effect on subsequent economic

³² Christa N. Brunnschweiler and Erwin H. Bulte, “The Resource Curse Revisited and Revised: A Tale of Paradoxes and Red Herrings,” *Working Paper* Center of Economic Research at ETH Zurich (December 2006) 3.

³³ Brunnschweiler and Bulte 3

³⁴ Brunnschweiler (2006) ; Stijns (2002)

³⁵ Brunnschweiler and Bulte 11

growth.”³⁶ They substantiate this claim through replication of the Sachs-Warner cross-section regressions. However, in their analysis they use the measure of exports of natural-resource-intensive commodities per worker to calculate resource abundance. When this measure is employed, the negative impact of natural resource abundance on growth is no longer apparent.³⁷ Lederman and Maloney conclude in their compilation of works disputing the resource curse that natural resource abundance may have either a positive effect or no effect on growth.

A New Framework for Understanding the Resource Curse

Given these recent criticisms, it still remains to be seen whether resource curse scholars will be able to refute the claims made by their opponents. But regardless of whose analyses are more comprehensive or conclusive, it appears that both sides of the debate require further study and analysis before they are used as the basis for development modeling. Some scholars suggest that the entire framework under which the resource curse is studied needs to be modified. I find the opinion of Rosser to be very valuable here. Rosser posits that the main problem with the resource curse literature is that researchers have been too *reductionist* in their approach, and they have always measured development performance in economic terms. In doing this, they have often ignored other indicators of social and political development. Instead of viewing the resource curse in purely economic terms, “a consensus is emerging that various political and social variables mediate the relationship between natural resource wealth and development outcomes.”³⁸ In the past, scholars have tended to assume that variables have been determined solely as a result of the natural resource base, but we must approach our study on the resource curse with a mindset that acknowledges that an array of other factors have an effect on outcomes.³⁹ Rosser notes that instead of asking why natural resource wealth has resulted in certain political outcomes and poor development practices, we should

³⁶ Lederman and Maloney 4

³⁷ Lederman and Maloney 4

³⁸ Rosser 3

³⁹ Rosser 7

explore “what political and social factors enable some resource abundant countries to utilize their natural resources to promote development and prevent other resource abundant countries from doing the same?”⁴⁰ Doing this will allow to us to better understand circumstances in which natural resource wealth results in negative consequences and will enable us to create more effective development strategies to avoid the resource curse altogether.

Apart from encouraging a new direction for the dialogue on the resource curse, other technical issues should be addressed to either reconfirm or refute the findings of curse opponents. The first issue is that the resource curse literature would benefit from additional empirical studies that define *economic growth* using different approaches. More studies should be conducted such as the article by Eric Neumayer mentioned in the empirical studies section of this essay, which investigates if the resource curse holds true when growth is measured as a change in genuine income as opposed to GDP. Neumayer notes that using GDP is problematic for studying resource abundance because GDP includes natural and other capital depreciation as income.⁴¹ In Neumayer’s study, he deducts depreciation from GDP so that the value calculated is genuine income. He finds supporting evidence for the resource curse in his study, but he notes that “the growth disadvantage of resource-intensive economies is slightly weaker in terms of genuine income than GDP.”⁴² In other words, although the study conducted by Neumayer does confirm that a resource curse exists, he notes that the evidence is weaker than in studies that used GDP as the measurement. If more scholars follow Neumayer’s approach and define variables differently to see if the curse holds true, a more inclusive explanation can be found than is currently available in the literature.

An additional point to note that can potentially aid in creating a more a robust conversation on the resource curse is beginning with the acceptance that any hypothesis or theory should be

⁴⁰ Rosser 8 (Schrack 2004; Snyder and Bhavnani 2005)

⁴¹ Eric Neumayer, “Does the ‘Resource Curse’ Hold For Growth in Genuine Income As Well?” London School of Economics (2004) 2.

⁴² Neumayer 2

applicable to all states that possess a natural resource in abundance. In the Sachs and Warner empirical study, eight oil-abundant states were excluded in the analysis due to lack of complete data. These eight states were Bahrain, Iraq, Libya, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).⁴³ This exclusion is significant because these states were all major oil-exporters during the time period of the analysis. I am not trying to imply that Sachs and Warner excluded these states because they worried that these states would discredit their analysis. After all, these states have not been immune to the symptoms prescribed by resource curse supporters, and they have suffered from many, if not all, of the difficulties faced by other oil-abundant states, and had the data been available, given the structure of the Sachs and Warner's analysis, the outcomes would have probably been the same. Yet the fact that they were not included brings up an interesting point for past, current and future work on the resource curse hypothesis. Collection of accurate and comprehensive data in these analyses is very important and given the nature of some of the governments being analyzed, proper data records may be difficult to find. This should not discourage further research, but it should be acknowledged that any exclusion of a set of countries in analysis attempting to generalize the experience of oil-abundant states must take account for the fact that exclusion of states may be harmful to the strength of the argument.

The next section of this paper will discuss the situation in some of the states excluded in the Sachs and Warner analysis, in order to engage in a discussion about how these countries have fared in the resource curse framework. I will argue that these states should not be characterized as victims of the curse despite what the resource curse literature would describe. Although their development patterns have been far from perfect and their democratic institutions are weak, I will show that recent macroeconomic adjustments in their policies are strategies that can be imitated and implemented by other oil-exporting states and have the potential to make these oil-abundant states less vulnerable to resource-curse related issues. It is my belief that these states may represent an

⁴³ Sachs and Warner 1

anomaly for the resource curse literature as they begin to differentiate themselves from the typical expectations of oil-rich states as predicted by resource curse proponents.

Development in the Gulf States

The Arab Gulf includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Prior to the discovery of oil, these territories were characterized by their small nomadic populations and vast desert lands. After the discovery of oil, however, the “Arabian Peninsula began a rapid process of economic change.”⁴⁴ Oil concessions were awarded in Bahrain (1930), Saudi Arabia (1933), Kuwait (1934), Qatar (1935), Oman (1937), Dubai (1938), and Abu Dhabi (1939). Now they are all extremely important players in the world oil market because the Middle East accounts for more than two-thirds of the world’s proved reserves with over half of these reserves located in the Gulf region.⁴⁵ Roger Owen and Sevket Pamuk note that the oil concessions in the Gulf in effect transformed the entire region bringing an influx of foreign exchange into their economies, providing mass employment opportunities and eventually leading to an influx of foreign workers to these states.⁴⁶

Looking at the overall growth rates in the Gulf States from 1960 to 2003, clear and distinct patterns are found. First we can see that during the beginning stages, from around 1960 to the late 1970s or early 1980s, the region experienced great growth as a result of the oil boom. Yet with the fall in oil prices during the 1980s and the subsequent decisions by ill-prepared policy makers and economic planners, growth in the resource-poor/labor abundant countries grew by 4.0 percent, while growth in the Gulf was only 3.5 percent.⁴⁷ These growth rates reflect some of the predictions

⁴⁴ Roger Owen and Sevket Pamuk, A History of Middle East Economies in the Twentieth Century. (Cambridge: Harvard UP, 1999) 84.

⁴⁵ Alan Richards and John Waterbury, Political Economy of the Middle East 3 Ed. (Boulder: Westview Press, 2008) 47.

There is disagreement over exactly how many proved oil reserves the Middle East possesses. These are only rough calculations that are cautiously accepted with the understanding that the majority of world oil reserves are concentrated in the Middle East. This was the measurement as of 2004.

⁴⁶ Owen and Pamuk 85

⁴⁷ Owen and Pamuk 58

outlined by resource curse scholars. Following the price decrease, Gulf countries failed to restructure government spending practices, which resulted in extreme cases of borrowing from Western banks.⁴⁸ Even though oil prices have been higher in the 2000s, with the exception of the current situation as we enter a global recession, some of the Gulf States are suffering because their real per capita incomes have decreased 60 percent since the 1980s, and scholars predict real per capita incomes will continue to decrease. Yet there are three exceptions to this declining per capita income—Kuwait, Qatar, and the UAE who all maintain high per capita incomes.⁴⁹ These exceptions lead some to believe that maybe these states have escaped the resource curse and are somewhat of an anomaly to the hypothesis.

Apart from their economic policies, the governments of the Gulf have also been criticized for experiencing from other symptoms of the resource curse. No domestic tax base exists, which means there is no social contract between the government and its citizens. This allows the monarchies and rulers of the Gulf to act as they see fit without consulting their populations in any type of democratic process. Further, the human rights records of the Gulf States have been condemned, specifically pertaining to the rights of women. There is a great deal of imported labor, which has created some social unrest between the indigenous population and the migrant workers. There is also concern about the employment opportunities for the youth population of the Gulf States. Job opportunities made available in the public sector have discouraged job creation in the private sector and it has been estimated that in Saudi Arabia, Bahrain, and Oman, the overall unemployment is at 15 percent or more.⁵⁰ In addition, a great deal of government expenditure has gone to excessive military expenditures. One statistic reveals that four out of five Gulf States have devoted more spending to

⁴⁸ Abbas Abdelkarim, ed, Change and Development in the Gulf, (London: Macmillan Press LTD and New York: St. Martin's Press: 1999) 32.

The Iran-Iraq War lasted from 1980 until 1988 which also should be viewed as a main contributor to the increased borrowing trends of Gulf States.

⁴⁹ Anthony H. Cordesman, "The One True U.S. Strategic Interest in the Middle East: Energy," Middle East Policy 8. 1 (March 2001) 120.

⁵⁰ Kito De Boer and John M. Turner, "Beyond Oil: Reappraising the Gulf States," The McKinsey Quarterly (January 31, 2007) 3.

defense than they have given to both the education and health sectors.⁵¹ And finally, although “with few exceptions, the Gulf monarchies face little short-term pressure for internal reform, geopolitical pressures are mounting.”⁵² The War in Iraq, the Iranian nuclear issue, and the threats of non-state actors to current regimes could create the conditions for crisis in the region. Yet despite all of these claims that the Gulf States suffer from the ‘curse of oil’, upon closer analysis, the economic, social, and even political situation in the Gulf can be viewed in a more positive light that challenges assumptions made by resource curse supporters.

An Alternative View on Gulf Development

There are some key factors to take into consideration when observing how the Gulf States have developed since the discovery of oil. These points again are not meant to disagree completely that to some degree the Gulf States have suffered from resource curse-like symptoms, but rather they are intended to help illustrate that the development and successes of the Gulf States extend way beyond what resource curse theorists would credit.

The first issue to be raised relates to the data available that is use to rate the progress of the Gulf States’ development. In a report by Richards and Waterbury, they discuss more generally the economic growth and structural change in the Middle East. These authors advise that those analyzing growth and development in the Gulf should do so with two things in mind—first, the data reflecting growth for the region is usually of low quality and often only the best guesses of informed observers, and second, we should give the Gulf States credit for the fact that only embarked on their development process a little more than a generation ago and that they began the process at a very low base.⁵³

Extending from this recommendation, much of the literature discussing the development of the Gulf States speaks highly of their progress over the years. First analysts point to the economic

⁵¹ Abdelkarim 46

⁵² “Caught in the Middle But Still Perky: The Gulf States,” The Economist, November 8, 2008.

⁵³ Richards and Waterbury 57-58

growth of the Gulf States in recent years as an indication of their successes to come. In a 2007 article in the *London Times*, Gary Duncan reported that the Gulf States were on their way to entering a new era of development citing an IMF report, which revealed that GDP in the region increased to 5.6 percent in 2006 with a forecasted expansion to 5.9 percent or more in 2007 and 2008. Duncan also noted that the average incomes per individual in the region were 75 percent greater than they were in 2002. He mentioned that despite the fact that growth has not been evenly distributed among all parts of the Gulf, for the most part “the region’s good fortune has been fairly widely shared, with rapid growth and oil revenues unleashing strong government spending and investment as well as pent-up consumer demand, with spillover benefits to non-oil states in the region and to poorer segments of its population.”⁵⁴

A great deal of attention has also been given to diversification strategies of the Gulf States, which have been emphasized by Gulf policy makers following the realization that oil is a limited resource that cannot be depended upon forever.⁵⁵ Many sources applaud the efforts and policies enacted by the Gulf to focus on other sources of revenue besides oil. Dubai is often praised for its success in tourism endeavors and its accomplishments in the financial sector as a new hub for financial investment.⁵⁶ Dubai has devoted many resources into the non-oil sector, has lifted many barriers to foreign investment resulting in a three percent increase in GDP coming in the form of foreign direct investment (FDI), and it also has recorded steady GDP growth in recent years.⁵⁷ Qatar and the UAE more broadly have also focused on diversification strategies and have launched investment operations in consulting and financial firms.⁵⁸ The Abu Dhabi Investment Authority

⁵⁴ Gary Duncan, “Middle East Can Leave Oily Old Cycle in the Past,” *The Times (London)*, October 2007, 41.

⁵⁵ Owen and Pamuk 207

⁵⁶ Jens Glusing and Alexander Jung, et al., “New Cold War: The Global Battle for Natural Resources: The Curse of Natural Resources,” *Spiegel Magazine*. August 30 2008 Available at <http://www.spiegel.de/international/spiegel>.

⁵⁷ “UAE’s Dubai Economy No Longer Reliant on Oil,” *Xinhua*, May 6, 2004 <http://www.xinhua.org>.

⁵⁸ John Gapper, “Be Thankful for Canny Arab Wealth,” *Financial Times (Asia Edition)*. London: 29 Nov 2007, 13.

(ADIA) is the world's largest sovereign wealth fund and it has played a vital role in providing capital for firms such as its \$7.5 billion investment in Citigroup in the wake of the current financial crisis.⁵⁹

Further the educational achievements of the Gulf have been phenomenal. Although critics argue that the indigenous populations have little incentive to work and instead depend on foreign workers for all lower-end positions, looking at the Gulf and how far it has come over the last 70 years is truly impressive. It is important to remember that the populations of all of the Gulf States were very small with little educational or vocational skill at the time oil was discovered. For example, in 1949 Qatar had a population of 30,000 of which only 650 were literate and the first census conducted in Kuwait in 1957 revealed that there were only 2 doctors and 8 accountants in the native workforce.⁶⁰ 2008 figures from the CIA World Factbook reveal that literacy rates in the GCC: Bahrain, 86.5 percent; Kuwait, 93.3 percent; Qatar, 89 percent; Saudi Arabia, 78.8 percent; and the UAE, 76.9 percent.⁶¹ These achievements in literacy rates are truly remarkable when considering the low educational base were the Gulf populations began. Although the current literacy rates in the Gulf are not much better than the average of other developing economies, “the relative lateness of educational expansion” as well as the low educational backgrounds of much of the immigrant population helps to account for this.⁶² Really when looking at where the Gulf States began, they have all undergone transformation since the discovery of oil and they have demonstrated an “impressive record of achievement in health” and in life expectancy at birth, the primary indicator of health, which also rose considerably between 1960 and 1992 in all six Gulf countries.⁶³

The purpose for inclusion of the aforementioned points is not to insist that Gulf development has been flawless over the years. Instead, the hope is to develop a relative framework to understand

⁵⁹ Gapper 13

⁶⁰ Owen and Pamuk 208

⁶¹ Central Intelligence Agency. The World Factbook: (Bahrain, Kuwait, Qatar, Saudi Arabia, United Arab Emirates). Updated November 2008. Retrieved November 28, 2008 from <https://www.cia.gov/library/publications>.

⁶² Abdelkarim 39-41

⁶³ Abdelkarim 44

that the Gulf States have not failed and are indeed making progress in the realm of economic, social and political reforms. We must view the development the Gulf and other oil-abundant states as still a relatively new process. Scholars that view states in the Gulf as suffering from the resource curse should take into account that state transformation requires time, and although one can argue that the Gulf States have failed to develop democratic institutions, they have come very far in their 70 years of development. This is also illustrated in the political realm where the Gulf is beginning to take on a more dominant role in the region. With respect to the regional leadership, Qatar perhaps serves as the best example. Qatar brokered the Doha negotiations that established a compromise between Lebanese political factions in 2008, resolving more than 18 months of political stalemate in Lebanon. Apart from the negotiations with rival Lebanese factions, it has also worked on peace initiatives with Hamas, has opened diplomatic ties with Israel and has maintained active in the international conservation on Iran.⁶⁴ It has allowed numerous American institutions of higher learning into its territory and has also funded institutions promoting democracy and human rights initiatives in the Middle East.⁶⁵ Moreover, the UAE was the first state to reestablish diplomatic ties with Iraq, even though most predicted that Arab-Iraqi relations would only resume with a first step initiated by the Saudis or the Egyptians. These are all new efforts whose ultimate impact remains to be seen, however, “they reflect a very different style of bold political conduct in a region that remains politically conservative and minimalist, despite having transformed itself in just decades” into a modern society.⁶⁶ These examples demonstrate how these states are assuming an unprecedented and powerful presence in the region that can be attributed originally to oil revenues, which enabled the development and modernization of their economies.

Future Strategy

⁶⁴ Rami G. Khouri, "The Incredible Development of the Gulf States," *Agence Global* (August 2008).

⁶⁵ Khouri

⁶⁶ Khouri

So what policies must the Gulf States implement now to avoid being labeled as another group of oil-abundant states cursed by their natural resources? Critics of the Gulf's development have noted that "in spite of huge financial investment in the industrial sector, studies on the process of industrialization...have tended toward negative conclusions" on the grounds that policies have lacked coordination.⁶⁷ One scholar on UAE diversification strategies notes that the drive for industrial development will be unsuccessful until there is regional coordination and cooperation between all the states in the Gulf:

Diversification policies have been carried out in the absence of a comprehensive development strategy including an appropriate economic management framework, a conducive socio-political environment, proper industrial planning and appropriate selection of industrial projects and technology; all of which would induce a process of dynamic industrial growth to achieve the aim of diversification of the economy.⁶⁸

In addition to recommendations of coordination and better planning, it is extremely important that Gulf States structure their economic policies with the future in mind. What harmed the Gulf in the 1980s was the decline in world demand for oil and the subsequent price collapse. This led to a massive decline in investment projects in the refining sector and in exploration. Thus those years of decreasing oil revenues were only exacerbated by the fact that the oil-states had "only made small inroads into the refining, transport, and marketing of their own oil by 1980."⁶⁹ But given some of the recent strategies taken by the Gulf States, it seems that they are on their way to planning for the future, rather than relying on whatever the price of oil is any given day. They realize that oil will not last forever, and that even though the Gulf will remain a primary supplier of oil in the years to come, they must use the wealth they have collected from oil revenues to transform other sectors of their economies.

⁶⁷ Abdelkarim 7

⁶⁸ Abdelkarim 8

⁶⁹ Owen and Pamuk 206

In order to ensure that they do not fall victim to the so-called resource curse, the Gulf can capitalize on some of its recent successes so long as it pays attention to the following recommendations. A key issue facing the Gulf is unemployment. The World Bank estimates that creation of 100 million new jobs by 2020 is the only way that the Middle East region will be able to accommodate population growth and curtail high unemployment figures.⁷⁰ The Gulf States should pursue policies that foster job creation in both the public and private sector. The Gulf governments should also look to make immigration policies stricter so that there are more employment opportunities for natives to reduce the Gulf's dependence on foreign workers.⁷¹ Reform of the labor market has the potential to revamp the economic productivity of the entire region.

Others note that the overall economic and social situation in the Gulf would be better with less state control.⁷² Efforts should be made to increase transparency, liberalize the financial system, and strengthen local currencies. Gulf governments should begin or continue the process of channeling oil revenues into stabilization funds to reduce the amount of money in government control and work to redistribute oil profits to citizens, through endeavors similar to the Permanent Fund established in Alaska.⁷³ Reform of the Gulf financial system should also be a top priority. This can be achieved through establishment of credit bureaus for regional markets and also more broadly through creation of more efficient capital markets to allocate funds more effectively to support small and medium-sized business ventures.⁷⁴

The Gulf States can also enact much needed reform measures in social endeavors, specifically in the realm of education, but also through regional interaction and support of their neighbors. A significant amount of oil revenues have been invested in education over the years, but investment must be focused now on improving educational quality. This can be accomplished

⁷⁰ Duncan

⁷¹ De Boer and Turner 5.

⁷² "The Rise of the Gulf: Gulf Economies," The Economist, April 26, 2008.

⁷³ "The Rise of the Gulf: Gulf Economies"

⁷⁴ De Boer and Turner 6

through enhanced teacher training programs, salary increases for educators, curriculum remodeling, and establishment of national education standards to be monitored and applied in all schools.⁷⁵

Regionally, the Gulf States can use their wealth to encourage investment and development initiatives in other Middle Eastern states, which will help to foster stability and bring peace to the region, while simultaneously ensuring the Gulf's own security.⁷⁶

Current Financial Vulnerability

Despite the Gulf's wealth, the region is far from impenetrable to financial troubles. The large drop in oil prices from its peak in July 2008 at \$147 per barrel to under \$50 per barrel in November 2008 will undoubtedly have an effect on the development of the Gulf. Thus far, the Gulf States have been somewhat shielded from the current financial crisis, "but any large losses in the region could require governments to bail out their lenders and dash hopes that so-called sovereign wealth funds from the region would be able to help rescue troubled institutions in the West."⁷⁷ *The New York Times* reported that GCC leaders met with central Bankers in Riyadh on October 25th to discuss the crisis. At the meeting, officials maintained that they were confident with the stability of the monetary system in their countries, but some countries, including Saudi Arabia and Kuwait, have set up guaranteed loans at local banks for people in need or affected by the crisis. These moves demonstrate that the Gulf is not insulated from the current economic trouble, and that leaders are taking the steps necessary to avoid past mistakes in policy. The situation many oil-states will find themselves will be precarious while oil prices are low and it may make it difficult for them to continue or embark on policies of diversification and liberalization. But overall, the current situation coupled with renewed talks in consuming countries about energy security and reducing oil-dependence making it all the more obvious that these reforms are crucial for a successful economic and social future for the Gulf region and the rest of the oil-exporting states.

⁷⁵ De Boer and Turner 5

⁷⁶ "The Rise of the Gulf: Gulf Economies"

⁷⁷ David Jolly, "Global Financial Troubles Reaching Into Gulf States," *The New York Times* October 27, 2008, B1.

Conclusion

This essay's aim is summarize the criticisms of the resource curse hypothesis to reveal that the hypothesis should not be considered as fact, despite the evidence and empirical studies that have surfaced arguing in its favor. I have not tried to argue what it is exactly that can account for the trend that states rich in a natural resource tend to have weak institutions, corruption, and deficit spending. Rather I aimed to explain how actually the opposite can be true, similar to the opinion of Gavin Wright, an economic historian at Stanford University, who argues that "if exploited wisely, resource abundance can be turned into a growth industry that provides a solid and even long-term foundation for economic growth."⁷⁸ Including this perspective is crucial when looking at the economic and social development of oil-abundant states, because it potentially changes the paradigm under which development strategies and policies will be implemented. Scholars should embark on more academic work to advance the debate presented in this essay

The discussion on the Gulf States was included because while their development has been far from perfect, many scholars argue that these states have escaped the resource curse. They represent a group of oil-abundant states that have in effect been transformed since the discovery of oil. Goldman Sachs predicted in a study that the economy of the Gulf States "could be comparable in size and prosperity to present-day France by 2050."⁷⁹ This is an incredible accomplishment given where the Gulf States were 70 years ago and hardly seems possible when viewed in the light of the claims made by empirical studies confirming the resource curse. Thus it is the recommendation of this paper and of others that the GCC states, especially Qatar, Kuwait and the UAE, require greater analysis in order to see how "their chosen course of breakneck speed, foreign-manned socio-economic development and growth, and their unique brand of overnight nationalism anchored in cities that barely existed

⁷⁸ Jeff Madrick, "Far From a 'Curse,' Natural Resources Can Form the Basis for Economic Growth," The New York Times February 19, 2004, C 2.

⁷⁹ Duncan

decade previously” so as to understand what lessons their development can teach other oil-rich states.⁸⁰

The resource curse hypothesis literature predicts a set of outcomes that are described as inevitable and definite for oil-abundant states. Yet as this essay demonstrates, the evidence used to support the hypothesis is subject to criticism. Until these criticisms are accounted for, international financial institutions, governments, and development groups cannot design or implement strategy based on its assumptions. A more exhaustive conversation is needed to understand the problems faced by oil-rich states. In the mean time, the strategies of the Gulf, although only in their early stages, can be used by oil-rich states as a potential model for development.

⁸⁰ Khouri

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