

United Nations Trade and Development (UNCTAD)

MetMUNC XLIX

Topic: The Resource Curse

Chairpeople: Skylar Cowen, Ari Kalinsky, and Olivia Schmidt



Few countries around the world are supplied with an abundance of nonrenewable resources including oil, gas, and minerals.¹ It would be logical to assume that this would lead to a prosperous economy and country. However, this is not always the case, as countries that are rich in such materials are sometimes unlikely to benefit from the presence of these resources. The resource curse, also known as the paradox of plenty, refers to the negative effects that a country ample in resources may face due in part to such resources. These effects can include economic decline, conflict, poverty, and corruption. High demand for a specific resource can lead a country to neglect other economic sectors and the overall wellbeing of the civilization.² Nigeria, Bolivia, and many other countries are left with corruption as a result of the “resource curse” paradox.³ The opposite goes for countries such as Sweden and the United States, which have grown economically as a result of the extensive

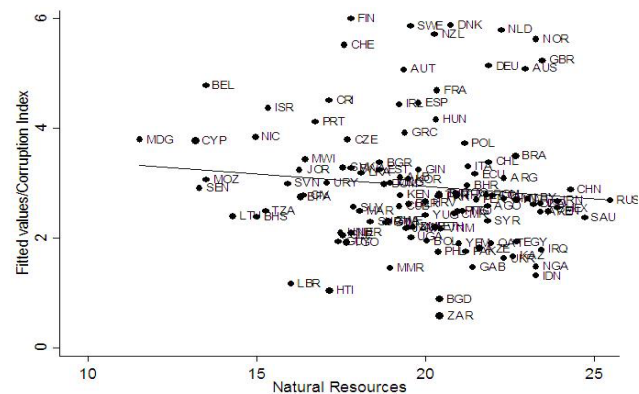


Figure 1: A graph comparing corruption and natural resources in countries.

Source: <https://voxeu.org/article/must-natural-resources-be-curse>

¹ https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf

² <https://www.bloomberg.com/quicktake/resource-curse>

³ <https://voxeu.org/article/must-natural-resources-be-curse>

amount of resources found in their respective countries.⁴ So, what factors decide if resources will be a benefit or a curse for a country?

The resource curse has influenced countries across the globe, resulting in long-lasting detriment. There are multiple theories that have been proposed to explain the cause, or causes, of the resource curse, with them varying from political corruption to lack of economic diversification. One of the more popular theories associated with the resource curse is a direct relationship with the formation or continuation of an authoritarian government, as the government does not need to rely on taxes from its citizens and instead gains its wealth from their nation's abundant natural resource, allowing them to function without money or support from the people and preventing democracy.¹ Such a government structure allows for massive corruption, with higher classes and government supporters benefitting whilst the nation sees an increase in wealth inequality.⁵ Another possible explanation for resource abundance becoming a “curse” is the accumulation of national debt from both the constant change in resource value, and therefore profits, and government overspending and over-borrowing.¹ In addition to these political contributions to the resource curse,

there is also an economic aspect coined the nickname the “Dutch Disease.”⁵ Essentially, the Dutch Disease occurs when an increase in exports, usually natural resources, causes a large influx of foreign currency, giving

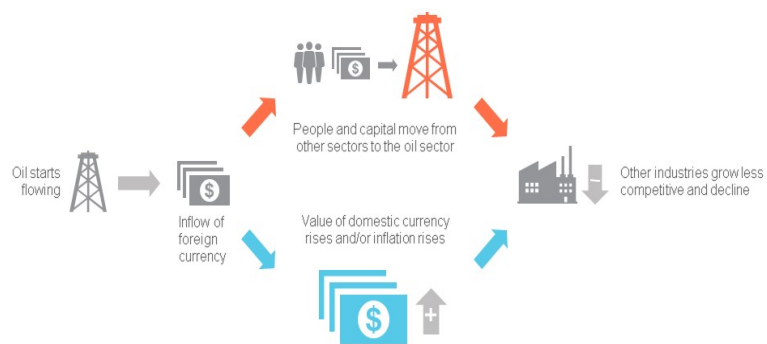


Figure 2: Infographic displaying the mechanisms of the Dutch Disease

Source: Natural Resource Governance Institute

⁴ https://unctad.org/Sections/lde_dir/docs/ldecr2009_jourdan_en.pdf

⁵

<https://www.theatlantic.com/international/archive/2012/04/why-natural-resources-are-a-curse-on-developing-countries-and-how-to-fix-it/256508/>

more people more money to buy goods and services.⁶ However, when citizens buy domestic products with foreign currency that was exchanged for domestic currency, it can lead to inflation or affect the exchange rate in the country, which can greatly hurt export sectors aside from the natural resources.⁶ This will result in such sectors having to close factories and businesses, and terminate many jobs, which can result in long term detriment.⁶ Furthermore, along with the economic and political issues associated with resource abundance, an increase in internal fighting, a decrease in female representation in the workforce, and pressing environmental issues may also be seen in a nation afflicted with the resource curse.¹

In recent years, Venezuela has fallen victim to the resource curse. Venezuela has an abundance of oil, once making it the most wealthy nation in South America.⁷ Now, however, the nation is facing an immense crisis, with political turmoil rooted in corruption and an improper



Figure 3: Graph of the prices per barrel of Venezuelan Crude over the last twenty years
 Source: Finance Monthly

election dividing the nation and prompting the international community to get involved, with countries like the United States issuing restrictions and sanctions.⁸ Moreover, past president Hugo Chavez used the nation's oil company, PdVSA, to fund many

of his costly initiatives, leaving them little to keep the oil industry well-maintained, ultimately hurting the economy as the oil industry is its backbone.⁸

Further, Venezuelans are facing a humanitarian crisis as well as economic and political crises.

The healthcare system is in disarray, with many diseases re-emerging and spreading rampantly

⁶ <https://www.imf.org/external/pubs/ft/fandd/basics/dutch.htm#author>

⁷ <https://econreview.berkeley.edu/venezuelas-resource-curse/>

throughout the nation, and there are widespread food shortages and increasing malnutrition.⁸ The United Nations Human Rights Council reported that approximately 4.5 million refugees have fled Venezuela due to the current condition of the country.⁹ Venezuela is one example of many that showcase how dangerous and lasting the ramifications of the resource curse can be. It does not have to be this way though, as other nations such as Canada, Norway, Chile, and Botswana have managed to profit greatly from natural resources yet not be affected by the resource curse.¹⁰

There are numerous initiatives and programs to help countries experiencing the resource curse. The Extractive Industries Transparency Initiative (EITI), strongly supported by the US, hopes to make the transparent management of natural resources a global standard by eliminating the usage of anonymous companies to move funds. The EITI has 51 countries that have implemented its policies to minimize corruption. Many nations suffering from the curse and not, such as the UK, have joined.¹¹ The Publish What You Pay and Publish What You Lend campaign, backed by 49 nations and hundreds of organizations, also calls for transparency in extractive industries.¹² The Equator Principles calls for standards that private investments do not have significant social and environmental risks.¹³ The Open Government Partnership has 78 members and aims to fight corruption with various methods, such as increasing government transparency and improving government justice systems. This partnership includes a variety of members, from Afghanistan to the United Kingdom.¹⁴ The UN Drugs and Crime-backed Stolen

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<https://www.hrw.org/report/2019/04/04/venezuelas-humanitarian-emergency/large-scale-un-response-needed-address-health>

⁹ <https://www.unhcr.org/en-us/venezuela-emergency.html>

¹⁰ <https://globalriskinsights.com/2014/04/four-countries-that-beat-the-resource-curse/>

¹¹ <https://www.state.gov/extractive-industries-transparency-initiative-eiti/>

¹² <https://www.pwyp.org/>

¹³ <https://equator-principles.com/about/>

¹⁴ <https://www.opengovpartnership.org/about/>

Assets Recovery Initiative aims to empower countries with the legal tools to recover funds that were stolen by corrupt officials.¹⁵

These initiatives have been mainly supported by democratic countries wanting to stop corruption in other countries. While helpful, these initiatives have certain flaws. While some flaws are unavoidable, such as the recommendations being voluntary and the location of resources, others are not. For example, presence of loopholes, the universality of these initiatives could improve and dependency on foreign aid.⁵

The goal of the committee is to further resolve the resource curse by mitigating its negative effects in a meaningful and productive way. Delegates should remain cognisant of their individual nation's economic, political, and social beliefs regarding not only the issue of resources itself, but the issues that come with it. Overall, resolutions should pertain to issues including, but not limited to, government corruption and mishandling of funds, wealth inequality, the Dutch Disease, and humanitarian issues such as food shortages and disease.

¹⁵ <https://www.unodc.org/unodc/en/corruption/StAR.html>

Questions to consider:

1. To what extent is your country reliant on natural resources?
2. How diverse is your country's industry?
3. To what extent has your country tried to solve the resource curse in the past?
4. Who does your country trade with and are they afflicted by the resource curse?
5. How has your country sided on issues involving the resource curse in the past, such as the situation in Venezuela?

Helpful Links

- <http://ieg.worldbankgroup.org/blog/beating-resource-curse-lessons-bolivia-kazakhstan-mongolia-and-zambia>
- <https://www.imf.org/external/pubs/ft/fandd/basics/dutch.htm#author>
- <https://www.investopedia.com/terms/r/resource-curse.asp>
- <https://www.theatlantic.com/international/archive/2012/04/why-natural-resources-are-a-curse-on-developing-countries-and-how-to-fix-it/256508/>
- <https://www.e-ir.info/2014/07/20/nigerias-resource-curse-oil-as-impediment-to-true-federalism/>
- [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)59&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)59&docLanguage=En)