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Reversing the Resource Curse in Angola

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Introduction

Angola is an oil-exporting state characterized by great wealth inequality, political instability, and severe underdevelopment despite having one of the highest African Gross Domestic Products (Gross Domestic, 2015). Its condition can be attributed to the resource curse in which rentier states are prone to corrupt regimes and underdevelopment. Rentier states are those in which a significant part of state revenue is taken from taxing natural resource extracting companies (Burnell, 2011, pg. 234). This paper examines existing ideas of the emergence and persistence of the resource curse in order to understand how it may be reversed in Angola. Natural resources alone do not cause the resource curse. There are a number of developed and democratic countries whose economies are largely dependent on resource extraction, like Canada, Norway, and Botswana. Building on the work of Desha Girod (2009), the resource curse is determined to emerge in states with abundant natural resources that have weak institutions at the time resources are discovered.

This paper argues that building strong institutions to allocate resource revenues has the potential to reverse the resource curse and that resistors to such change can be overcome if the cost of maintaining authoritarian regimes outweighs the cost of promoting democracy. As Angolan civil unrest grows in response to unequal wealth distribution, more oppression and incentives are required to maintain the current regime. Thus it remains possible that Angolan elites will promote democratic institutions and reverse the resource curse.

Literature Review

Existing literature shares a definition of rentier states, or rent-seeking states, as those in which a significant part of state revenue is sourced from natural resource extraction. In *Crude Democracy*, Thad Dunning (2008, p. 6) defines rents as the super-normal profits of an oligopoly or a monopoly produced by natural resource extraction. If mineral resources are owned by the state, as is common in developing countries, rents are collected directly, with the state acting as a monopoly; if natural resources are

privately owned, states collect rents by taxing mineral-extracting monopolies or oligopolies (Dunning, 2008, p. 6).

The resource curse is the trend for resource-rich countries to have authoritarian regimes, underdeveloped societies, and unequal wealth distribution. According to Peter Burnell, authoritarian regimes are the result of a reduction in a state's accountability to its citizens (2011, p. 234). Thad Dunning explains that the reduction of state accountability is the result of collecting rents because resource rents remove the need for leaders to reach a "...representative bargain with citizens and thereby hinder the emergence of democracy (Crude Democracy, p. 53)." Some may argue that an authoritarian regime will misspend a government's budget regardless of its source, but Thad Dunning explains that resource rents in particular facilitate corruption. He argues that resource rents are a unique source of government finance because "...other forms of state spending involve redistributing income from one set of citizens to another, or at least from one allocative purpose to another (Dunning, 2008, p. 11)." Because resource rents are direct earnings of the state, rather than collected and redistributed, the state has no obligation to provide for its citizens through development, fair wealth distribution, the provision of social services or transparent actions. It is important to note that not all rentier states exhibit the resource curse; many, including Canada, Norway, and Botswana, are strong democracies that manage their resource-dependent economies fairly and transparently.

Countries under the resource curse are also characterized by conflict between groups in order to capture a state's rents (Burnell, 2011, p. 234-235). Such conflicts may take the form of civil wars, military coups, and/or the manipulation of economic, social, and political systems by elites. The source of conflict is often rooted in the population's dissatisfaction with wealth distribution. Resource rents give elites in resource-rich countries the ability to accumulate enormous personal wealth. Fearing opposition and coups, the government in power may oppress civil society, restrict the rights and freedoms of citizens, and incentivize loyalty among an elite. For elites in resource-abundant countries, the cost of

democratization and investing in economic and social power outweighs that of maintaining political control (Dunning, 2008, p. 2).

Desha Girod argues that countries with abundant natural resources are marked by low growth, limited democracy, more war, and failed post-conflict resolutions if they had weak institutions at the time resources were discovered (2009, p. 1). Girod offers three explanations for her argument. First, discovering natural resources forces a state to grow at a faster rate than state institutions and bureaucracy can control. States with weak pre-existing institutions are less capable of addressing the challenges created by exporting resources, like preventing maintaining a diverse economy, managing the volatility of revenues as prices fluctuate, and preparing for future depletion of finite resources. Second, when corrupt institutions are present at discovery, entrepreneurs must participate in corruption in order to gain access to the wealth of natural resources. Third, leaders of states with weak institutions are more likely to be overthrown and leaders' positions would be further threatened by developing a strong civilian class. As a result, leaders may purposefully support corruption in institutions.

Similarly, Daron Acemoglu (2003) explores the role of good institutions in Botswana's unlikely success. Botswana is a sub-Saharan African country with rich supplies of diamonds that has managed to maintain a democracy and to avoid the resource curse. Acemoglu defines good institutions as social organizations that ensure effective property rights for a large portion of citizens (p. 86). These institutions foster investment as entrepreneurs can be reasonably sure of returns from their investments and entrepreneurial endeavours are not restricted to a small elite (p. 86). Botswana's successful institutions can be traced to their pre-colonial period in which political elites gained their positions through institutions and faced constraints on their power. Botswana experienced minimal colonization so their existing institutions were not altered dramatically. Acemoglu's work supports Girod's claim, as Botswana's diamond wealth was discovered after Botswanan independence when institutions were strong and legitimized by the population. As a result, Botswanans were able to use the

institutions already in place to determine the use of rents, to elect legitimate governments, to limit corruption and to ensure property rights. This paper builds on Girod's and Acemoglu's arguments to suggest that building strong institutions that promote fair rent distribution and that provide property rights to a majority of citizens will ensure state accountability to citizens, and ultimately reverse the resource curse.

Helen Clark (2011), administrator of the United Nations Development Programme (UNDP), stated that for a state's natural resources to benefit the people, the state must have certain priorities. First, government actions must be transparent. This will restore the accountability to citizens that is lost with rents collection and without civilian taxation. Second, civil society should be included at all stages of resource revenue allocation to ensure the benefits are distributed as widely as possible. Last, leaders should balance short-term priorities and long-term economic, environmental and social development goals. This paper recognizes Clark's priorities as required in order for institutions to be effective at reversing the resource curse. However it also recognizes that applying these conditions on institutions would clash with the motives of a political elite. Promoting democratic institutions that give power to the majority would directly take power away from authoritarian rulers.

Thad Dunning offers a situation in which it may be logical for political elites to support democracy. In *Crude Democracy*, Dunning (2008) was unsatisfied in classifying democratic resource-rich countries as outliers and sought to explain the factors that caused their democratic regimes. Dunning argues that a resource boom can have two outcomes; a direct authoritarian effect, in which a resource boom increases the incentives to control the distribution of resource rents and decreases the attractiveness of democracy to elites (p. 11); and an indirect democratic effect, in which resource rents decrease the rate at which the poor want to redistribute private income away from elites under democracy and thus decrease the economic cost of democracy to elites (p. 61). Dunning's work not only provides a logical

scenario in which democracy would be pursued by a political elite, but also confirms the assumption held in this paper that resource-abundance alone does not cause the resource curse.

Empirical Evidence: Angola Case Study

To examine how Angola might reverse the negative aspects of resource-dependency, it must be proven that Angola is a rentier state suffering from the resource curse. It is easily agreed upon that Angola is a rentier state, given the state economy's dependence on natural resources; oil accounts for 95% of national exports and 45% of the state's GDP (Angola Facts, 2015). Angola exhibits the characteristics of the curse outlined in the literature review: authoritarianism and conflict between groups that result in underdevelopment, wealth inequality and political instability. First, though Angola holds elections to choose leadership, Paula Roque (2009) asserts that its political system is closer to a competitive authoritarian regime than a democracy, as national institutions have been shaped to benefit the president, the military, and the business elites. The country's three largest political parties, the Movement for the Total Liberation of Angola (MPLA), the National Union for the Total Independence of Angola (UNITA), and the Social Renewal Party (PRS), are the groups that fought for independence against the Portuguese colonizers and later against each other during the civil war. Angola's first election was held in 1992 and elected the MPLA to parliament with 54% of the vote, but as no presidential candidate won a majority, a runoff election was to be held (Roque, 2009) This did not occur because opposition parties declared the elections fraudulent, resulting in violence that did not stop until the 2002 ceasefire. In 2008, the country's second elections were held. Angolans elected the MPLA with 82% of the vote, while UNITA, the official opposition, was virtually eliminated, winning only 10.5% of the vote (Roque, 2009). UNITA and other political parties that won smaller minorities again complained of fraudulent election behaviour. According to Roque, the power now given to the MPLA allows them "...to transform Angola into a de facto one-party state while at the same time gaining long-elusive national and international legitimacy (2009)."

Second, Angolan history has had persistent conflict between groups to control the nation's abundant natural resources. Angolan oil was discovered in the 1700s during Portuguese colonization, but was not used for commercial profit until 1956, at approximately the same time that Angola's guerilla independence movement began (Angola Profile, 2015). The Portuguese fled the country in 1974, following fourteen years of war for independence (Conflict Profile). Though successful in removing colonial power, conflict between the three guerilla groups resulted in a civil war that lasted 27 years, killed 800,000, and displaced 4 million (Conflict Profile). The Angolan War was exacerbated by the Cold War as the United States, the Soviet Union, South Africa, and Cuba supported different groups with hopes of gaining access to Angola's abundant resources (Angola Profile, 2015). As the Cold War and the competition for client states ended, foreign forces withdrew from Angola, and the civil war ended with a ceasefire in 2002 (Conflict Profile).

Current conflict to control resources occurs through political manipulation. Though Angola has a semi-presidential political system, President Dos Santos has accumulated immense power; he is head of state, leader of the MPLA, commander of the military. In such roles, Dos Santos has the power to nominate and dismiss the prime minister, cabinet members, and provincial governors. Opposition from political parties and civil society has been crushed through political harassment and intimidation. The government has control over the media making it able to restrict public debate and promote propaganda. Additionally, Dos Santos has created a system of incentives to keep checks on party members and a small elite, many of whom have accumulated enormous wealth as a result of their loyalty and access to rent distribution (Roque, 2009).

This paper argues that the resource curse is the result of weak institutions at the time resources are discovered. Using Girod's three explanations, this paper will examine the role of poor institutions in facilitating the resource curse in Angola. The first explanation is that investing in natural resources as a source of state revenue forces a state to grow at a faster rate than institutions and bureaucracy can

control. When Angola began to pursue the oil industry in earnest, it was on the brink of a war for independence after 200 years of colonization. Immediately following independence, the Angolan Civil War erupted. The instability of the colonialist government in Angola, followed by twenty-seven years of civil war and military coups, were certainly not conducive to effective resource management. Rather, poor management has led to an undiversified economy dependent on oil. This poor economic management results almost directly to Girod's second explanation: corrupt institutions at discovery require entrepreneurs to participate in corruption to make profit. Good institutions, as defined by Daron Acemoglu, are those that ensure property rights for a majority of citizens (2003, p. 86). In Angola, honest entrepreneurial efforts are near impossible, and oil wealth is distributed among a mere one hundred families- a sure sign of corruption (Angola: the Curse, 2008). The third explanation of the resource curse is that leaders of states with weak institutions purposefully support corrupt institutions to protect themselves from opposition. Angola's competitive authoritarian regime, state-controlled media, and oppressed civil society and opposition parties are evidence of political manipulation.

Having established Angola as being resource-cursed, analysis of how to reverse the curse's effects is required. The first reversal measure as stated by the UNDP is transparency in government actions. Angola currently lacks almost any transparency; government financial transactions are classified state secrets (Angola: the Curse, 2008), Angola ranks 161 of 174 countries on Transparency International's 2014 Corruption Perceptions Index (Corruption, 2014), and Freedom House estimates more than a billion dollars of oil revenue is unaccounted for each year (Roque, 2009). Unclear financial distribution allows elites to accumulate wealth. Institutions that ensure the transparency and fair economic management are avoided because they would directly reduce the power of elites. Desha Girod (2009) provides an example of the Angolan government maintaining clouded transactions. In 2002, the International Monetary Fund began negotiations with Angola to fund post-war reconstruction programs in exchange for more transparency. However, discussions with the IMF ended when Angola

did not satisfy enough of the pre-requisite reforms that would have held the government accountable to spend more on Angola's development (Girod, 2009). Such programs would greatly increase civilian standards of living, as despite the enormous wealth generated from oil production, most Angolans live in the same conditions as during the Angolan Civil War that ended 13 years ago (Angola: the Curse, 2008).

The second measure of resource reversal is the inclusion of civil society at all stages. Civil society comprises of voluntarily organized groups outside of the state that seek to influence policy decisions (Burnell, 2011, p. 183, 185). Despite government oppression, civil society still exists in Angola. Should the government begin to include civilians in policy decisions, there is a vibrant civil society ready to participate. *Angola: the Curse of Oil* (2008) highlights the OMUNGA organization that teaches Angolan journalists about human rights and democracy. The independent work OMUNGA journalists produce is increasingly rare as the government controls most media sources.

The third measure is ensuring short-term economic goals are balanced by long-term growth and stability. A long-term goal of rentier states should be to preserve oil wealth for future generations. Resource exporting states that have avoided the resource curse offer practical models that can be adopted. For example, Norway and Botswana have created funds from which leaders cannot withdraw past an Estimated Sustainable Income Threshold in a year without parliamentary approval (Clark, 2011). Economic diversification also promotes long-run stability, as diverse states are less vulnerable to economic shocks caused by price changes of their dependent resource. However, programs that advance long-term goals are often detrimental to short-term goals. For example, as a state becomes more dependent on one sector, the cost of diversifying the economy increases; leaders of resource states must be willing to run short-term deficits for long-term benefits (C.W., 2014).

While Clark's UNDP reversal methods provide clear steps, it is difficult to imagine a real country like Angola applying them. For example, applying transparency measures would force the MPLA and

elites to stop transferring rents for personal wealth; the inclusion of civil society in policy decisions would force elites to compromise on distribution of social, political and economic power; and pursuing Angola's long-term economic development would reduce the wealth and power of elites in the short-term. It seems illogical for authoritarian leaders to give up the power and wealth they have amassed in favour of democracy. There are two situations in which applying the UNDP reversal methods become plausible. The first is for a government focused on long-term changes that benefit the whole of the country to come into power. However, it is difficult to predict if or when such a leader or group should emerge. The second, and more practical, situation for applying the UNDP reversal methods is found in Dunning's indirect democratic effect: resource rents decrease the desire of the poor to redistribute private income away from elites through policies of land reform or taxation, and thus decrease the economic cost of democracy to elites (2008, p. 61). In countries with unequal wealth distribution that lack resource wealth, democratic majorities would vote for the redistribution of the personal incomes of elites. With resource-abundance, the collection and distribution of resource rents from resource extracting companies satisfies the demands of the majority for wealth equality by a means more favourable to elites.

The crux of Dunning's is that resource wealth can lead to democracy when the cost of democracy to elites is less than the cost of maintaining their systems of incentives and oppression. Based on the makeup of Angola, it can be predicted that the costs of maintaining the authoritarian rule over the growing population will increase. Twenty-five percent of the population is unemployed, 36% of the population lives in poverty despite the flourishing oil industry (Ben-Ari, 2014), and the population is growing at 3.3% per year (Population Growth, 2015). As Angolans see the continued success of the oil industry without economic, social, or political benefits in their daily lives, the amount of oppression by leaders required to keep their positions safe will increase and the relative cost of democracy will

decrease. When this cost-benefit relationship is recognized leaders may pursue democracy through the resource-curse reversal methods that improve institutions with benefits for the wider population.

Conclusion

In conclusion, the trend of political conflict, underdevelopment and wealth inequality to occur as a result of resource-abundance is caused by weak institutions and can be reversed by building strong institutions. The likelihood of an authoritarian regime to pursue such democratic institutions increases as civil unrest and threats to the security of its position increase. Under these assumptions, it is possible for Angola to reverse its resource curse because the likelihood of the regime applying reversal measures increases as the population's dissatisfaction with the MPLA regime grows. This work's argument is important as it builds upon literature that proves the resource curse is not inevitable for resource-abundant countries. Rather there are practical and logical solutions that may be applied that can advance democracy and the quality of life for many.

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