Preface

The past decade's boom in prices for globally traded commodities like oil, gold, and other precious minerals would seem to have presented a bonanza for countries in Asia, the Middle East, and Africa, and the potential market from ongoing growth in China and elsewhere gave more reason to take a long view. Yet, instead of seizing the opportunities derived from their resource abundance, one country after another has turned its resource blessings into a curse. This ground-breaking and powerfully argued interdisciplinary study by Cullen Hendrix and Marcus Noland provides an innovative empirical analysis of that phenomenon and offers policy insights into how to avoid that curse.

Bringing together economic data and real-world cases, *Confronting the Curse: The Economics and Geopolitics of Natural Resource Governance* explores the economics and politics, internal and external, of natural resource dependence. The study highlights the often tragic ways that commodity wealth has weakened domestic institutions, undermined democratic governance, produced corruption and enrichment of elites, and finally led in many cases to devastating violence and war.

Even worse, the authors say, the effects of these problems are not confined within the borders of each country. The resource curse—particularly the production of oil—emboldens producers to adopt more confrontational foreign policies and causes them to spurn institutions of global governance, creating a threat to the liberal international order and to democratic values more generally. China's emergence as a major importer of raw materials and investor in extraction, and its perceived willingness to accommodate authoritarian producers, may exacerbate the problem (although the authors find little evidence of Chinese exceptionalism compared with other international investors to date).

The authors do caution, on the other hand, that it is too simple to say resources cause problems. The relationship between natural resource abundance, economic performance, and political authoritarianism remains poorly understood. The cause-and-effect implications are obviously the greatest for the commodity producers themselves. They face multiple challenges for macroeconomic management, resisting pressures towards political authoritarianism, and in the extreme, preventing outbreak of violent civil conflict. The resource curse also presents long-term challenges for US foreign and economic policy as it seeks to cope with weak states, terrorism, drug trafficking, human trafficking, and other unwanted transborder consequences of failed governance. Another problem for the US and global order addressed innovatively in their study is the more assertive behavior by Russia, Iran, and other countries with power enhanced by their resource wealth.

Hendrix and Noland cover a remarkable amount of territory in this book. They start by addressing the economics and politics of the resource curse, mining a vast academic literature for practical insights. The book goes on to break new ground by extending our understanding of the resource curse to cross-border spillovers and the impact on the international scene. Their study also demonstrates how oil exporter status shapes the foreign policies of producer countries, providing new evidence that high prices embolden exporting countries to engage in more bellicose behavior. A separate chapter addresses the role of China in Africa and the conventional wisdom that Chinese aid, arms, and investment are blindly resource-seeking and different from other investors' (including US) behavior there.

Ultimately, for new resource producers to avoid the curse, there is a need for new kinds of supportive international policies. In the concluding section of their book, Hendrix and Noland deliver the first assessment of the effectiveness of three initiatives: the Kimberley Certification Process Scheme for diamonds; the Extractive Industries Transparency Initiative as applied to oil and gas, mining, and even forestry; and the Conflict Minerals Trade Act, an attempt to bring a Kimberley-like process to bear on the "conflict minerals" problem in the Central African conflict region. They clearly assess these initiatives' performance and prescribe policies, ranging from exchange rate management to the use of sovereign wealth funds. They also address the issue of ownership structure, concluding that public-private partnerships offer the best chance of mitigating the pernicious effects of natural resource wealth. The curse can be avoided—Botswana and Trinidad and Tobago are evidence of this—but the path is not easy, and the rest of the world has a stake in making it easier.

The Peterson Institute for International Economics is a private, nonprofit institution for rigorous, intellectually open, and honest study and discussion of international economic policy. Its purpose is to identify and analyze important issues to making globalization beneficial and sustainable for the people of the United States and the world and then to develop and communicate practical new approaches for dealing with them. The Institute is completely nonpartisan.

The Institute's work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 35 percent of the Institute's resources in our latest fiscal year were provided by contributors from outside the United States. The Smith Richardson Foundation provided generous support for this study. Interested readers may access the data underlying Institute books by searching titles at http://bookstore.piie.com.

The Executive Committee of the Institute's Board of Directors bears overall responsibility for the Institute's direction, gives general guidance and approval to its research program, and evaluates its performance in pursuit of its mission. The Institute's President is responsible for the identification of topics that are likely to become important over the medium term (one to three years) that should be addressed by Institute scholars. This rolling agenda is set in close consultation with the Institute's research staff, Board of Directors, and other stakeholders.

The President makes the final decision to publish any individual Institute study, following independent internal and external review of the work.

The Institute hopes that its research and other activities will contribute to building a stronger foundation for international economic policy around the world. We invite readers of these publications to let us know how they think we can best accomplish this objective.

Adam S. Posen
President
April 2014