Resource curse or resource blessing: How major oil discoveries keep autocrats in power

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Oil is the most effective natural resource when it comes to keeping despots in power, new research shows.

Oil is a more useful resource for rulers looking to hold onto power than minerals such as copper, nickel or zinc but its' benefits are felt most strongly more than a decade after a discovery is made, according to new research led by the University of Sussex Business School.

Leaders who benefited from significant oil or mineral discoveries during their time in power lasted longer than rulers without, the research published in Economica found.

The new research details how riches from a significant oil discovery can help to limit the threats to a leader by placating the military, by increasing its spending power, and the public, by reducing their tax burden. By contrast, the researchers found that major mineral discoveries led to no increase in military spending and actually increased the tax burden on the public.

The research also discovered that significant resource discovery did not significantly harm or help an incumbent's chances of success through the ballot box.

Dr. Sambit Bhattacharyya, Reader in Economics at the University of Sussex Business School, said: "The resource curse theory implies that giant and supergiant oil and mineral discoveries have a negative impact on a country's economy and development. But our research shows that such resource discoveries can personally benefit national leaders to a significant degree.

"Major oil discoveries in particular help to preserve leaders in countries with weak political institutions. Oil exhibits enclave characteristics which exclusively favour the incumbent, creating revenue that can be used for patronage or to coerce opposing voices. Reducing voters' tax burdens and increasing military expenditure are two potent mechanisms through which oil discovery affects political survival. In contrast,

minerals are better connected to the rest of the economy, empowering both incumbent and opposition."

Michael Keller, member of the Development Economics Research Group (DERG) at the University of Copenhagen, said: "The impact of a major oil discovery is much delayed and appears only after a deposit is fully developed, indicative perhaps that oil rig development is highly capital intensive and therefore creates very little employment during the construction phase. The benefits to a leader appear to come from actual income or rent rather than income expectations. In comparison, leaders of countries with significant mineral discoveries find their position becomes more secure sooner after initial discovery during the construction and extraction stages of a mine. This stage brings employment and new infrastructure and therefore is beneficial for the incumbent."

Researchers from the University of Sussex Business School and University of Copenhagen tracked the political fortunes of 1255 leaders in 158 countries from 1950 to 2010.

The research explored the impact of 453 giant mineral deposit discoveries, with the capacity to generate at least $500m of annual revenue for a minimum of 20 years, in 61 countries and 740 giant oil and gas fields, containing at least 500 million barrels of recoverable resource, in 63 countries.

While mineral discoveries reduced the likelihood of a leader being deposed in all circumstances, oil discoveries only reduced the risk in countries of failing democracy with an average x-polity score under 9.9—a category which includes Qatar and Saudi Arabia (2) and Romania (7) but excludes Norway (13).

Oil riches were almost twice as effective a tool for keeping completely

unaccountable despots in power compared to democratic leaders with autocratic tendencies, the research found.

The research found that the threat of removal from office for a leader reduced around six to eight years on average after a significant mineral discovery but between 11 and 20 years after a major oil discovery.

Dr. Bhattacharyya said: "Oil revenue is largely US Dollar denominated and so undoubtedly western countries have financial and political leverage over the majority of oil producing countries. Promoting good practice and transparency holds the key in empowering citizens of oil producing countries and making leaders accountable. A G20 level International treaty on the disclosure of financial transactions in tax havens could be a step in the right direction as the majority of grey oil revenue circulates through this system. Multinational corporations working in the extractive industry of countries with weak institutions should adopt the Natural Resource Charter. It has already been adopted by the African Union but a G20 led initiative would be more powerful."

Dr. Keller said: "A significant body of literature exists on how leaders could impact on the economic and institutional performance of a country but surprisingly little is known about the link between natural resources and the political fortunes of a national leader. To the best of our knowledge, this is the first study to analyse the effect of resource discovery news shocks on the political fortunes of national leaders."

More information: Sambit Bhattacharyya et al. Resource Discovery and the Political Fortunes of National Leaders, *Economica* (2020). DOI: 10.1111/ecca.12350

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