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## Article

# Institutional aspects of 'the curse of natural resources'

Economic Themes

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Faculty of Economics, University of Niš

*Suggested Citation:* Anđelković, Mladen; Stefanović, Zoran; Petrović, Dragan (2024) : Institutional aspects of 'the curse of natural resources', Economic Themes, ISSN 2217-3668, Paradigm Publishing Services, Warsaw, Vol. 62, Iss. 4, pp. 429-445, <https://doi.org/10.2478/ethemes-2024-0023>

This Version is available at:

<https://hdl.handle.net/10419/335848>

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## INSTITUTIONAL ASPECTS OF "THE CURSE OF NATURAL RESOURCES"

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UDC  
330.34:  
338.012.23:  
321.7

Review  
paper

Received:  
09.12.2024  
Accepted:  
30.12.2024

**Abstract:** Natural resources are still a critically important input for society's productive capacity. Valorization of the importance of natural resources throughout the history of economic thought shows that their influence on economy is not monotonous and unambiguous. During the last few decades, the understanding of the "curse of natural resources" has been exploited increasingly, as a challenge to the traditional view of their necessarily positive effect on the economy. The conservation of monolithic economic structures, with weak adaptive capacity, strongly dependent on the export of primary or low-processed products, in many countries with an abundance of natural resources, speaks in favor of this understanding. It is shown, however, that the nature and direction of the influence of natural resources on the quality of the economic structure and the sustainability of economic growth are closely related to the institutional structure of society. The nature of the effect of rent from natural resources on socio-economic flows - corruption, level of democracy, possible conflicts - is determined by the quality of institutions, while the relationship is also present in the reverse direction. In accordance with the abovementioned, the aim of the paper is to outline the main streams of thinking about this problem in economic theory. Particular attention is paid to the institutionalist approach, which links the effects of natural resources on relevant trends to the quality of social institutions. The construction and improvement of institutional solutions must be at the center of attention of the policy of the purposeful use of natural resources.

**Keywords:** natural resources, natural rent, institutions, corruption, economic development, democracy.

**JEL classification:** B52, O43, P48.

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## 1. Introduction

In the period after the Second World War, the process of decolonization and the ideological division of the world exposed the countries of the Third World to a specific path of economic and social development, with natural and geological potentials often proving to be more of a “curse” and a burden on development than a “blessing”. Poverty, underdevelopment, corruption, and numerous bloody civil wars in these countries marked the period after the acquisition of colonial independence and national sovereignty. Contrary to the classical understanding, according to which the abundance of natural resources is in function of the dynamic development of productive forces, and is a factor of international competitiveness of the economy, there is evidence that countries rich in natural resources achieve lower rates of economic growth. The first explanations for this seemingly unusual phenomenon were based on the occurrence of the so-called “Dutch disease” and changes in real economic variables. Due to the development of institutional economic theory and the acceptance of its postulates by development economics, attention has been redirected from the emergence of structural disproportions in these economies to the institutional sphere of society. Rentier-type income generated by the exploitation of natural resources can have significant influence on the shaping of the institutional structure of the economy and society. Conformism and complacency among those in power, due to the enormous income from natural rent, do not provide sufficient incentive for the necessary diversification of economic activity, and in the long term may be in conflict with the idea of sustainable economic development. However, the emergence of corruption and obstruction of democracy in society imposes itself as a fundamental problem, which is why negative effects are manifested on economic growth, but also on the overall quality of life in the country.

The first part of the paper confronts traditional understandings with a modern approach, which under certain circumstances recognizes the negative impact of natural resources on economic development. The mere fact that a country is rich in natural resources does not mean that it is doomed to poverty, corruption, and the episodes of escalating violence. It is only due to poor institutional and development solutions that a country becomes dependent on the export of primary products, and begins to suffer the consequences that accompany such an economic structure.

The second part of the paper deals with the institutional repercussions and the emergence of corruption due to high natural rent. Notable number of developing countries, which are also the world's largest oil exporters, “suffer” from high corruption, as a result of which the wider social strata do not realize almost any benefit from the available economic potential. Money flows are often directed to the personal accounts of individuals in power or the military leadership, while the rest of the population lives on the verge of absolute poverty.

Finally, in the third part of the paper, the basic mechanisms through which rent from natural resources affects the level of democracy in the country, but also the possibility of civil war, are presented.

## **2. Economic Development and the Curse of Natural Resources**

It is believed that the Industrial Revolution of the 18<sup>th</sup> century, as well as the rapid progress of Western civilization that followed it, were made possible precisely due to the availability and extensive use of natural resources. By exploiting raw materials from the home territory and from colonies, Western countries secured for themselves a dominant position in the world order. According to economic historian John Habakkuk (1962), the abundance of natural resources such as coal, copper, and iron, enabled the United States to surpass its former home country, Great Britain, in terms of industrial development in the 19<sup>th</sup> century. The period of colonialism was also shaped by the efforts of the great powers to control the world's reserves of valuable raw materials. To this end, large parts of non-European world were colonized, all under the guise of expanding civilization.

The strategic importance of natural resources stems from the fact that they represent a vital input for industrial production. Control over their reserves is the basis for unhindered economic development, and limiting access to other countries is a means of gaining competitive advantage. In the past few centuries, the pursuit of dominance over natural resource reserves has been central to the conflicts of great powers. Today, military conquest is slowly giving way to far more perfidious, but more effective, the flows of international capital and political patronage as a channel for the manifestation of great powers' claims over the resources of developing countries.

Economic reality and political interests influence the shaping of economic theory on this issue. According to the original, simplified theoretical reasoning, it is advantageous for a country to have as large a stock of natural resources as possible. Physiocrats and classicists define a country's natural wealth as a determinant of its prosperity. The classical school, in addition to labor and capital, also singles out land or nature among the three basic factors of production, the rational combination of which creates material production. Although Smith and Ricardo shared some observations related to the underdevelopment of Spain and Portugal despite the realization that at that time they were the largest exporters of gold in the world, the cause of underdevelopment was found in the wrong development paradigm - mercantilism, and not in the influence of gold on socio-economic flows and processes. For his part, David Ricardo defines natural rent<sup>1</sup> as the result of nature's

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<sup>1</sup> Ricardo's definition can still be considered relevant, since the modern definition of rent as the difference between the unit price of commodity and the average costs of production of commodity (World Bank, 2021) has some similarities with it.

stinginess instead of a gift of nature, as the physiocrats had previously emphasized. In his class-based interpretation of natural rent, he finds that it unjustifiably burdens the wage earners and causes a fall in profit rates (Blagojević & Sekulović, 1990). Thus, even within the classical school, certain aspects in which natural resources negatively affect economic development were recognized, but due to the general limitations of the historical period in which these doctrines emerged, as well as the still insufficient articulation of the effects of natural resources on socio-economic flows, the consequences that would emerge in the modern era could not even be imagined. In accordance with that, given their strategic importance and the interest of great powers, it is logical to expect economic prosperity in countries with large reserves of natural resources.

However, since the 1960s, the abundance of natural resources has been associated with poor development performance (Auty, 2000). Empirical evidence has shown that countries rich in natural resources achieve lower rates of economic growth than those where nature was scarce (Sachs & Warner, 1995). Namely, it can be stated that natural capital causes a crowding out effect of other types of capital, thereby slowing down economic growth (Gylfason, 2001). In this regard, the overall negative effects of natural resources on economic growth can be divided into direct and indirect, with the former including *Dutch disease*, and the latter including corruption and rent seeking activities (Leite & Weidmann, 1999). Despite this, mainstream economic theory's interest in natural resources is largely limited to the issue of pollution and the sustainability of economic growth, while the impact of the rentier nature of income that occurs in this area on shaping of the institutional environment, the emergence of corruption in society, and the formation of human capital, is to some extent neglected.

When studying the impact of natural resources, it is necessary to distinguish between the situation when a country has large reserves of them and the situation when it itself depends on natural resources (Gelb, 2014). The low level of diversification of economic activity due to the underdevelopment of manufacturing and service sector makes the country dependent on the export of primary products, and sensitive to frequent price fluctuations on the world market. In terms of total natural capital, including oil and land minerals, some of the most developed countries, such as Norway, Australia, and Canada, are the richest, while some of the poorest countries in the world, such as Iraq, Chad, and Libya, are the most dependent. This clearly explains that the mechanism of negative effects of natural resources is far more subtle than it seems at first glance, and that it can undoubtedly be linked to the institutional and cultural environment of the country.

Table 1 shows the proven oil reserves, their relative importance to the economy, the level of economic development and the quality-of-life indicator for individual countries. Where there is a diversified economic structure, the share of oil rent in GDP is relatively low, and GDP per capita is high. Although they are often referred to as "black gold", it has been shown that large oil reserves *per se*

are not sufficient to ensure prosperity and a high standard of living for the population. Thus, Chad has oil reserves that are almost a third of those in Norway, but its GDP per capita is 122 times smaller, and according to the *Human Development Index*, the country is at the bottom of the list, while Norway is in second place (UNDP, 2024).

**Table 1. The difference between oil dependence and oil wealth.**

Country	Proved oil reserves (in million barrels) <sup>2</sup>	Oil rent share in GDP	GDP per capita (2023)	Human Development Index rank (2022)
Norway	5214	6.1%	87961,8	2/193
Chad	1500	16.8%	719,4	189/193
Iraq	145019	42.8%	5512,5	128/193
Venezuela	303008	11.3% (2014)	15975,7(2014)	119/193
Canada	168000	2.8%	53371,7	18/193
Congo	1811	34.4%	2508,8	149/193
Lybia	48363	56.4%	7330	92/193
USA	48300	0.6%	81695,2	20/193

*Source:* created by the authors

The alleged curse of natural resources was first associated with the so-called “Dutch disease”. A specific economic phenomenon called *Dutch disease* has historically occurred in economies dependent on the exploitation of natural resources. The appreciation of the exchange rate due to the increase in the price of raw materials or exports due to the discovery of new deposits makes the economy less competitive on the world market. Also, the availability of natural resources reduces the relative attractiveness of the secondary and tertiary sectors, which slows down the processes of industrialization and urbanization. Insufficient economic stimulus towards the development of sectors producing internationally-tradable goods leads to the primary sector being the main source of foreign exchange. In the long run, through unfavorable terms of trade on the world market, there is an outflow of wealth and economic stagnation of the country. Auty (2000) reduces the problems of these countries to the influence of high rents from natural resources on the relaxation of market discipline. The rent received provides a sense of security and comfort among development policy makers, which negatively affects the level of specialization and diversification of economic activity in the

<sup>2</sup> Retrieved from Worldometer: <https://www.worldometers.info/oil/oil-reserves-by-country/> Visited: 02.01.2025.

country. High volatility in primary product prices in this case can have catastrophic consequences for economic dynamics and the state of public debt.

A glaring example of the curse of natural resources, and also the most present in the literature dealing with this topic, is Nigeria. Widespread corruption is one of the main causes of poor economic performance and poverty in Nigeria (Elwerfelli & Benhin, 2018). According to *Transparency International*, an organization that measures corruption out of 180 countries for which it compiles corruption reports, Nigeria is ranked 145<sup>th</sup> with a tendency for the index value to deteriorate<sup>3</sup>. Although nature has ensured that with proven oil reserves of 37.5 trillion barrels<sup>4</sup>, it is one of the world's largest exporters of "black gold", the average resident benefits little from this fact, as confirmed by the value of GDP per capita of only \$ 2,162. Also, according to the HDI (*Human Development Index*), Nigeria is ranked 161<sup>st</sup> out of 193 countries, and is among the countries with a low index value (UNDP, 2024)<sup>5</sup>. Despite seemingly favorable circumstances, Nigeria has not been able to achieve satisfactory economic development for more than half a century, and a large part of the population still lives in poverty. According to a 2017 World Bank estimate, 30.9% of the total population lives below the absolute poverty line of \$ 2.15 per day<sup>6</sup>.

### 3. Natural Resources and Corruption

Newer approaches, instead of power relations and structural changes in the economy, link the mechanism of manifestation of the natural resource curse to the institutional environment and the occurrence of corruption (Sala-i-Martin & Subramanian, 2003; Isham et al., 2005). As early as the mid-1990s, the negative impact of corruption on private investment, and thus on economic growth, was confirmed (Mauro, 1995). Corruption, as the abuse of public position for personal gain, reduces the level of social well-being (World Bank, 2020). Natural resources are particularly susceptible to this phenomenon, given that the rights to exploitation, as well as income, are concentrated within a narrow circle of people, which attracts rent-seeking activity and encourages corruption. Also, the fact that natural resources formally belong to all residents of a country should not be ignored. Therefore, the corruption of a public official or political authority can directly have a negative impact on the level of well-being of the entire society.

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<sup>3</sup> More about this on the Transparency International website: <https://www.transparency.org/en>

<sup>4</sup> Source: Opec Share of World Crude Oil Reserves; retrieved from: [https://www.opec.org/opec\\_web/en/data\\_graphs/330.htm](https://www.opec.org/opec_web/en/data_graphs/330.htm)

<sup>5</sup> The Human Development Index is most commonly used as an indicator of living standards and quality of life. It is based on life expectancy, the average number of years of schooling for individuals aged 25, and gross national product per capita.

<sup>6</sup> Taken from the World Bank website: <https://www.worldbank.org/en/country/nigeria/overview>

Natural resource rents exert their influence on the occurrence and the level of corruption depending on the quality of institutions and the character of the country's political system (Arezki & Gylfason, 2011). The lack of transparency of state activities and the weakness of institutions in non-democratic societies, accompanied by kleptocratic tendencies of the top authorities, constitute fertile ground for the spread of corruption. When the quality of institutions falls below a certain level, natural resource rents begin to create pressure for the growth of corruption in society (Bhattacharyya & Hodler, 2010). According to this approach, only the presence of strong civil society institutions, the transparency of state activities and the existence of public awareness can prevent the occurrence of corruption and the negative effects that are summarily called the natural resource curse.

Natural resources include various economic values found in nature, such as oil, minerals, water, air, land, etc. However, there are researches indicating the specific impact of fossil fuel revenues on the level of corruption (Okada & Samreth, 2017). The authors point out that oil wells are most often not located on land, and that activities take place far from the public eye, which favors the development of corruption. Other research points out that in addition to oil, metals can also negatively affect the standard of living of the population through corruption (Pendergast et al, 2011). Therefore, depending on the way the activity is organized and the amount of value created, different primary activities will not have the same impact on corruption and the level of democracy in society. Agricultural activity is most often fragmented, with the organization being in the domain of small family farms, and with the exception of subsidies, it is mostly carried out without much state influence. Also, although there are works that deal with the issue of corruption in the field of logging (Robbins, 2000), natural rent in the true sense as a type of non-labor income occurs during the exploitation of oil and valuable minerals. It is precisely the possibility of such earnings, together with the large participation of the state through direct organization or through concessions that affects the emergence of corruption. The influence of these activities on corruption is also linked to their monopoly position in the economy (Ades & Di Tella, 1999). Whoever controls, or obtains a license to exploit a natural resource, also acquires a natural monopoly over its total reserves in the country. This would generate extra profits that would allow him to make illegal payments to representatives of the state bureaucracy.

Table 2 shows the values of the Corruption Perception Index for the world's largest oil exporters. It can be noted that developed countries are characterized by low levels of corruption, with Norway and Canada standing out in particular, while the values taken for developing countries, with the exception of the UAE, indicate problems with corruption. Large state revenues, combined with the weakness of civil society institutions, have proven to be fertile ground for the emergence and development of corruption.

**Table 2. Correlation between the level of corruption and share in world oil exports.**

Country	Corruption Perception Index <sup>7</sup>	Rank	Share in world oil exports <sup>8</sup>
Saudi Arabia	52	53/180	16,2%
Russia	26	141/180	9,14%
Canada	76	12/180	8,48%
USA	69	24/180	8,16%
Iraq	23	154/180	7,62%
UAE	68	26/180	7,24%
Kuwait	46	63/180	4,31%
Norway	84	4/180	4,06%
Nigeria	25	145/180	3,59%
Kazakhstan	39	93/180	3,28%
Brazil	36	104/180	2,97%
Angola	33	121/180	2,72%
Mexico	31	126/180	2,63%
Oman	43	70/180	2,26%
Libya	18	170/180	2,09%
UK	71	20/180	1,81%
Columbia	40	87/180	1,11%
Algeria	36	104/180	1,11%
Azerbaijan	23	154/180	1,34%
Venezuela	13	177/180	0,034%
Iran	24	149/180	0,034%

*Source:* created by authors.

The fact is that the concentration of capital and huge cash flows in the extractive industry from the export of raw materials encourage corruption, while, on the other hand, corruption has proven to be the main reason for the manifestation of the so-called natural resource curse (Pendergast et al., 2011). There is empirical evidence that it occurs in systems where there is a weak rule of

<sup>7</sup> Transparency International, Countries, retrieved from: <https://www.transparency.org/en/countries/serbia>, accessed: 29.12.2024

<sup>8</sup> OEC, Crude Petroleum, retrieved from: <https://oec.world/en/profile/hs/crude-petroleum>. Visited: 25.12.2024

law, and where institutions support corruption and rent seeking activities (Mehlum et al, 2006). Conversely, in the case of democratic government and low levels of corruption, natural resources can also prove to be a real blessing for a country's development.

Norway is an example of the importance of institutions and the rule of law in shaping development performance in countries rich in natural resources. It is, according to its share in total world exports of 4.06%, the eighth largest oil producer in the world, ahead of the previously mentioned Nigeria, which occupies ninth place with a share of 3.59%. Despite this fact, the natural resource curse has not manifested itself. Due to good and transparent governance, this potential has been used to promote economic growth. The key difference between Norway and OPEC countries is that at the time of the discovery of oil, it was already a developed country, with established institutions (Gylfason, 2001). Regarding corruption, *Transparency International* ranked Norway the high 4<sup>th</sup> place, making it one of the countries with the lowest level of corruption. The value of GDP per capita in 2022 was \$108,798<sup>9</sup>, which is also the highest recorded value for this country. For comparison purposes, in the same year, the GDP per capita in Nigeria was only \$2,162. According to the *Human Development Index*, Norway is in the second place, behind Switzerland. The awareness that natural resources belong to all citizens of the country, and that their benefits should not be denied to future generations, laid the foundation for the specific functioning of the State Pension Fund, and the mechanism for controlling cash flows. The monetary income generated by the exploitation of natural resources is the first to be poured into a fund, from where it is invested exclusively abroad, and the spending of funds is determined by the dynamics of the realization of the yield. Since 2001, there has been a formal fiscal rule that caps spending to cover the structural budget deficit at the level of the expected fund yield of 4% annually. Public pressure due to fears of the possible occurrence of Dutch disease and the bad experience of other countries where oil has been found has conditioned such institutional solutions (Lie, 2013). In this way, a procedure has been established that not only minimizes the possibility of misuse and embezzlement of money by the government or bureaucratic apparatus, but also prevents the emergence of structural disruptions in the economy due to excessive spending of money acquired through natural rent.

It should be noted that the occurrence of corruption in the management of natural resources is not in accordance with the principle of sustainability. In addition to influencing the level of pollution by inefficient enforcement of regulations and creating space for evasion of punishment (Welsch, 2004), corruption can, by inadequately valorizing natural resources, jeopardize their reproduction, or, in the case of non-renewable resources, shorten their expected economic life. Corrupt officials will assess the value of raw materials at a lower

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<sup>9</sup> Source: World Bank

level for personal gain, thereby completely ignoring their scarcity (Robbins, 2000). The prevailing opinion is that the process of forming the prices of natural resources should not be based only on the supply and demand relationship, but that it is necessary to take into account their limitations. Only in this way can long-term exploitation and equal intergenerational utility be ensured.

#### **4. The impact of the curse of natural resources on the development of democracy and the emergence of civil wars**

The connection between natural resources and democracy has proven to be most obvious in the countries of the Middle East. These countries are among the world's largest oil exporters, but none of them has any particular experience with democracy, nor do interested observers expect them to develop democracy significantly in the future. It is not uncommon to attribute this to the specific religious influence of Islam and traditional social norms, rather than to large oil revenues. However, comparative studies have shown that the connection between oil and the development of democracy cannot be limited to the Middle East alone (Ross, 2001), which relativizes previous claims. Natural rent, as the difference between the world price of raw materials and the costs in the country related to extraction and transportation, causes certain processes independent of the basic religious and cultural determinants of society. Only later, in the dynamics of time, institutional structures, both formal and informal, can emerge as a further factor for these processes. The ability of a society to resist temptations and avoid the negative effects of these revenues on political and economic flows depends on the purpose and manner in which they are spent. In addition to Norway, an illustrative example of the importance of a society's strategic choices is Botswana, which is said to have overcome the curse of natural resources due to high investments in education (Van der Ploeg, 2011).

Ross (2001) systematizes the impact of natural resources, and primarily oil, on the development of democracy through three mechanisms (channels):

- The effect of rentierism,
- The effect of repression,
- The effect of modernization

The phenomenon of the rentier state in this context was first mentioned in the 1970s, and originally represented a reference to the Shah's Iran and Gaddafi's Libya. Such a state depends on foreign income on the basis of some form of rent (Mahdavy, 1970). The export of oil and valuable minerals generates significant revenues, which leads to the creation of huge state budgets, which provide the government with funds that it can use to restrain or repress democracy. The principles of transparency of government and public accountability, on which democracy is based, are sustainable only if there is public interest in the way tax

revenues are spent. Given that the rentier state is much less dependent on financing through taxes, tax rates are usually low or equal to zero, and the public is less interested in the transparency of state activities and the development of democracy (Luciani, 1987). In parallel with such actions, in order to politically passivize the population, the government can buy social peace with large public projects and expenditures.

The development of democracy has partly proven to be a spontaneous process, conditioned by social changes in the form of industrialization and urbanization, but primarily by the spread of education in the population (Lipset, 1959). High earnings from natural rent discourage the development of the secondary and tertiary sectors, which, together with the absence of the aforementioned structural changes that take place as part of the modernization of society, hinders the development of democracy. In a corrupt society, it is certain to expect that, in addition to foreign investors, individuals from the top of the government benefit the most from the exploitation of natural resources, which is why their personal position acquires great value. Political elites can also block, from the point of view of the democratization of society, significant economic and institutional changes if they pose a threat to their position and the future rent that it provides them (Acemoglu & Robinson, 2006). In that case, a large state budget will not only serve benevolent purposes, but also as an instrument of repression against political opponents. However, the tendency of the authorities to obstruct democracy in this context is not specific to countries with large natural resources, but rather nature itself, by its initial distribution of conditions, has facilitated their manifestation.

Unfortunately, the negative effects associated with an abundance of natural resources can be far more dangerous and destructive than slowing economic growth and obstructing democracy by buying social peace. The link between natural resources and the likelihood of civil war, as well as the length of its duration, has been confirmed (Collier & Hoeffler, 1998; Ross, 2004; Fearon & Laitin, 2003;). De Soysa (2000) points out that civil wars in these countries can also be viewed as a separate component of the natural resource curse. The authors identified the existence of a nonlinear relationship, since the risk of civil war reaches its highest value of 22% when primary exports to the country's GDP are 33%, after which the risk begins to decrease (Collier & Hoeffler, 2004). This phenomenon is explained by the dynamics of a country's military spending. When natural resource revenues are relatively large, the state has significant resources at its disposal for armaments, which discourages rebel groups from taking any military action, reduces the likelihood of civil war and its duration (Collier & Hoeffler, 1998). However, the established constellation of power relations remains a generator of armed conflicts. Therefore, civil wars can be seen as a historical product of social structure and the political economy of natural resources (Le Billon, 2001).

**Table 3. Overview of the values of the democracy index, coups, armed conflicts and their duration**

Country	EIU index of Democracy (2023)	Overview of armed conflicts <sup>10</sup> , coups and attempts (Vdem <sup>11</sup> )
Saudi Arabia	2.08	
Russia	2.2	1991;1993; 1994-1996; 1998-2004.
Canada	8.69	-
USA	7.85	-
Iraq	2.88	1958;1959;1961-1970; 1963feb;1963nov;1968;1974-1975;1979- 1980;1985-1993;1996;2003-2011
UAE	3.01	1972; 1987
Kuwait	3.55	1961-1963;1990-1991
Norway	9.81	-
Nigeria	4.23	1966jan;1966jul;1966- 1970;1975;1976;1980- 1981;1984;1985;1989-1994;2000
Kazakhstan	3.08	-
Brazil	6.68	1955;1959;1963;1964;1969;1980
Angola	4.18	1961-1962; 1975-1994; 1998-2002
Mexico	5.14	1968;1994
Oman	3.12	1957-1959;1964-1976;1970
Libya	1.78	n.a.
UK	8.28	1968-1993
Columbia	6.55	1948-1958;1953;1957;1964-1972;1984- 1993;1976-2000;1998-2005
Algeria	3.66	1960-1963;1962-1963;1965;1992-2000
Azerbaijan	2.8	1991-1993
Venezuela	2.31	1948;1958;1992feb.;1992nov;2002
Iran	1.96	1945-1946;1953;1978-1979;1980- 1988;1981-1982

*Source:* authors' presentation

<sup>10</sup> Note: The dates and duration periods shown should be taken with caution, given the disagreements regarding their duration, which especially applies to the durations of lower-intensity conflicts.

<sup>11</sup> Data is taken from the V-dem database; V dem dataset <https://v-dem.net/data/the-v-dem-dataset/>, retrieved:02.01.2025

Table 3 provides an overview of all *coups d'état*, armed conflicts on the territory of the country, their duration, as well as the current democracy index score in the states that are the world's largest oil exporters. With the exception of developed countries, a notable number of countries in the table are characterized by a large number of conflicts and *coups d'état*. Large natural resources in certain circles give rise to greed and a motive for taking power, or, through unfair distribution and general dissatisfaction with the behavior of the authorities, they affect the risk of civil war (Collier & Hoeffler, 2004). According to the data, it turns out that the existence of decades-long conflicts is not such a rare case, especially if conflicts of lower intensity are taken to consideration. If natural resources have a high value, are easily accessible and marketable, they become a source of funds for rebel groups to finance further combat activities, which prolongs the duration of the conflict (Ross, 2004). On the other hand, there are views that this method of financing leads to a weak organizational structure and disloyalty within such groups, as a result of which conflicts end more quickly with a convincing victory for one side (Humphreys, 2005).

In the previous part of the paper, it was said that the rentier nature of the income provided by the exploitation of natural resources, primarily oil and valuable minerals, encourages rent-seeking activities and corruption, which further undermines already weak institutions. In such a society, the government does not have a satisfactory democratic capacity nor the ability to resolve conflicts peacefully, and any public manifestation of dissatisfaction or rebellion among the population can escalate into violence. The spread of poverty and the weakening of the state open up space for political opponents to start a long-term conflict with the government with relatively small groups of as few as 500-2000 fighters (Fearon & Laitin, 2003). Since the preservation of national sovereignty is determined by the strength of institutions, and the existence of moral and political unity in society, the weakness of the state can also represent a signal to interested third parties to take part in the political life of the country. Accordingly, the possibility has been recognized that foreign companies and neighboring states, wishing to exploit valuable resources, may start a civil war by financing rebel groups (Ross, 2004).

Also, the geographically uneven dispersion of valuable natural resources in ethnically fragmented societies can act as a factor in future secessionist intentions and the awakening of nationalism. The political situation described in this way, together with the government that has only the instruments of repression at its disposal, can lead to a humanitarian catastrophe. The cases of Sudan and Indonesia are well-known, when the rebellion in the regions of South Sudan and Aceh, rich in oil and natural gas, resulted in military intervention, the expulsion of the minority population and the violation of human rights (Ross, 2004). The dependence of the state's fiscal revenues on the natural rent from these territories, as well as the general economic activity in the country on the exploitation of natural resources, caused an excessive, and what later turned out to be counterproductive, reaction of the

government. The use of military force can lead to the escalation of conflicts on a larger scale in the long run.

Finally, it is necessary to clarify the alleged collision of such approach with neo-Malthusian understandings, according to which the shortage and scarcity of natural resources are the cause of underdevelopment, deviant phenomena of an institutional nature in society, and the main reason for the outbreak of civil wars. In the theoretical elaboration of the causes of the civil war in Rwanda between the Tutsi and Hutu tribes, it was emphasized that the scarcity of natural resources explicitly refers to renewable natural resources necessary for human existence (Percival & Homer-Dixon, 1996). On the other hand, the approach that is the subject of this paper puts greed and conformism in human behavior due to the abundance of non-renewable natural resources at the forefront. The dissatisfaction of existential human needs can be understood as a special challenge to which developing countries are exposed. It is not uncommon for these two problems to occur simultaneously, and jointly act towards the aggravation of social relations and conflict.

## 5. Conclusion

Based on the above, it can be concluded that natural resources *per se* are not a curse, but that the core of the problem lies in the transparency of the process of resource management and exploitation, as well as the ability of institutions to identify and prevent possible abuse. If the revenues generated by the exploitation of natural resources are invested in the construction of infrastructure, education, or some other area of social importance, then it is unlikely that they will trigger unwanted and negative processes from the point of view of the social community. Therefore, those societies in which awareness developed of the transient nature of these revenues, and of the need to switch to some long-term sustainable source of income and generator of economic growth, have avoided the curse of natural resources. A long-term perspective and the primacy of public over particular interest have proven to be the key to successful management of natural resources.

Unfortunately, many resource-rich countries are still experiencing unenviable socio-economic developments, and conflicts are ravaging the Middle East and Central Africa. However, some progress has been made in this area in the past few decades. The spread of awareness at the global level has led to the issue of transparency and corruption in the process of exploiting natural resources gaining international importance. At the Summit on Sustainable Development in Johannesburg in September 2002, a proposal for an international initiative for transparent reporting was presented. The goal of the EITI (Extractive Industries Transparency Initiative) is to oblige countries to publish information along the extractive industry value chain - from the process of granting extraction rights, through cash flows to the benefits that society derives from it. Today, the EITI is implemented in 55 countries, and the organization's headquarters are located in Norway.

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## INSTITUCIONALNI ASPEKTI „PROKLETSTVA PRIRODNIH RESURSA“

**Apstrakt:** Prirodni resursi su i danas kritično važan input proizvodne sposobnosti društva. Valorizacija značaja prirodnih resursa kroz istoriju ekonomske misli pokazuje da njihov uticaj na privredu nije monoton i jednoznačan. Tokom poslednjih nekoliko decenija sve je više eksploatisano shvatanje o “prokletstvu prirodnih resursa”, kao izazov tradicionalnom gledištu o njihovom nužno pozitivnom dejstvu na privredu. Konzervacija monolitnih privrednih struktura, slabe adaptivne sposobnosti, snažno zavisnih od izvoza primarnih ili nisko-obrađenih proizvoda, kod mnogih zemalja sa obiljem prirodnih resursa, govori u prilog ovog shvatanja. Pokazuje se, međutim, da su priroda i smer uticaja prirodnih resursa na kvalitet privredne strukture i održivost ekonomskog rasta u uskoj vezi sa institucionalnom strukturom društva. Karakter delovanja rente od prirodnih resursa na društveno-ekonomske tokove – korupciju, nivo demokratičnosti, moguće sukobe – opredeljen je kvalitetom institucija, pri čemu je veza prisutna i u obrnutom smeru. U skladu sa navedenim, cilj rada je skiciranje glavnih tokova promišljanja ovog problema u ekonomskoj teoriji. Naročita pažnja posvećena je institucionalističkom pristupu, koji efekte prirodnih resursa na relevantna kretanja vezuje za kvalitet društvenih institucija. Izgradnja i unapređenje institucionalnih rešenja moraju biti u središtu pažnje politike svrsishodnog korišćenja prirodnih resursa.

**Ključne reči:** prirodni resursi, prirodna renta, institucije, korupcija, privredni razvoj, demokratija.

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