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Africa Programme Meeting Summary

Manufacturing Instability? Extractive Industries, the State and the Resource Curse in West Africa

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MEETING SUMMARY

Tom Burgis argued that there is a causal link between extractive resource industries and poverty and violence in West Africa. It is an issue which has increasingly entered popular consciousness in the West, with examples such as the execution of Ken Saro Wira in Nigeria, and more recently, in the campaign against blood diamonds. This is a broad problem from West Africa in general and is not confined solely to the areas of resource extraction. The problem arises from minerals, metals, ore, oil and gas, but from not agriculture or resources such as timber.

In the West, this problem is viewed primarily through the lens of the strategic importance of resource access in the region: West Africa accounts for 12 per cent of oil and gas supplies globally; a third of America's oil comes from Nigeria; and a third of China's oil comes from Angola. Yet West Africa's resources remain largely unexplored and its share of natural resources will undoubtedly increase significantly in the near future. For example, Guinea is home to the largest under-developed iron ore deposits. Often these resources are highly geographically concentrated; most or the world's cobalt supplies are sourced solely from the Democratic Republic of Congo.

Natural resource dependence has two effects on West African countries; it undermines the economy, and breaks the social contract between governments and citizens.

Economy

Broadly speaking, the economic impact of dependency on large exports of high-priced natural resources is to drive up the value of the currency, increasing inflation and in turn making exports less competitive. This can be disastrous for wider industry as it fuels an import boom and undermines domestic industries. The process is known as Dutch Disease, following the experience of the Netherlands' economy after the discovery of natural gas in the North Sea. The South-East Asian development experience presents a method of avoiding or reducing this problem by encouraging value-added exports instead of exporting raw materials. There are a few examples of this happening in Africa, such as Botswana's diamond cutting and polishing industry, or the illegal oil refining activities in the Niger Delta.

Capacity building and rules over local content could also help. However, natural resources are not generally labour intensive industries; therefore,

even local value-adding and capacity building would not be sufficient to offset the overall Dutch Disease effect. The OECD's index of export broadness shows how diversified an economy is and is therefore a useful indicator of natural resource dependence. Within Africa, South Africa and Morocco are at the top of the list of diversified economies, while West African countries such as Guinea and Equatorial Guinea are at the bottom. They are almost completely dependent on oil and resource rents providing the majority of government revenue.

Nigeria provides an illustrative example of the economic damage caused by oil dependence. Whilst the environmental damage and violent conflict in the oil producing region of the Niger Delta have been well publicised, the overall impact is much wider. The textile industry in Northern Nigeria used to employ half a million cotton farmers but in recent years 100,000 of them have lost their jobs as a consequence of currency inflation. Smugglers increasingly supply Chinese counterfeit goods to the Nigerian domestic market, undermining domestic industry. Oil dependence also fuels patronage politics, corruption and inefficiency. Nigeria's power sector is exemplary of this problem; the country is rich in oil supplies and has invested billions in electricity generation, and yet the nation's electricity output is the equivalent of the UK town of Bradford. In other words, the country has enough energy to power one toaster for every 44 people. Partly as a consequence of these processes Northern Nigeria has become a breeding ground for disaffection and violent extremism of the kind associated with Boko Haram.

Social Contract

Beyond the economic impacts, natural resource dependence undermines the social contract between governments and its citizens. In a resource-dependent state the government is funded by resource rents and so does not have to rely on taxation of the wider population. This means there is no incentive for rulers to meet the needs of citizens – it is a perverse reversal of the slogan of the American Revolution; there is "no representation without taxation". Parallel to this, direct corruption also undermines institutions. Usually, this means that public office is subverted to private ends, as in the case of Halliburton in Nigeria. Whilst there have been attempts internationally at reducing the role of Western companies fuelling corruption, such as the Foreign Corrupt Practices Act, often the response has been to use more indirect mechanisms of bribery, such as using local intermediaries.

Ultimately, the integrity of the state is undermined. A West African political commentator summarised this aptly; “when you’re in office you have access to wealth, and when you lose office you lose your wealth”. This ‘all or nothing’ power dynamic promotes authoritarianism and often results in coups. Niger is a good example of this. For many years the dominant consumer of the country’s natural resources was France, but the arrival of Chinese investment spurred cold war-style bargaining, from which the proceeds were invested in the military and eventually empowering the Army to launch a coup.

Guinea exemplifies the stark connection between authoritarianism and natural resources. Following the coup in 2008 there was a scramble for access to the country’s bauxite supplies. A huge resource deal was signed with China within days of the government being implicated in brutal acts including the massacre of 150 protesters and rape of many others. This deal allowed more cash and weapons to be channelled to the regime to bolster its position.

Whilst it would be overly simplistic to argue that the resource extraction industry fuels all violence, political instability and poverty in West Africa, it undoubtedly exacerbates these problems. There have been some encouraging developments - NGOs such as Global Witness are having an impact on Western attitudes, and big Western companies are more proactive in addressing their role in exacerbating the resource curse. But at the same time, China’s direct trade and policy of non-interference has played a growing role in Africa. For example, Sonangol’s (a highly opaque and unaccountable company) joint partnership with a powerful Chinese investment fund now rivals Anglo-American for African market control.

If the resource curse is to be addressed then there will have to be a greater focus on investigating and prosecuting corruption, and cracking down on illicit financial flows, in order to encourage actors within the industry to change their behaviour. Furthermore, the debate should be shifted away from what positive role governments can play through aid donations, and focus instead on the role and complicity of governments in sustaining the resource curse in West Africa.

QUESTIONS AND ANSWERS

Question:

In Nigeria a huge proportion of the wealth is appropriated by the political class, so little is left for investment in the country. Even when the oil price goes up there is no new investment.

Answer:

Patronage and corruption are a problem. An enormous amount of money goes missing at various stages. Nigerian corruption is renowned for the 'rock star' lifestyles that accompany it. It is thought that laundered money from Nigeria is even causing property prices to increase in London. However, some money does trickle down. In a sense the normal line of political accountability is reversed; the common people depend on the patronage of the elite. There is very much a sense that 'everyone is in the game' - it is not just politicians who are dependent on stolen money. Many businesses also depend on subsidies provided by the government.

Question:

An 'oil to cash' scheme is being developed to try to address the corruption problem and to restore the social contract. The idea is that oil wealth be distributed directly to citizens, who are in turn obliged to pay tax. But it is hard to see how a state as corrupt as Nigeria could persuade elites to adopt this – what could governments and consumers in the West do to help with this?

Answer:

That could be a good strategy. However, it is difficult to get money out of opaque companies, and tax is hard to do in Nigeria where an unspoken agreement exists between politicians, who steal oil wealth, and citizens who don't have to pay any tax in return for their acceptance of the status quo. More generally, West African tax authorities are practically non-existent. As for the role of outsiders, they can't dictate fiscal policy. The best approach would be to do no harm. Ultimately it is up to the people of that country to hold their own governments to account. The process could be brought onto the political agenda through opposition parties, as happened in Ghana.

Chair:

This is not a new problem. Has there been any progress in the last ten years and can the situation be changed?

Answer:

Nigeria Extractive Industries Transparency Initiative. There has been some progress in Nigeria. Nigerian companies are providing more reports and accounts and in turn the Nigerian public has more information on the industry and so is able to provide more scrutiny. There is also more debate on oil wealth and subsidies. It appears that 'the genie is out of the bottle'. The process needs to be supported. In the past oil companies were receiving most of the blame so they started to provide clear accounts of what they were paying. The burden has shifted onto the government to improve its performance. The NEITI provides reports which are sent to the legislature and the public to support their demands for action. This includes data on revenue, transfer pricing, sales, and who the buyers of oil are.

Chair:

There is hope that Ghana can 'dodge the bullet' with its new-found oil wealth. Like Norway and Alaska, the country had strong institutions before the discovery of oil, such as a strong electoral commission and an independent central bank. The government is also trying to put revenue laws in place.

Answer:

From Tullow Oil. Ghana is one of the few nations which are EITI-compliant. Ghana was also pro-active in asking Tullow to publish their production sharing agreement online. There is a strong desire for transparency which has overridden other pressures. Three successive governments have been involved in developing oil extraction in Ghana. However, they have only been producing significant quantities since November last year and revenues are only $7 per capita per year; although this is bound to grow. Ghana isn't Nigeria, and the example of Nigeria provides a stark warning and strong incentive for the country to manage its oil well. Overall the omens for Ghana are good.

Tom Burgis:

Ghana is the Western donors' 'poster child' for African success, yet now it seems that the best that can be hoped for Ghana's oil discovery is that it won't derail development efforts. The debate ought to be focussing on how natural resource wealth can reduce poverty, but instead the best expectations are for 'damage limitation'. For 200 years Ghana has exported a wealth of gold with no discernible benefit to the country. The trade-off is absurd; whilst the rest of the world benefits from a supply of natural resources, the best that those who provide the resource can hope for is that local devastation will be limited.

Question:

Algeria provides a more positive example of the use of natural resource wealth. The country nationalised its oil and gas and used the proceeds invest in the education of a whole generation. Why was Algeria's experience so different to other countries?

Answer:

An interesting example to explore further, but beyond the immediate West African area of focus in this discussion.

Question:

Whilst is easy to criticise weak institutions in West Africa, it should be kept in mind that Dutch Disease was first experienced in Holland. The UK has faced similar problems trying to exploit North Sea oil. Even rich country governments find resource-wealth hard to deal with. The problem doesn't occur when it is a widely dispersed resource (such as with timber). The problem occurs when the resource is geographically concentrated and can be extracted without the consent of communities. Is there more that consumers should be doing to prevent companies from contributing to this problem?

Answer:

The identity and role of the companies are known and well-publicised (such as Halliburton two years ago in Nigeria, and Shell more recently). Global Witness has also published a list of culpable companies in Angola's oil industry. UK citizens also benefit indirectly from the oil industry: oil accounts

for a large share of the vale of the FTSE 100, which in turn contributes wealth to UK pension funds. Furthermore, some MPs are perfectly happy to lobby for certain extractive companies despite their questionable record. The hope is that a critical mass is eventually reached in terms of transparency. The work of the EITI should be commended in this respect.

ABOUT THE AUTHOR

Tom Burgis is a reporter with the *Financial Times* and has covered Africa for the paper for six years. Most recently, he was the West Africa correspondent, based in Lagos. He devoted much of his coverage to the region's energy and mining industries and the volatility that accompanies them. Previously, he was Johannesburg correspondent, covering Southern Africa. Before joining the FT, he worked as a reporter in South America and worked freelance covering politics, protest and society internationally. He is currently working on a book on the resource curse in Africa.