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The Curse of Raw Materials?

by Gøril Havro and Javier Santiso[1]

- The "raw materials curse" is far from being an inevitability, as shown by Norway and Chile.
- Both examples offer valuable lessons to developing countries on how to sensibly manage mining and oil resources.
- Following Norway's example, Chile could build upon its experience and become a key player in the field of technological assistance, particularly through the creation of a World Copper Institute.

In the short term, surging raw materials prices are a windfall for many developing countries that are dependent on them. However, in the longer term, this dependence on low-value-added products becomes problematic, as noted insistently by economists and political experts, who point to a myriad of perverse effects induced by these unexpected windfalls[2].

The raw materials "curse" is nevertheless not inescapable. In fact, a good many OECD countries, led by Norway, Australia, or even Canada, enjoy an abundance of oil and minerals. None of them have suffered as a result: indeed, all have succeeded in capitalising on this "blessing", from a commercial and industrial as well as budgetary standpoint. These economies are also flourishing democracies, proof positive – if ever there was any doubt – that an abundance of oil and minerals is not systematically synonymous with plutocracy and autocracy. In a country such as Norway, the GDP per inhabitant over the last three decades has grown considerably, going from 90 per cent of the OECD average to over 150 per cent at present, showing that oil and development can go hand in hand.

In developing countries, however, such cases are more exceptional. In Latin America, for instance, the history of countries rich in oil and gas, such as Venezuela and Bolivia, illustrates the pitfalls posed by populism and temptations linked to revenues. In Venezuela, oil has become virtually the sole export product (85 per cent of the total in 2007), with the black gold henceforth accounting for over one third of the country's revenues. In recent years, this windfall has not led to an improvement in most development indicators; rather, it has prompted a populist drift by the regime in power, led during this period by the former general Hugo Chávez.

However, there are extraordinary exceptions – even in Latin America, to stay within the same continent – to the many examples of perverse effects and curses of all kinds. Chile is a good example. This country is now the world's biggest producer and exporter of copper. Its growth rate has long been comparable to those of its Asian peers, averaging over 7 per cent from 1986 to 1998. Capitalising on its riches, Chile has succeeded in diversifying its economy and reducing poverty levels to a historic minimum. In 1973, copper accounted for close to 90 per cent of the country's exports, versus just 40 per cent at the start of the 2000-2010 decade. Poverty has dropped from nearly 40 per cent of the population in the early 1990s to less than 13 per cent in 2008.

The key to this success, akin to that of Chile's peers in the OECD, is due above all to the quality of the institutions and the people in charge of running the economy. Similar to Norway, Chile has exemplary budget instruments and institutions. Both countries thus have sovereign or

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2. We will not revisit here these perverse effects (both economic and political), reviewed by Gøril Havro and Javier Santiso in "To Benefit from Plenty: Lessons from Chile and Norway"), *Policy Brief no. 37*, OECD Development Centre, September 2008.

equivalent funds that operate transparently, with clear rules. In 2006, a new fiscal accountability law in Chile replaced the copper stabilisation fund existing until then with two equivalent funds, with cumulative assets totalling over USD 17 billion in 2008.

However, Chile still does not have an aid and co-operation policy in place relying on this expertise and resource base. For its part, Norway has made it a cornerstone of its international co-operation efforts, placing special emphasis on governance and the implementation of institutional capabilities in the countries that are recipients of its aid. Such propositions for developing countries may seem paradoxical. It should be noted, however, that many emerging countries, such as China, India, South Africa, Mexico, the Middle Eastern states and even Brazil, are now deploying substantial international aid and co-operation activities.

Indeed, Chile has know-how in this area and it could legitimately share its expertise, all the more so when it has managed its own resources with such success. Chilean international aid and co-operation could earn it a niche comparable to that of Norway. The country could, for example, create a World Copper Institute, which would be a place for exchanging expertise, training and research in the future with a view to promoting added value in the copper industry. Such an Institute would thus have a national and international vocation at the same time. In this area too, Norway is showing through its industrial policy that it is possible to capitalise and develop cutting-edge industries based on its raw materials. As a result, it now boasts leaders in explosives, the seismic industry and oil tankers.

The case of Chile remains exceptional. As testimony to its exemplary track record, the country is now in the process of being admitted to the OECD. This emerging country could serve as a model to others, contributing to debunk the myth of the raw materials curse for developing countries. By sharing its expertise and implementing a targeted and innovative international co-operation policy, it could contribute to the search for a better world that Karl Popper spoke about.

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