The Extractive Industries and Society xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

The Extractive Industries and Society

journal homepage: www.elsevier.com/locate/exis

Original article

Raiding the honey pot: The resource curse and weak institutions at the project level

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ARTICLE INFO

Article history:
Received 8 June 2016
Received in revised form 10 February 2017
Accepted 15 February 2017
Available online xxx

Keywords:
Resource curse
Rent seeking
Corruption
Democracy
Institutional strength
Weak institutions
Papua New Guinea
Gold mining

ABSTRACT

In the macroeconomics and political science literature, the natural resource curse hypothesis conditionally connects national dependence on natural resource revenues to both slow economic growth in the non-resource sectors and a lower quality of democratic institutions. Anthropologically oriented research on the cultures and communities where resources extraction occurs has documented a wider range of problems. This paper derives local-level predictions from the macro-level literature and checks their accuracy in the case of a gold mine on a Melanesian island in Papua New Guinea. Predictions of corruption and rent seeking were confirmed, but contrary to some conditional predictions, the local democratic institutions appeared to strengthen. The mining company's policies temporarily restrained rent seeking and corruption but both returned as closure neared and the company reduced its presence. The findings largely support the insight from anthropological research that local communities take an active role in both resisting and promoting resource curse dynamics. Noting several recommended curse-reducing measures at the national level, the discussion articulates gaps in our knowledge about how resource extraction companies can restrain the curse locally.

1. Introduction

Based on detailed analyses of national data in six countries, Auty (1993) proposed a hypothesis he dubbed 'the curse of natural resources'. The 'curse' is that countries endowed with an abundance of natural resource wealth tend to experience slower economic growth. Since Norway's discovery of its Ormen Lange gas field at the end of the 20th century, scholars have increasingly found the exceptions to the curse more noteworthy. One stream of research has made macro-economic comparisons among nations to find the strongest differentiators of cursed from non-cursed natural resource exporters. Candidate differentiators came both from previous economic phenomena that produced slow growth (e.g., the Dutch Disease', Corden and Neary, 1982) and from political science studies of specific cursed countries (e.g., rentier state effects, Karl, 1997, 1999; Moore, 1998). Meanwhile, Gilberthorpe (2013) and Gilberthorpe and Papyrakis (2015) reviewed a largely anthropological stream of research under the heading of 'the resource curse'. This micro-level literature extends the meaning of the curse beyond national impacts to include impacts on communities. Gilberthorpe and Papyrakis recommend more effort to critically compare the largely separate macroeconomic and microeconomic lines of research. They say, "micro-qualitative evidence should ideally be compared to the more macro-quantitative evidence with an accompanied critical reflection in case of a deviation in findings between the two approaches." There is a continuing need to make such comparisons across different cultural settings. For example, Gilberthorpe and Banks (2012) and Gilberthorpe (2013) note that resource extraction companies often assume that cash and infrastructure promote development, as they envision it. They seldom take account of the specifics of the webs of existing relations in communities that ensure economic security, enforce reciprocal duties, and regulate relations with the broader socio-political environment. These specifics vary greatly among communities touched by the global economy. Even within one cultural zone, the reactions of communities can produce quite different outcomes. Therefore, the growth-slowing dynamics suggested to explain why various macroeconomic variables can differentiate cursed from non-cursed countries may or may not operate as hypothesized in any specific community. The more communities we examine, the more learn about what makes the difference to developmental outcomes. This paper takes up that challenge by making a macro to micro comparison to validate and explore the purported impacts of two related and well-established differentiators: corruption and rent-seeking. Given that both these

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http://dx.doi.org/10.1016/j.exis.2017.02.002
2214-790X/

factors both involve government institutions and policies, the paper also happens to provide insight on the more ambiguous role of democratic institutions in saving countries from the curse.

The macroeconomic factors highlighted in this paper are corruption, rent seeking, and to a lesser extent, democratization. At the microeconomic level, the paper examines these factors during the 15-year operation of the Place Dome gold mine on the Melanesian island of Misima in the province of Milne Bay, Papua New Guinea (PNG). Given the specifics of this case, it bears similarities to anthropologically-oriented work on the negative impacts of extractive projects in Melanesia and other developing regions reviewed by Gilberthorpe and Papyrakis (2015). However, the intent of this study is neither to reiterate analyses of capitalism's contribution to inequality, eco-injustice, and marginalization nor is it to supplement the anthropological work that has already been done on Misima (Byford, 2001, 2002; Macintyre, 2002; Macintyre and Gerritsen, 1986) and more generally on Melanesian adaptations to the arrival of extractive industry projects (Banks, 2006; Filer, 2006; Gilberthorpe, 2007; Gilberthorpe and Sillitoe, 2009; Golub, 2007, 2014; Sillitoe, 2000). Rather, the intent is to perform a macro-to-micro cross-check, as recommended by Gilberthorpe and Papyrakis (2015), to see if prominent differentiators between cursed and non-cursed countries actually operate at the local level as imagined in the macroeconomic explanations.

In addition to its theoretical contribution, a macro-to-micro cross-check can yield practical benefits. Specifically, managers at extractive project sites face the kinds of challenges of corruption and rent seeking described in this case but receive little guidance about which reactions might worsen the curse versus dampen the curse. By drawing attention to the gaps in our knowledge, the paper suggests research directions that could generate such practical advice.

In order to make a macro-to-micro comparison, the meaning of the resource curse itself has to be clarified. It covers different phenomena in the community level literature and the national level literature. The most noteworthy difference is that only the national level macroeconomic literature specifically takes slow economic growth in the non-resource sector as a defining criterion for the resource curse. The micro-qualitative literature, by contrast, documents many different types of negative impacts, which then get labelled as part of the curse. As anthropologists Reyna and Behrends (2008, p.11) put it, "The curse is the paradoxical situation where what should bring good brings bad." In the microqualitative literature, slow economic growth manifested as a scarcity of economic benefits for the local community appears among the negative impacts (Hilson, 2011; Gilberthorpe and Banks, 2012), apparently as a sufficient but not necessary criterion for the curse. Other sufficient criteria include the loss of agricultural livelihood (Okoh and Hilson, 2011), the marginalization of women (Gilberthorpe, 2007; Macintyre, 2002, 2003; Mellam and Tanda, 2005), human rights (Perks, 2012; Prosansky, 2007), and changing notions of land tenure and ownership (Ballard and Banks, 2003; Golub, 2007, 2014; Lahiri-Dutt, 2006).

The next section reviews the literature that led up to the identification of corruption, rent seeking, and weak democratic institutions as primary differentiators between cursed and non-cursed countries. The subsequent section attempts to generate predictions for local impacts from the macroeconomic explanations. That is followed by a description of the information sources used for the case study. Next, the case itself is presented in chronological order within thematic sections. The discussion section then evaluates the success of the predictions derived from the macro-level literature and suggests explanations for discrepancies while noting interesting findings not addressed in the macro-level literature. The conclusion summarizes which macro-level predictions were observed at the local level and suggestions directions for future research.

2. The meaning of 'weak institutions'

In general, the macroeconomic research stream has identified weak institutions as the main distinguishing feature of countries that have the resource curse, defined as slow growth outside the resource exporting sector. Isham et al. (2005) concluded that when resource wealth is associated with slow growth, the main cause is the poor government capacity, or 'weak institutions'. They measured institutional strength using a battery of measures that included rule of law, political stability and violence, government effectiveness, absence of corruption, voice and accountability, regulatory burden, law and order tradition, quality of the bureaucracy, political rights, civil liberties, and property rights and rule-based governance. Given that institutional strength or weakness has so many aspects, this section examines the meaning of 'weak institutions' in the macroeconomic literature so that local level manifestations can be identified in the case study that follows. To set the context, the early research on the resource curse is reviewed. That leads into a discussion of the subsequent research that discounted the Dutch disease as the main dynamic responsible for the curse. Then, the research on three prominent aspects of weak institutions is reviewed. They are corruption, rent seeking, and delays or declines in democracy.

2.1. Early macroeconomic studies shaping the questions

Sachs and Warner's (1995, 1997, 2001) various analyses on 97 developing countries to distinguished those with the curse from those without it. Sachs and Warner (2001) suggested several possible explanations that warranted more research. They included reduced cost competitiveness of non-resource exports, lower investment in education, the migration of innovative entrepreneurial talent from other sectors to the resource sector, and an increase in rent-seeking in lieu of productive activity. The emphasis in these explanations was on dynamics that could be remedied with appropriate national policies.

Karl (1997, 1999) drew attention to factors that qualify as institutional weakness. She noted that the curse is often accompanied by a deterioration in the quality of government administration and a rise in corruption. Indeed, she described resource rents as a 'honey pot' (Karl, 2007) that can affect the behaviour of a whole system (e.g., an ant colony). Karl's 'rentier state' explanation is a top-down interpretation that moves from the incentives facing national leaders to the growth-inhibiting policies that they therefore choose. Those policy choices then have the additional impact of weakening the state's capacity to foster broad based economic growth. Essentially, leaders of rentier states can ignore their citizens because they have resource rents for income instead of citizen taxes. The rents can be used to buy, or intimidate, enough support to stay in power without the need to foster economic development. The rentier state explanation includes Moore's (1998) observation that rentier states focus their capacity building on the resource sectors that provide rent income and fail to develop capacities that would help the broader economy. Leaders have an incentive to keep general taxation low because it diminishes both citizen unrest and citizen interest in politics. Ross (2001) investigated the idea that this type of clientelism might explain the tentative findings that oil dependent states are less democratic. With macroeconomic and political data on 113 countries from 1971 to 1997, Ross found that state dependence on both oil and non-fuel minerals impedes democratization. In terms of identifying the nature of the institutional weakness that might explain how less democratic accountability