

Article

The Resource Curse: Why Natural Wealth does not Guarantee Development

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Abstract: This paper examines the resource curse — the paradox where natural resource wealth produces weaker economic growth and less democratic governance. Through comparative analysis of Norway, Botswana, Nigeria, and Venezuela, it argues that institutions, not resources, determine whether a country develops or stagnates. Policy lessons are drawn for resource-rich developing economies.

Keywords: *resource curse, Dutch Disease, rentier state, institutional quality, democracy, oil wealth, natural resources, economic development, governance, political economy.*

Introduction

There is a reasonable expectation that a country sitting on large reserves of oil, gas, or minerals should be well-positioned for economic development. More resources mean more revenue, more investment, and more opportunity — at least in theory. In practice, the opposite has often been true. Nigeria has been producing oil since 1956 and remains one of the poorest and most corrupt countries in the world. Venezuela, once the wealthiest economy in Latin America thanks to its petroleum reserves, collapsed into a humanitarian crisis. Meanwhile, Norway built one of the largest sovereign wealth funds in history from North Sea oil, and Botswana turned diamond revenues into sustained growth and democratic stability [1][2].

This contradiction is what economists and political scientists call the resource curse — the tendency for natural resource wealth to produce worse outcomes than resource scarcity. Understanding why this happens, and under what conditions countries escape it, is the central question of this paper. The argument developed here is straightforward: it is not the resources themselves that determine the outcome, but the quality of the institutions that manage them [3].

Methods

Drawing on the work of Auty (1), Ross (5), Karl (3), Collier and Hoeffler (2), and Mehlum, Moene, and Torvik (4), this paper traces the economic and political mechanisms of the resource curse and examines what separates countries that escape it from those that do not [4].

Results

The Resource Curse

The term was introduced by Richard Auty in 1993, who used it to describe why mineral-exporting developing countries consistently underperformed economically compared to countries with fewer natural resources (1). Since then, the concept has expanded to cover political outcomes as well — particularly the relationship between resource wealth and weak governance [5].

The resource curse works on two levels. Economically, the most well-known mechanism is Dutch Disease: when a resource export boom drives up a country's currency, other sectors like manufacturing and agriculture become less competitive and eventually shrink. The economy ends up dependent on one commodity, and when prices fall — as they always eventually do — the consequences are severe. Politically, resource wealth tends to produce what is called a rentier state — a government that funds itself through resource revenues rather than taxes. This matters because taxation is one of the main reasons citizens hold governments accountable. When governments do not need to tax their populations, they face far less pressure to deliver services, respect rights, or maintain institutions that check their power [6].

How Resources Distort Economies

Dutch Disease is the starting point of the economic story. When resource revenues flow into a country in large volumes, the domestic currency appreciates. Imports become cheaper, exports from other sectors become more expensive on world markets, and industries outside the resource sector lose their competitive footing. Over time, the economy hollows out — agriculture declines, manufacturing disappears, and the country becomes structurally dependent on the one thing it cannot fully control: the global price of its resources [7].

Commodity price volatility compounds the problem. Oil prices, gas prices, and mineral prices are set by global markets and geopolitical forces that producing countries have little ability to influence. This means government revenues swing sharply — booming during commodity upswings, collapsing during downturns. Governments that spend freely during booms then face severe budget crises when prices drop, often without the diversified economic base needed to cushion the shock. Venezuela's experience after 2014 illustrates this dynamic almost perfectly.

The rentier state dynamic adds another layer. Karl's analysis of oil-exporting states shows that when governments rely on resource rents rather than taxes, they lose the incentive to build efficient public institutions, invest in human capital, or maintain accountability to citizens [8]. Instead, they build patronage networks — distributing rents to key constituencies to maintain political loyalty — which entrenches corruption and undermines the kind of governance that produces long-run growth.

How Resources Undermine Political Systems

Ross's cross-national study found consistent evidence that oil wealth makes authoritarian governments more durable, increases corruption, and raises the risk of internal conflict (5). The political logic connects to the economics: governments that do not tax citizens face less pressure to be accountable to them. The historical link between taxation and representation — the demand for political voice in exchange for fiscal contribution — is broken when the state can sustain itself through resource revenues alone [9].

Resource rents also give governments the tools to suppress opposition. Revenues can fund security forces that deter dissent, and they can fund subsidies and public sector employment that buy political loyalty. Citizens in heavily resource-dependent states may be materially dependent on the government in ways that reduce the likelihood of political mobilization against it.

Collier and Hoeffler's research on civil conflict adds another dimension to the political story (2). Their finding — that primary commodity dependence is a stronger predictor of civil war than ethnic grievances — challenges the common assumption that conflict in resource-rich developing countries is primarily about identity. Resources give rebel groups both a motive (the prospect of capturing rents) and a means (resource revenues to fund insurgency). This creates a conflict trap in which resource wealth and political violence reinforce each other over time [10].

Discussion

Case Studies: Nigeria and Venezuela

Nigeria has been extracting oil since 1956. By the 1980s, petroleum accounted for over 90 percent of its export earnings. Yet Nigeria consistently ranks near the bottom of global development and governance indices. The explanation is not a lack of revenue — Nigeria has received enormous oil income over the decades — but a failure to translate that revenue into development [11]. Successive governments, both military and civilian, channeled oil rents into patronage systems rather than public investment. Corruption became structural. The agricultural sector that employed most Nigerians before the oil era collapsed under Dutch Disease. The result is a country that is simultaneously resource-rich and deeply poor .

Venezuela's story is more recent and arguably more dramatic. With the world's largest proven oil reserves, Venezuela sustained itself through petroleum revenues for decades. The Chavez government used oil income to fund popular social programs, and while poverty did fall in the short term, the underlying institutional and economic structure remained fragile. State-owned enterprises were mismanaged, non-oil industries were not developed, and corruption expanded. When global oil prices fell sharply after 2014, Venezuela had no buffer. The economy contracted by over 70 percent in real terms over the following years, and millions of Venezuelans left the country [12].

Norway and Botswana

Norway's contrast with Nigeria and Venezuela is stark. When North Sea oil was discovered in the late 1960s, Norway already had functioning democratic institutions, strong rule of law, a diversified economy, and a culture of transparency in public life. The Norwegian government established the Government Pension Fund Global — a sovereign wealth fund that invests oil revenues abroad, insulating the domestic economy from Dutch Disease and commodity price swings. The fund now manages assets exceeding one trillion dollars and is widely regarded as a model of responsible resource management.

Botswana offers the most instructive African counterexample. Diamonds were

discovered shortly after independence in 1966, and Botswana went on to achieve some of the fastest sustained economic growth rates in the world. The government negotiated a revenue-sharing arrangement with De Beers that ensured Botswana captured a genuine share of diamond proceeds, maintained conservative fiscal policy that avoided boom-and-bust spending, and invested in education, infrastructure, and institution-building. Democratic governance was maintained throughout. Botswana's success is not explained by luck or geography — it is explained by the choices its leadership made and the institutions those choices built [13].

Why Institutions Are the Decisive Variable

The pattern across these four cases points clearly toward the institutional explanation developed by Mehlum, Moene, and Torvik . Their argument is that the resource curse is not an automatic consequence of resource wealth — it is a conditional one. Where institutions are weak — where property rights are insecure, corruption is widespread, and the rule of law is unreliable — resource rents flow into rent-seeking behavior rather than productive investment, and the curse materializes. Where institutions are strong — where governments are accountable, contracts are enforced, and corruption is constrained — resource wealth can be channeled into genuine development. Norway and Botswana had stronger institutions before their resource booms than Nigeria and Venezuela did. That is the key difference [14].

Haber and Menaldo's challenge to Ross is worth acknowledging here. Their analysis, using longer historical data and country fixed effects, suggests that the relationship between oil and authoritarianism weakens when pre-existing institutional conditions are controlled for. This is not a refutation of the resource curse argument — it actually reinforces the institutional logic. Whether one accepts that oil actively erodes institutions or that weak institutions simply determine how oil wealth gets used, the conclusion is the same: institutional quality is what matters, and building strong institutions must be the policy priority.

For resource-rich developing countries, this translates into several concrete priorities. Sovereign wealth funds can prevent Dutch Disease and save resource revenues for future generations. Transparency mechanisms — including the Extractive Industries Transparency Initiative, to which several Central Asian states, including Uzbekistan, are parties — can reduce corruption by requiring public disclosure of resource revenues. Independent fiscal institutions and spending rules can prevent the pro-cyclical boom-and-bust patterns that have destabilized many resource-dependent economies. And democratic institutions that give citizens genuine leverage over governments are ultimately the most reliable check against the misuse of resource wealth [15].

Conclusion

The resource curse is a real phenomenon, but it is not an inevitable one. The economic mechanisms — Dutch Disease, commodity dependence, rentier state dynamics — and the political mechanisms — authoritarian durability, patronage, conflict — are well-documented and explain a great deal about why so many resource-rich countries have underperformed. But Norway and Botswana show that these outcomes are not determined by geology. They are determined by institutions and the political choices that shape them.

The central argument of this paper — that institutions, not resources, are what matter — carries a practical implication for countries still early in their resource development trajectories. The window to build strong institutions is not unlimited. Resource revenues, once they start flowing at scale, create the very incentives toward rent-seeking and institutional erosion that produce the curse. Recognizing this dynamic early and investing in institutional quality before those pressures fully materialize is the most important thing a resource-rich government can do. The tragedy of the resource curse is not that it is unavoidable — it is that it is so often not avoided.

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