

DEALING WITH FAILED STATES II:  
An International Natural Resources Fund

By

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The World Bank recently produced a list of states which are potential failed states. Most of these are in the Islamic world and Africa. Nearly all are states which have abundant natural resources. As the Lal-Myint comparative study (*the Political Economy of Poverty, Equity and Growth*) showed, natural resources have proved to be a precious bane. This is for a number of reasons. But the major one is that given the rents that accrue from natural resources, there is a strong temptation for anyone controlling the state to appropriate these rents for their own purposes. The various civil wars in Africa, including the ongoing ones in Liberia and the Congo are fuelled by the desire to control the fabled mineral wealth of the continent. While it was their oil wealth which has permitted Middle Eastern autocrats from Libya's Gadaffi, Iraq's Saddam Hussain, the Iranian mullahcracy, to the Saudi monarchs, to pursue aims as diverse as funding global terrorism, the development of weapons of mass destruction, and the export of Wahabism. What is to be done?

The answer may lie in examining the cases where the rents of natural resources have not been spent on these non-economic objectives. There are two shining examples. The first is Botswana. Unlike Sierra Leone, Angola or the Congo, whose diamonds have become the basis of their savage civil wars, Botswana's diamond wealth has been used to fuel one of the fastest rates of economic growth in the developing world. Its performance, until the onset of the AIDS epidemic, equaled that of the Far Eastern Asian tigers. The other example is Suharto's Indonesia. The two oil price booms of the 1970's resulted in about equal foreign exchange windfalls for Indonesia and Nigeria, but whereas Indonesia succeeded in utilizing this bonanza to alleviate its mass poverty, in Nigeria consumption per head was lower after the boom than when it began, as most of the bonanza was stolen or wasted (see Bevan, Collier Gunning: *The Political Economy of Poverty, Equity and Growth: Nigeria and Indonesia*). What explains these differences in outcomes.

First, consider Botswana. It was a backwater till its diamond reserves were discovered after its Independence. During the 19<sup>th</sup> century scramble for Africa, there was nothing in Botswana to scramble about, and unlike many of its neighbours it was allowed to go its own way under its traditional hereditary tribal chiefs. So, unlike the other African states - artificial creations of the European powers with boundaries cutting across ethnic and tribal lines- Botswana remained a tribal chiefdom with a relatively homogenous population. Its post Independence ruler Sir Sereste Khama was an Anglophile tribal chief, who merely adopted the trappings of democracy but maintained the traditional form of tribal polity, in which the chief was indeed the father of his people. This has meant that, unlike the other artificial states of Africa, whose post Independence elites all turned out to be predatory, Botswana was a state where the old tribal 'noblesse oblige' meant that the rulers would use their new found wealth for their citizen's welfare rather than to feather their own nests. This led to the beneficent outcome we observe.

In Indonesia, Suharto looked upon himself and governed like an old Javanese king. Though such kings did look after their near and dear, they also felt a broader obligation to promote the

welfare of their people. Suharto chose to do this through the fabled Berkeley mafia of economic technocrats, so named as they had all studied at Berkeley. They persuaded Suharto to bank most of the rents from the oil boom abroad, and to only let them come into the economy gradually to finance viable investment projects as they arose. This policy allowed them, unlike Nigeria, to both prevent the stealing of the rents by local elites and the decimation of the traded goods (chiefly agriculture) sector which follows if the Dutch disease effects of a foreign exchange windfall are allowed to take effect.

In potential or actual failed states, however, the political struggle surrounds the capture of these natural resource rents. Lacking any assurance about the tenure of their control of the State - unlike a Botwanan tribal chief or Javanese king - their time horizon is understandably very short, as they may be killed or overthrown in the next battle for the control of the rents. It is rational for them to get out as much as soon as possible out of the country. The various rulers of Nigeria and central Africa - from Abacha to Mobutu to Bokassa - testify to this effect.

Once we have such a failing state, one obvious solution adopted by Alaska to distribute its oil revenues to its citizens through writing cheques through the tax system, is not available. For it requires a functioning state. So what should be done about the natural resources of these failed or failing states in the new US Imperium?

The answer must lie in de-politicizing these rents as it is their politicizing which is the cause of the failure of the State. A test case currently is Iraq. Its UN oil-for food program can provide a prototype for an international extension of the Indonesian system. Given the imperial power's understandable lack of confidence in the UN after its recent shenanigans concerning the Iraq war, the UN would not be the right agency for this long term development task. Nor could the US do it through a purely domestic institution because of the nationalist passions that would unleash.

But there are two multilateral institutions, - the World Bank and the IMF - which (as I have argued in previous columns) have fulfilled the purposes for which they were set up, and rationally should be shut down. But like old soldiers international institutions, once created never die. They could now be amalgamated and be given a new role. They have the requisite expertise of an international technocratic bureaucracy, and unlike the UN are not subject to populist international pressure (though there may be doubts about the present day World Bank on this score) and are likely to be acceptable to the US, given their weighted voting systems favouring the US. A conjoining of their staff to form an International Natural Resources Fund (INRF) would thus be feasible.

The purpose of the INRF would be to obtain the rents from the natural resources of failed or failing states, once they form part of the direct or indirect Imperium. These revenues would be put in escrow by the fund for use *only in the country in which they were generated*. The funds from these country escrow accounts would only be released on the authority of the fund, for purposes determined by the fund's managers in consultation with the local government - mainly for social and economic infra-structure projects. These projects would be subject to the international bidding, controls and monitoring procedures of World Bank projects. This would de-politicize the deployment of the natural resource rents and remove one of the major reasons for the failure of states.

But, how could predators be prevented from attacking and capturing the mines which

generate the rents?. This is where the power of the imperial power is crucial. It needs to provide the necessary military muscle to protect the mines. Alternatively, it could follow the example of China during its period of the warlords, when foreign companies were ceded leases to territory which they could protect with their own police forces, in return for royalties to the INRF. But even this privatised solution would require the imperial power to maintain 'gunboats and gurkhas' at the ready, in case some local predator decided to mount a challenge to the private controllers of these mines.

In time, as the resource rents properly deployed led to general prosperity, and the art of governance was inculcated in the populace, the INRF could hand back the escrow account to the local government concerned. But this likely to be a long haul, and it is an open question whether the US has the will to undertake this long term task of 'nation building'. But without it, the natural resources which should have brought prosperity to the general populace will continue to be used to oppress them, as well as being stolen by predatory elites or worse providing the means for funding the global terrorism which remains a serious source of international disorder.