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Cursed before production?

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Big discoveries of high value natural resources can have negative economic, political, and social effects long before full production of a resource begins. While Tanzania has already experienced some tensions around the country's gas discovery, there is consensus among scholars and practitioners that the country has thus far generally avoided experiencing economic and political problems because of the discovery. Political risks remain, however, and continued immunity to the pre-source curse, and ultimately to the resource curse, will require ongoing, sound political decision-making about how to react to the promise of potentially large future resource revenues.

The “pre-source” curse

Many countries blessed by high-value natural resource wealth such as oil, natural gas, and minerals and metals have failed to use their resource wealth to create prosperous, peaceful societies. Instead, these countries have experienced symptoms of the so-called “resource curse”, wherein natural resource abundance results in deepened poverty, non-democratic government, and violent conflict. This is also known as the “paradox of plenty” (Karl 1997).

Recent research suggests that resource-rich countries can also suffer from a “pre-source curse” immediately after a resource discovery. This curse is inflicted during the time period between the discovery of a major resource endowment and its production, which can last anywhere from between five to ten years. It results from too-high expectations about the amount of future revenues that will flow from the resource when it is produced (Cust 2017). These expectations create economic, political, and social problems in the pre-production period.

Scurfield and Mihalyi (2017) argue, “resources create an illusion of instantaneous wealth” (p. 28), which can be fueled by overly optimistic investor forecasts about the future potential of the resource and the country’s economic growth. Poverty, in combination with the tendency of people to prefer present-day consumption rather than saving for the future, heightens citizen pressure on government to borrow heavily today in order to pay for much-needed public goods and services (Collier 2007). High uncertainty about the actual date of production and the amount of revenue that will be generated, reduces people’s ability to determine the appropriate level of risk they should take in borrowing and spending.

The economic effects of the pre-source curse include increased, unsustainable government borrowing (debt), increased government spending, a decrease in the savings rate and in economic growth, and reduced employment (Scurfield and Mihalyi 2017; Cust and Mihalyi 2017). Political effects include increased corruption, reduced transparency in natural resource management, and the rollback of democratic rights and freedoms (Frynas, Wood, and Hinks 2017; Tsui 2011). Social effects include the outbreak of violence in the form of protests, riots, and even armed conflict, as well as negative social changes that may come about from the in-migration of workers to build the infrastructure needed for resource production (Must 2018; Karl 2004).

Of course, we should remember that large resource discoveries can also have positive effects, creating a “pre-boom boom”. In a cross-national study of large oil producers, Toews and Vezina (2017) find that on average, big oil and gas discoveries result in a 58%

Between 2009-2011, multinational petroleum companies discovered a giant natural gas deposit off shore northern Mozambique. Soon, the government borrowed heavily in the commercial market, anticipating the future gas revenues that the International Monetary Fund (IMF) had initially projected to be extremely high (Roe 2018). In 2013, three companies owned by the Mozambican security services borrowed more than USD 2 billion from Credit Suisse and the Russian bank VTB. The companies were little but empty shells set up to acquire the loans, and most of the money remains unaccounted for (Kroll, 2017).

In late 2018, the FBI had built a case against senior Mozambican government officials and politicians. It accused them of conspiring with bankers of Credit Suisse and the Abu Dhabi-based ship builder Privinvest to set up a major fraud and corruption scheme to secure the USD 2 billion loan. Since the Mozambican politicians issued government guarantees for the loans, these fraudulently acquired loans added around 30 per cent to Mozambique’s national debt. The discovery of these large and non-transparent loans led to the IMF cancelling funding for the country in 2016. Meanwhile, the gas production has yet to even start.

Kroll (2017). Independent audit related to the loans contracted by ProIndicus S.A., EMATUM S.A and Mozambique Asset Management S.A. Report prepared for the Office of the Public Prosecutor of the Republic of Mozambique. Private and Confidential (leaked report).

increase in foreign direct investment and a 54% increase in the number of jobs in the resource-hosting country. Other positive effects can result from a big resource discovery, including economic diversification and increased economic output. But on balance, as the case of Mozambique shows, large resource discoveries tend to create as many problems as they solve, if not more.

Tanzania needs to consolidate a strong institutional foundation

Discovery of Tanzania’s natural gas deposits was announced in 2012, at which point the country entered into the pre-production phase, the window of time during which a pre-source curse can occur. While the evidence suggests it has not, there are still warning signs that the country has not yet consolidated a strong institutional foundation to avoid the resource curse once production begins.

Economic effects of the gas discovery

News reports provide some evidence of localized negative economic effects of Tanzania's natural gas discovery. This includes people having sold land normally used for farming to potential investors in the gas producing regions in the anticipation of receiving large benefits, as well as people moving from the agricultural sector into construction jobs (c.f. Kamat 2017). Now that the anticipated date of actual production of the gas reserves has been extended, the construction sector has slowed, and some people are left without land for food production in Mtwara and Lindi regions.

In 2017, the Natural Resource Governance Institute (NRGI) published a report investigating the question of whether and how Tanzania's gas discovery has impacted the economy (Scurfield and Mihalyi 2017). The report focused on whether expected future revenues from the country's newfound gas deposits have influenced one particular and important economic indicator of the presource curse: government borrowing. This is major concern as excessive public debt can depress economic growth and lead to long-term economic decline. The evidence presented in the NRGI report shows that Tanzania's public debt levels remain low, and that they have not increased after the discovery of the country's gas deposits. Furthermore, the legal framework regulating the petroleum sector requires both transparency and an expenditure growth limit. However, the report points out that gas revenues are likely to be low in the future and that investment continues to remain uncertain, limiting the country's potential for resource-based transformation. Moreover, the global push to increase reliance on renewable energy sources (as opposed to non-renewables like petroleum), particularly in industrialized countries, is likely to push down demand for oil and gas even further and reducing the amount of anticipated revenues from the new petroleum discoveries. In summary, Tanzania does not, thus far, seem to have suffered much of an economic pre-source curse, though it should be noted that there have been some localized negative economic effects.

Political effects of the gas discovery

A main finding in the resource curse literature – which examines the economic, political, and social effects of actual revenues flowing from resource production – is that countries with large, high value natural resource deposits are less likely to be democratic. When governments have access to large, external sources of revenue (such as from natural resources), they may feel the no longer need to tax citizens to raise money to pay for public services. As a result, governments

become less responsive and accountable to citizens (Ross 2015). Tsui (2011) finds support for this theory in a study about the long-term effect of discoveries of large deposits of oil on democracy. On average, such discoveries significantly reduce the oil-producing country's level of democracy over the next 30 years. But this does not answer the question of whether resource discoveries also have the same impact in the short-term.

Based on political events in Tanzania since 2015 in particular (three years after the announcement of the gas discovery), one could easily conclude that the discovery has negatively influenced the country's democracy. Freedom House downgraded Tanzania's political and civil rights rating in its 2018 *Freedom in the World* report. This is due to the ongoing repression of civil society and religious organizations, as well as to the crackdown on press and political opponents and the restriction of information rights and freedom of assembly (Freedom House 2018). Government has also taken a strong nationalist stance regarding extractive industries companies, charging one large multinational mining company a failure to pay sufficient taxes and undervaluing exports.

However, the natural gas deposit is not likely the explanation for these actions. More influential was the conduct of the contentious 2015 national election in Zanzibar, the results of which were annulled by the island's Electoral Commission. As a result of this challenge to power, the government has increasingly constrained democratic rights and freedoms. In summary, then, Tanzania does not, thus far, seem to have suffered a political pre-source curse.

Social effects of the gas discovery

Natural resource wealth can trigger conflict in the form of riots and protests, and also more violent, armed struggles like civil war. Conflict around natural resource wealth can occur for several reasons. First, groups may seek to control of abundant resources like diamonds and oil for rent-seeking purposes, in order to profit personally and finance rebellion (Collier and Hoeffler 2004; 2005). Alternatively, groups may wish to control resources because of complaints about government mismanagement of resources, including a lack of benefit distribution in regions where resources are located (ibid).

In the case of Tanzania, the gas discovery has triggered low-level social unrest. Must (2018) examines the causes of the riots that broke out in Mtwara region in 2012 and 2013, one of the two regions hosting the discovery. Political leaders' framing of the gas discovery as a major catalyst of future local development fuelled high levels of popular expectations about what benefits

the region would receive. When the government chose instead to pipe the gas directly to Dar es Salaam instead of first to Mtwara, this triggered a strong feeling of injustice about mismanagement of the gas reserves and exacerbated felt group grievances that motivated people to riot. This, in combination with the decision to build industries like Dangote cement and fertilizer in Mtwara, lead to greater increases in social unrest among Lindi residents, than among those in Mtwara.

Conclusion

Tanzania has thus far not suffered an economic or political pre-source curse, but it has experienced

a social pre-source curse. Though this is promising, the country's political developments suggest that there is still a risk that the country could in particular face a resource curse if and when production of the gas reserves begins. Good natural resource management requires investment in building institutions to properly manage resource use and revenue flows, as well as transparent and accountable political-decision making. This in turn requires political freedoms for civil society and media to operate, and for citizens to be able to voice their views. Finally, there needs to be sound political decision-making about how to react to the promise of potentially large future resource revenues.

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