# AT THE HARRIMAN INSTITUTE

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# Pauline Jones Luong Challenges the Resource Curse

On Wednesday April 7, 2010, Pauline Jones Luong a political scientist at Brown University, came to the Harriman Institute to present her forthcoming book (co-written with Erika Weinthal, Duke University) entitled "Oil is Not a Curse: Ownership Structure and Institutions in Soviet Successor States." Since the 1990s, it has been generally accepted among political scientists that oil-rich developing countries are "doomed by virtue of their wealth to suffer from a whole host of political and economic outcomes," explained Jones Luong. She contends that the real curse is not oil wealth, but the type of ownership structures that developing nations tend to adopt. "What is missing from the 'resource curse' analysis is the recognition that these outcomes, which are focused on the period from the late 1960s to the early 1990s, may in fact be linked to the common prevalence of state ownership during this particular period."

According to Jones Luong, there is a tendency for political scientists to assume that state ownership is a constant variable. "There is a core assumption that ownership does not vary, but if you look at the empirical reality, it doesn't conform to this notion." Jones Luong asserts that ownership has to be studied in a nuanced way. "First of all, we need to consciously separate ownership from managerial control—resource-curse literature tends to conflate them. We also have to consider the possibility of private domestic ownership, because currently only private foreign ownership is recognized."

Taking these nuances into account, Jones Luong and Weinthal have identified four different types of ownership structure: State ownership with control, or S1 (the state owns most of the shares, and foreign investment is limited); state ownership without control, or S2 (foreign investors are allowed to participate through more permissive contracts); private domestic ownership, or P1 (private domestic companies hold the majority of shares in production, refining and/or export facilities); and private foreign ownership, or P2 (private foreign companies own the majority of shares).

Jones Luong hypothesizes that those countries with private domestic ownership will not be subject to the so-called "resource curse" because private domestic ownership creates a balanced relationship between government and business, in turn establishing a need for strong institutions that will enforce the interests of both parties. "Thus, contrary to the existing literature on the resource curse, under private domestic ownership we would expect booms and busts to bolster, rather than to weaken, institutions and thereby capacity."

To support their theory, Jones Luong and Weinthal compared five countries, organizing them according to the ownership structures that the two scholars have identified: Turkmenistan and Uzbekistan (S1), Azerbaijan (S2), Russia (P1) and Kazakhstan (P2). They analyzed the countries in terms of their tax regimes. "The ability to extract revenue is one of the best indicators of state strength," elucidated Jones Luong.

Despite the Yukos scandal, Jones Luong and Weinthal used Russia as an example of a country with a structure of private domestic ownership—Yukos had been one of the world's largest non-state oil companies when the Russian government arrested its CEO Mikhail Khodorkovsky in 2003, and then declared the company bankrupt in 2006, nationalizing the oil industry. Based on their research, they determined that Russia, which had reformed its tax regime, had the most stable financial institutions out of the five countries.

Jones Luong and Weinthal use these results to support their claim that it is ownership structure, not resource-wealth itself, which is responsible for the doomed institutions in petroleum-rich countries. It is interesting that their argument rests primarily on Russia, even though Russia's experiment with domestic ownership structure was cut short. This leaves one to wonder whether private domestic ownership is sustainable in developing oil-rich countries, or if the state is bound to intervene once business gains too much strength.

*Reported by Masha Udensiva-Brenner*