Like them or not, Mining and Oil & Gas have become far more important to Poor Countries

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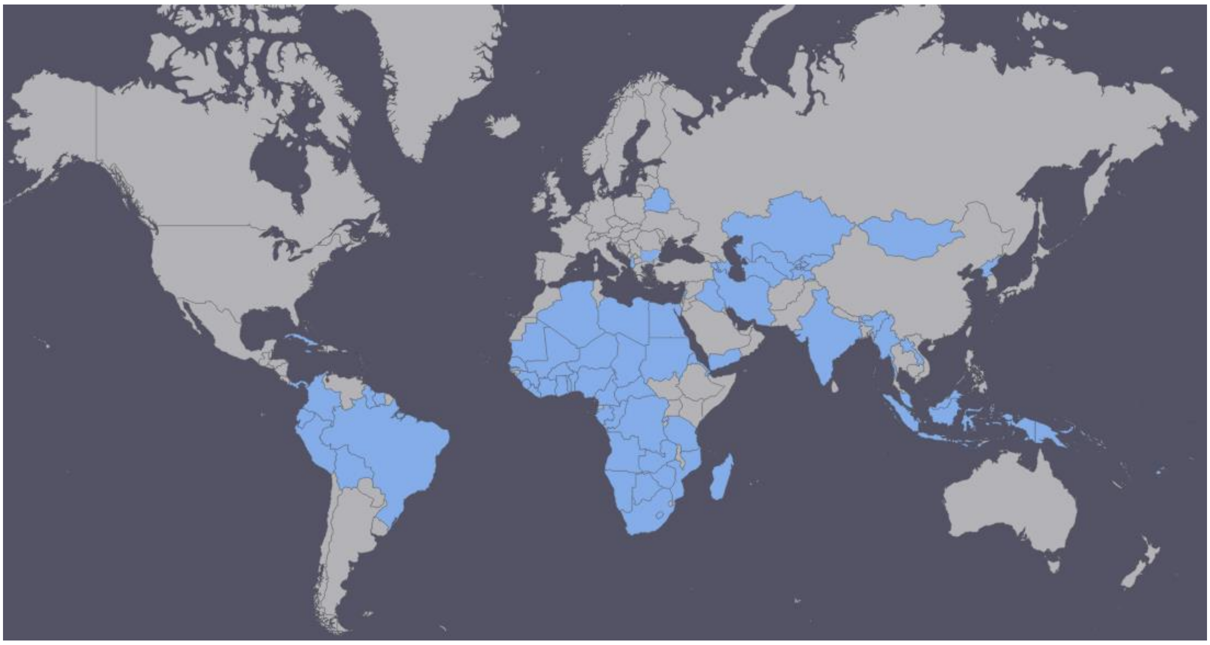
It is well understood that the natural resources of minerals, metals, oil or gas (collectively known as 'extractives') have for some years been significant in the economies of low and middle income countries. What perhaps is less well known is (a) how large is this dependency and for how many countries and (b) how this dependency has intensified significantly for most of those countries in the period of the so-call "super-cycle" of commodity prices that ended around 2011/12. Although the countries in question are varied, striking patterns emerge across them when their resource figures are analysed more closely.

Production and dependency

The issue is somewhat confused because in terms of minerals production, the higher income countries dominate the numbers. So for example, when looking at either volumes or dollar values, almost all the largest mineral producers are higher income countries (notably Australia, Chile, Russia, the U.S. and Canada) or higher-middle income countries (notably Brazil, China, South Africa). However, in terms of the contribution that extractive resources make to, say, total export earnings – one important measure of resource dependence - the situation is reversed. Low and lower middle income countries dominate these figures. In other words, although the higher income countries extract the largest volumes of minerals, they are not so highly economically dependent on them. By contrast, low income countries produce lower volumes of resources but are much more highly dependent on these for their foreign exchange earnings and indeed for other components of their macroeconomic performance such as government revenues and investment.

The situation in countries with oil and gas resources is more mixed. Countries dependent on oil and gas for their export earnings include a mix of high, middle and low income countries. However, once again, the majority (around 60%) of the most dependent countries –measured by reference to exports - are, low or middle income countries.

The map below shows countries with high levels of resource dependence (where extractives make up 30% or more of total export earnings). These countries are clustered mostly in Africa, with a few in Asia and South America.



Has dependency intensified?

To address this question we look at trends since 1996 (well before the super-cycle of commodity prices began) in the ratio of extractive exports to total exports. The results are unambiguous. A clear upward trend in export dependence can be seen in most of the countries concerned between 1996 and 2012. Specifically, of the 72 low and middle-income countries that we identify as ***most*** dependent on exports, 63 experienced an increase in their dependence on extractives resources in that 16 year time period. That is, no fewer than 88% of these countries became even more dependent on extractives exports over this period. The average increase was around 18 percentage points (pp), although some countries experienced increases as large as 94 pp (Chad), 76 pp (Sudan) and 64pp (Mozambique). 15 of 18 low income countries experienced an increase and 20 of the 25 low middle income countries saw an increase over this 16 year period. The general tendency among low and middle income countries has therefore been towards increased dependency over this period.

One thing that these two facts (of high extractive dependency among low and middle income countries, and increasing dependency since 1996) suggest is that extractives activities need to be more central in development debates than has been the case in the past. If the development community (donors, NGOs etc.) believes that these industries have some inherently negative features (as undoubtedly they do), it has nonetheless to try harder to understand how the negatives can be mitigated and the positive development benefits, clearly visible in a few countries such as Chile, can be enhanced and better captured[1]. This is not an issue that permits an "ostrich head in the sand" attitude or a passive acceptance of the inevitability of resource-curse outcomes. Indeed, as scenarios developed by the McKinsey Global Institute spelled out (just as the super cycle was coming to an end), if the past performance of the better performing resource-dependent economies could be transplanted onto the remainder of such countries, then more than 500 million people could be raised from poverty by 2030![2]

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[1] This is the guiding objective of a new UNU WIDER project of Extractive Industries launched early in 2016.
[2] McKinsey Global Institute, *Reverse the Curse,* London, December 2013