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Original Article

The Rentier State at Work: Comparative Experiences of the Resource Curse in East Asia and the Pacific

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Abstract

Countries rich in natural resources do not all experience the resource curse in the same way. The rentier state logic holds that the main political–economic impacts of resource dependence rest on how the state handles windfall resource rents. I differentiate how countries experience the resource curse by disaggregating the rentier effect into how governments generate and distribute resource rents. A simple typology of variation in rentier state experiences explains how the overall credibility of intertemporal commitment and degree of political inclusiveness in a country determine its distinct experience of the resource curse. Four brief country cases—comparing the micro political economy of natural resource governance in Laos, Papua New Guinea, Mongolia, and Timor-Leste—illustrate how intertemporal credibility and political inclusiveness affect patterns of resource rent generation and rent distribution. Different countries experience the resource curse in different ways, with implications for policy attempts at mitigation.

Key words: resource curse, rentier state, natural resource sector governance, intertemporal commitment, political inclusiveness

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1. Introduction

Many developing countries in East Asia and the Pacific are endowed with abundant natural resources, from exhaustible petroleum and mineral wealth to renewable stores of timber, agriculture and fisheries. It is a well-known paradox that, instead of serving as the blessing they would appear to be, these resources are often experienced as a political–economic curse. Natural resources do not, however, inevitably doom low income countries to a gloomy fate. Governing elites can make policy choices and build institutional arrangements in and around the natural resource sector that enhance the prospects of reaping the benefits of their natural abundance. This article offers a framework for understanding why and how different developing countries experience the resource curse in different ways and to varying degrees and, in turn, offers implications as to how they can attempt to counteract its effects. It does so by demonstrating how the manner in which the state deals with extraordinary resource rents conditions the extent to which natural resources really are a curse.

The first section of the article situates this work with a brief survey of the resource curse literature, with a particular emphasis on the concept of the rentier state. In the second section, I disaggregate the rentier state effect, emphasising the generation and distribution of resource rents by governments. A simple typology of the political economy of resource-dependent countries explains how the overall

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credibility of intertemporal commitment and degree of political inclusiveness in a country determine its distinct experience of the resource curse. In the third section, I apply this framework in brief case studies of the micro political economy of natural resource sector governance in Laos, Mongolia, Papua New Guinea and Timor-Leste. I explain differences in patterns of rent generation and distribution across the four countries—and, hence, the variance in how they experience the resource curse. A concluding section points briefly to implications for aiding countries in averting the particular dimensions of the resource curse that most afflict them.

2. The Rentier State and the Political Economy of the Resource Curse

The concept of the resource curse serves as shorthand for conveying the multifaceted economic, political and social challenges facing countries with abundant natural wealth. In the simplest form of the problem, countries rich in natural resources have been found to grow more slowly than their resource-poor comparators at similar levels of income (Sachs & Warner 2001; Frankel 2012). Economists broadly agree on the technical fixes for how to offset a decline in the terms of trade, prevent an over-reliance on resource rents, hedge revenue flows and public spending plans against commodity price volatility, and avoid Dutch disease (Eifert et al. 2002; Humphreys et al. 2007; Brahmbhatt & Canuto 2010).

The true policy challenge in responding to the resource curse lies in mastering the politics and governance dimensions associated with it. Political elites are not ignorant of the resource curse and its consequences, nor of the policies they could deploy to mitigate these effects. Yet their incentives typically lead them to act in ways that accentuate the resource curse rather than diminish it. As a result, in comparison with their resource-poor comparators, countries dependent upon natural resources have variously been found to experience more civil conflict (Ross 2004; Humphreys 2005), be more likely to be governed by authoritarian regimes (Dunning 2008; Ross 2012) and suffer social consequences such as poorer education outcomes and the marginalization of women in the workforce (Ross 2012; Spector 2012). Resource-dependent countries also experience a series of predatory political–economic distributive patterns (Tornell & Lane 1999; Auty 2010). Moreover, the quality of governance in resource-dependent countries tends to be poorer than it should be given their income levels, a fact that also accentuates the other negative effects of resource wealth (Mehlum et al. 2006; Frankel 2012).

A crucial element linking these various effects, and determining their severity and the ways in which they manifest, is how resource-dependent countries generate and distribute the windfall rents from their natural resource endowments.[1] The concept of the rentier state hinges on the fact that natural resources yield a windfall income stream that resources the state directly in lieu of taxes (Mahdavy 1970; Beblawi & Luciani 1987; Ross 1999). These extraordinary rents reduce the fiscal need for non-resource taxation—indeed, resource revenues have been shown to displace other forms of taxation or revenue (Knack 2008). In turn, by limiting a government's need for other forms of revenue generation, natural resource rents dilute the need for the administrative apparatus necessary to collect taxes and can lead to the erosion of institutional capacity-building (Moore 2004).

Even worse, when political elites have access to windfall revenue streams in the absence of institutional checks on their accountability, the temptation is for them to use the state apparatus in a predatory fashion, such that it is oriented towards extracting rent from society and dispensing that rent through patronage networks (Auty 2010). As a result, political and economic elites might intensify their battles for control over the prize of natural resource rents and the ability to collect and distribute them, in what has been labelled the 'voracity effect' (Tornell & Lane 1999). Even if resource abundance does

1. The concept of resource dependence is typically measured as the share of natural resource rents in government revenues or GDP. Resource dependence is a more analytically precise concept than resource abundance or richness, since it captures the extent to which a country's economy relies upon extraordinary resource rents and is hence vulnerable to the political economy dynamics dealt with here.

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not cause a deterioration in governance, the quality of institutions will most likely affect the quality of economic policy-making and natural resource management (Robinson et al. 2006). In particular, governments can be tempted on the basis of short-term revenue windfalls to make policy and public-spending decisions with adverse long-term consequences (Karl 1997).

The rentier state literature thus establishes that the structural fact of resource dependence affects institutions and policy-making in predictable patterns. Developing countries with weak institutions are expected to suffer the resource curse to its greatest extent. More recent scholarship has turned to the search for conditional theories as to why certain countries experience elements of the resource curse more deeply than others, especially emphasising the effects of natural resource abundance on regime type and conflict (Dunning 2005; Ron 2005). This article joins this growing body of 'second generation' work on the resource curse, with a particular focus on explaining how the rentier state syndrome varies in important ways across resource-dependent developing countries.

3. Experiencing the Resource Curse: A Theoretical Framework

Understanding how natural resource rents flow through the system is crucial in explaining how developing countries experience the resource curse to different degrees and in varying ways. Following an analytical framework developed in earlier work (Barma et al. 2012), the rentier state effect can be disaggregated into two rent arenas. Effective *rent generation* depends on the regulatory framework in the natural resource sector, how the state grants licenses or contracts for natural resource extraction and how the state collects taxes and royalties from extractive producers. Effective *rent distribution* concerns the manner in which government consumes, saves or invests its natural resource revenues. Rent generation and distribution are central in characterising a government's management of the natural resource sector and the channelling of those resources into sustainable development policies—and thus represent two crucial avenues of variation in how countries experience core elements of the resource curse. To capture this variation empirically, I adapt the World Bank's 'natural resource management value chain' approach (Mayorga Alba 2009, Barma et al. 2012) to establish criteria for evaluating a country's overall performance in rent generation and rent distribution (Figure 1).

The rentier state syndrome described above means that resource dependence comes with several structural characteristics that make achieving good outcomes in rent generation and distribution difficult—large windfall rents materialising over a short time frame, concentrated ownership and decision-making in the

Figure 1 Evaluating Rent Generation and Rent Distribution Outcomes[2]

Rent arena	Good performance criteria
Rent generation: Sector organisation and regulation; fiscal regime	• Clear legal and regulatory framework and well-defined institutional responsibilities for government agencies, providing consistent expectations for sector actors • Transparent and non-discretionary framework for awarding contracts/licenses for exploration and production rights, including a transparent fiscal regime • Adequate administrative capacity for contract negotiations and revenue collection
Rent distribution: Budget management; public investment prioritisation and implementation	• Channelling of resource revenues into the formal budget process, making them subject to normal scrutiny and accountability mechanisms • Judicious allocation of public expenditures—public investment is prioritised and allocated within a medium-term expenditure framework and aligned with a national development strategy • Strong public financial management and procurement systems, ensuring public monies are protected from leakage and rent-seeking, with adequate audit

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Figure 2 Variation in Rentier State Experiences[3]

	Less credible intertemporal commitment	More credible intertemporal commitment
Less political inclusiveness	**Patrimonial rentier state** Rent generation low; rent distribution dominated by concentrated elite	**Hegemonic rentier state** Productive rent generation; rents distributed among small elite
More political inclusiveness	**Clientelist rentier state** Rent generation relatively low; rent distribution benefits client networks	**Pluralist rentier state** Rent generation and distribution sustainably provide collective goods and services

sector and privileged access to rents for political and economic elites. The resource curse is mitigated when the political–economic effects of these structural characteristics can be eased. Rent generation becomes optimal when a government can make *credible intertemporal commitments* to both extractive companies and its citizens; and rent distribution becomes optimal in *inclusive political regimes* where governments have the incentive to use resource rents to provide public goods that enhance collective welfare (Barma et al. 2012). Without the institutional underpinnings for credible intertemporal commitments, governments will find it extremely difficult to negotiate deals with extractive investors that can bring a consistent stream of resource rents into the state's coffers. And without some form of inclusive decision-making, it is unlikely that resource rents will be distributed for collective welfare enhancement. These expectations generate a simple typology of variation in rentier state experiences (Figure 2).

In short, the overall credibility of intertemporal commitment and degree of political inclusiveness in a country determine its distinct experience of the resource curse. The patrimonial and clientelist types of rentier state are characterised by their limited credibility of intertemporal commitment. In *patrimonial* settings, political authority tends to be individualised, often resting on a hierarchy of cronyism, and unrestrained leaders are unlikely to make credible intertemporal commitments. In patrimonial rentier states, extractive capacity is thus low because there is little guarantee of property rights, constant predation reduces economic production, and public resources are typically exploited for private gain. Both rent generation, which is weak, and rent distribution will be dominated by a concentrated elite. In *clientelist* settings, some degree of political competition takes place but usually occurs on the basis of extensive patron–client networks. Some public goods are provided to mobilise and reward supporters, but they tend to be particularist in nature instead of more broadly enhancing collective welfare. Time horizons are short because politics are relatively unpredictable and there are low degrees of institutionalisation, accountability and constraint on power. In clientelist rentier states, rent generation suffers from these short time horizons, and both rent generation and distribution are oriented towards providing benefits to clientelist networks.

The hegemonic and pluralist types of rentier state have more credible intertemporal commitment. In *hegemonic* settings, an uncontested, institutionalised political force

2. A more detailed and disaggregated series of good practice criteria for natural resource management across the value chain can be found in Mayorga Alba (2009). Barma (2012) applies a more disaggregated set of criteria to assess the relationship between petroleum sector governance and institutional fragility in in Cambodia and Timor-Leste.

3. Adapted from Barma et al. (2012).

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or one-party regime provides a relatively peaceful order and some degree of public goods for society. Regime stability and greater institutionalisation lengthen time horizons and enable more credible intertemporal commitment. Thus in hegemonic rentier states, natural resource rents can be generated productively on the basis of credible extractive bargains; rents, however, are distributed in a concentrated fashion among the dominant elite. In *pluralist* settings, political elites compete in elections on the basis of programmatic commitments to collective welfare enhancement, with an emphasis on society-wide public goods provision. A higher degree of institutionalisation and democratic mechanisms of accountability together extend time horizons and facilitate stable and well-protected property rights. In turn, in pluralist rentier states, rent generation and rent distribution approach the provision of sustainable public benefit.

4. The Rentier State at Work: Four Cases from East Asia and the Pacific

Four resource-dependent developing countries in East Asia—Laos and Mongolia with abundant mineral reserves, Timor-Leste, one of the most petroleum-dependent countries in the world and Papua New Guinea, rich in both minerals and petroleum—illustrate the four quadrants of the typology and offer the opportunity to test the framework's merits in explaining variation in rentier state experiences of the resource curse.[4] In the spirit of building causal generalisations about the rentier effect, I examine both petroleum and mineral cases.[5] Based on each country's contemporary political context, I outline the expectations motivated by the typology and then develop, on the basis of field and desk research, a brief causal narrative to explain the empirical evidence on rent generation and distribution patterns.

4.1 Papua New Guinea

The political–economic environment in Papua New Guinea can be characterised as one of patrimonialism. Despite the fact that Papua New Guinea had from 1975–2011 an unbroken run of democratic elections and transitions, observers highlight its high levels of political instability, with many having marked it as a state on the verge of collapse (May 2003). In particular, the short time horizons bred of this instability and the winner-takes-all characteristics of the political system mean that intertemporal credibility is weak. A defining feature of Papua New Guinean politics is the manner in which electoral rules have led to a fragmented party system, even after attempts to remedy these outcomes (Reilly 2006)—with hundreds of individuals competing in elections and winners taking office with very low vote shares on the basis of often highly local clan-based ties. This extreme fragmentation has led to low levels of overall political inclusiveness, limiting elite incentives to provide public goods and policies oriented toward collective welfare (Fukuyama 2008, unpublished draft; Allen & Hasnain 2010). A low degree of political inclusiveness combined with weak intertemporal credibility leads us to expect poor performance on both rent generation and distribution.

Papua New Guinea is mineral-rich, with four major mines—the Boungainville and Ok Tedi copper mines, and the Porgera and Lihir gold mines—having operated over the past four decades. It is also on the cusp of a major new liquefied natural gas (LNG) project coming on-stream, with the $15 billion PNG LNG project in the Southern Highlands slated to become the country's largest ever

4. This comparative case application of the theoretical framework enables both a deeper understanding of causal complexity in how countries experience the resource curse as well as a serving as a building block to broader theoretical generalisation on the matter (George & Bennett 2005).

5. Rentier state effects may well differ for these two types of natural resource. Scholars have noted that the resource curse is particularly acute in the case of petroleum (compared to other natural resources such as hard-rock minerals) because of its 'point source' nature with highly concentrated ownership and, consequently, weaker accountability of political elites and potentially poorer policy decisions.

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natural resource project. Papua New Guinea is extremely resource-dependent and has experienced a high degree of volatility in resource revenues over the past three decades (Batten 2011; World Bank 2010a). The Bougainville copper mine was generating 15 per cent of government revenues in 1989 when it was shut down halfway through its projected 30-year lifespan because of the separatist conflict provoked by grievances over rights to mineral rents.[6] With new mining operations initiated in the early 1990s and the high copper and gold prices of the mid-2000s, the share of mineral revenues in total fiscal receipts varied between 20 and 40 per cent (Batten 2011). PNG LNG revenues are projected to add an additional 20 per cent to government receipts over the next 10 years, climbing to over 30 per cent from 2024 onwards (IMF 2012b).

Rent generation in Papua New Guinea is enhanced by the legal and regulatory framework developed for the minerals sector. Banks (2008) points out that the state plays a central role in regulating the access of international extractive producers to natural resources and implementing the fiscal regime, but also highlights the difficulties in managing rent generation channels in practice as a result of relatively few government staff and weak capacity, particularly in the remote areas in which mines are physically located. Rent generation is complicated by the fact that, although the government holds natural resource rights, 97 per cent of land in Papua New Guinea is under customary tenure, which means that extractive projects require local community consent. In addition, and perhaps most significantly, rent generation in Papua New Guinea has been compromised by its experience with resource-related conflict. The Bougainville conflict and mine closure have received the most scholarly attention but other simmering issues have also had an impact. For example, a state of emergency was declared in the Southern Highlands province in 2006 in an attempt by the government to maintain stability and investor confidence but, paradoxically, the action weakened the government's credibility. In 2012, the mining consulting company Behre Dolbear rated Papua New Guinea as among the five worst countries for investor risk in the minerals sector on the basis of its resource conflicts.

Other governmental actions have constrained the degree of intertemporal credibility in Papua New Guinea regarding secure natural resource property rights. In late 2013, the government nationalised the Ok Tedi mine, by far the country's largest mine and largest contributor to government revenue. Acting to end a long-standing dispute with the Sustainable Development Program, which controlled the majority stake on behalf of the local community, the government took a 100 per cent ownership share of the mine, reneged on a previous immunity deal granted to the major mine operator for environmental damages, and took control over the Sustainable Development Program itself (Howes 2013). Expropriation of any particular property severely compromises the security of all property rights and, hence, government credibility in terms of extractive bargains with developers. Howes (2013) thus observes, 'what PNG has just shown is that it is willing to renege on contracts and change its mind on long-term endeavours within the space of a decade.'

The Papua New Guinean government has not been blind to the dynamics of the resource curse. It acted as early as 1974 to ensure some measure of fiscal smoothing and prudent spending of natural resource rents by putting in place the Mineral Resources Stabilisation Fund (MRSF). Yet, over time, good rent distribution practices associated with the MRSF began to unravel. Officials managing the MRSF found it increasingly difficult to resist political pressure for withdrawals larger than established limits; and the MRSF was not well-linked with the overall fiscal and budgetary framework (World Bank 2010a). The MRSF was closed in 2001 after the government concluded it was unsuccessful in smoothing spending or limiting its politicisation. More encouragingly, a new resource-backed sovereign wealth fund was

6. Much has been written about the separatist conflict around the Bougainville mine in the late 1980s, a topic beyond the scope of this article. See, e.g., Banks (2008) for an summary of core debates on the issue.

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established in 2011. It emphasises expenditure smoothing over time with a rule that annual appropriations cannot exceed the previous 15-year average of revenues from mining and petroleum. It also aims to depoliticise investment spending and make it more efficient with the proposed earmarking of some portion of the fund for infrastructure investments. The key to the fund's success over time will be the credibility of political commitment to sound revenue management.

Papua New Guinea performs rather poorly on other aspects of rent distribution—local communities are not benefitting in the manner they have been promised; nor are society-wide collective goods being adequately provided through the public investment plan. Government investment in social services is low and public sector capacity to prioritise and implement public spending is weak (World Bank 2010a). Batten's (2011) analysis of the uses of resource rents in Papua New Guinea indicates that only 2.5 per cent of these revenues have been spent on health and education and only 5 per cent on infrastructure investments, with the rest going to general government operations. Similarly, Johnson's (2012) study of the distribution of benefits from the Porgera gold mine demonstrates that although the mine operator was making the necessary payments to local government, the promised service provision and investments in the local community were not occurring.

Public expenditure in Papua New Guinea is not only inefficient, it is also highly politicised as a result of political instability and fragmentation. Allen and Hasnain (2010) point to the established literature on the role of patronage in the country's political system, although they find that there is spatial and regional variation in the extent to which local-level development funds are used for patronage. The introduction of limited preferential voting as an electoral reform in 2007 was intended to broaden political constituencies and hence reduce political fragmentation and reorient political incentives towards more collectivist objectives. The recent 2013–2017 Medium Term Fiscal Strategy is intended to set the fiscal rules against which the country's public investment needs in the social sectors and physical infrastructure will be balanced. Thus, reforms have been introduced to remedy the outcomes identified here but they have yet to change the country's poor rent distribution practices.

Overall, as expected, Papua New Guinea appears to be performing quite poorly on rent generation and distribution with a view to sustainable development outcomes. The country has vividly experienced the boom and bust cycle that often exacerbates the worst elements of the resource curse. Papua New Guinea appears to avoid the most egregious forms of outright elite theft of the country's natural resources. Yet weak intertemporal credibility—a result of political instability and fragmentation, conflict and policy decisions such as the Ok Tedi expropriation—have limited its ability to generate resource rents optimally. A low degree of political inclusiveness, in the context of highly local patronage-oriented political–economic incentives, has also led to rent distribution practices that fail to deliver collective social benefits to the population. Together, weak intertemporal credibility and a low degree of political inclusiveness have contributed to the emergence of an acute form of the resource curse in Papua New Guinea.

4.2 Timor-Leste

Timor-Leste's political economy can be characterised as one of clientelism. Time horizons are short because of political instability and repeated episodes of post-independence violence, making intertemporal credibility relatively weak. Political inclusiveness, on the other hand, is higher—with broad-based political parties competing at the ballot within an electoral framework. Yet political parties have increasingly run campaigns geared towards gathering clientelist rather than broad-based support and political power has become increasingly concentrated in the executive, with little restraint from institutional checks and balances. A low degree of intertemporal credibility combined with a higher, yet possibly declining, degree of political inclusiveness

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would lead us to expect poor performance in rent generation along with better, albeit perhaps weakening, performance in terms of rent distribution.

Timor-Leste is one of the most petroleum revenue–dependent countries in the world: its petroleum and natural gas revenues provided about 95 per cent of government revenues and constituted about 70 per cent of GDP in 2012 (IMF 2012a). Petroleum production began in 2004 at the Bayu-Undan gas field, located in the offshore Joint Petroleum Development Area shared with Australia. Timor-Leste's portion of the future revenue stream from Bayu-Undan is estimated at US$15.2 billion in present value terms, in comparison with the government's overall budget of about US$1.8 billion in 2012 (Democratic Republic of Timor-Leste 2013a).

Partly due to the extensive international state-building effort there, the Timorese government decided upon petroleum sector institutions and policies explicitly intended to mitigate the resource curse.[7] Over time, however, good practice in the management of petroleum rents has begun to unravel. Timor-Leste has, for example, employed best-practice, transparent criteria in all exploration contract bidding rounds to date. Yet currently, through its new national oil company Timor Gas & Petroleum (TimorGAP), the government is engaging with regional state-owned oil companies and consortia to develop a massive infrastructure investment known as the Tasi Mane Project, or South Coast Petroleum Infrastructure Project. This ambitious project includes the construction of an LNG plant and establishment of a supply base, storage and port facilities on the south coast of the country. Observers agree that a number of secret memoranda of understanding for exploration contracts may have already been signed in exchange for proposed investment partnerships.[8] Exclusive deals on petroleum extraction sites that are expected to have high rent potential would weaken the country's hitherto exemplary rent generation practices.

The centrepiece of Timor-Leste's institutional architecture in the petroleum sector is its Petroleum Fund, to which all petroleum revenues are directed, without exception. The Petroleum Fund Law establishes the concept of Estimated Sustainable Income (ESI), a principle intended to ensure intergenerational saving of the country's windfall income stream. ESI is defined as the maximum amount that can be appropriated from the fund in any fiscal year, such that enough revenues are left in the fund for the same value to be appropriated in all future years. The law sets ESI at 3 per cent, on the basis of conservative projections of revenue from proven reserves only and the estimate that the fund will generate at least a 3 per cent return on investment. ESI in 2012 was US$665 million, compared with the total government budget of US$1.8 billion. In turn, all revenue appropriated from the fund must be integrated fiscally with the formal budget process, thereby ensuring parliamentary oversight.

The government is enabled, however, through the Petroleum Fund Law, to exceed ESI in requesting budget appropriations as long as it provides justification to parliament. The new governing coalition that came to power in 2007 after a period of political instability and civil conflict began a practice of exceeding ESI to finance its stated goal of 'buying the peace' through expanded government spending. Government appropriations have since climbed over ESI every year from 2008 onwards, thus weakening the stewardship of petroleum rents. In 2012, the additional withdrawal to finance the government's budget was US$829 million over the ESI allocation of US$665 million (Democratic Republic of Timor-Leste 2013a). At current spending rates, the watchdog organisation La'o Hamutuk estimates that the Petroleum Fund—intended to

7. The discussion on institutional and governance arrangements in Timor-Leste's petroleum sector draws from a World Bank-sponsored research trip to Timor-Leste in November 2009 (Anderson et al. 2010, unpublished draft; Barma 2012), and a research trip to Timor-Leste in February 2013 made possible by funding from the Crawford School of Public Policy at the Australian National University.

8. Author's interviews with government officials and donor and civil society representatives, Dili, East Timor, November 2009 and February 2013.

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guarantee a permanent stream of petroleum rent into the future—will be depleted by 2028. In addition, the Petroleum Fund Law was amended in 2011 in three ways that have made it easier and more legitimate for the government to spend higher shares of the country's petroleum rents: enabling the government to make less conservative investments with higher potential returns, making it possible for the government to borrow up to 10 per cent of the fund's holdings against the fund and diluting the burden of justification required for exceeding ESI.

Rent distribution practices have also weakened because the coalition government that came to power in 2007 acted quickly to reverse the austerity measures introduced by the country's first independent government. Frustrated by the complex and centralised design of the formal public financial management system, the government opened up two key spending channels so that by mid-2008, it was spending seven to eight times more each month than the year before (Anderson et al. 2010, unpublished draft). First, it increased consumption spending by instituting a series of cash transfers to veterans, senior citizens and vulnerable households. These cash transfers constitute a very large share of the budget: US$234 million or 13 per cent of the 2012 budget, compared with the US$153 million spent on health and education (Democratic Republic of Timor-Leste 2013b). The second spending channel was an increase in public investment through both decentralised and shortcut procurement procedures, which circumvent regular spending and procurement controls. In October 2009, for example, an executive decree channelled US$70 million of an unutilised capital investment allocation into what became known as the 'Package Referendum,' a fund for small- to medium-size investments in sectors such as roads and irrigation. These resources were allocated entirely off budget, by a recently formed business association not subject to any accountability controls, thus heightening the risks of favouritism in rent distribution.

Both channels of spending appear to have disproportionately benefitted veterans of the country's resistance movement, a core network of support for the current coalition.[9] A preliminary analysis of geographic allocation indicated that the government appeared to be spending more—in terms of both cash transfers and public investments—in the districts most strongly supportive of the coalition partners in the 2007 election (Anderson et al. 2010, unpublished draft). In the aggregate, US$85 million of the cash transfers, or 5 per cent of the total budget, went to veterans payments. Veterans have also been the explicit beneficiaries of the government's decentralised public investment efforts, through, for example, contracts for electricity grid connections as the public utility has rolled out nationwide access over the past three years. The coalition won re-election in 2012.

Along with constituency-targeted public spending patterns, increasing elite capture of major rent streams is another sign that rent distribution performance is weakening as expected. Reports abound of rent seeking around the bigger ticket items on the government's public investment program and recurrent contracts through the use of sole-source contracts that contravene the procurement law.[10] This channel of rent distribution benefits only a small and concentrated political–economic elite comprising the family members and business partners, both Timorese and foreign, of senior government officials.

Overall, Timor-Leste offers mixed support for the typological framework advanced here. Rent generation practices have been better than expected, built upon model contracts and the Petroleum Fund architecture. Yet good performance in this arena seems to be unravelling with emerging moves towards more secretive contract negotiations and through the introduction of TimorGAP, which could, like other influential national oil companies in developing countries, divert transparency and

9. Author's interviews with government officials and donor and civil society representatives, Dili, East Timor, February 2013.

10. Author's interviews with donor and civil society representatives, Dili, East Timor, February 2013. A 2012 Deloitte audit of procurement in Timor-Leste revealed a number of irregularities and sources of leakage.

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accountability in contracting processes and take a substantial portion of resource rents off budget. Rent distribution has also been within the realm of what we would expect. To be sure, resource rents have been spent through the budget on public goods. Yet, for the most part—as one might expect in clientelist systems, where political support tends to rely on distribution of patronage—the bulk of expenditures has been on consumption goods (i.e., direct transfers, subsidies and public sector employment), with less investment in public infrastructure and other avenues of longer-term collective welfare. Now, furthermore, public investment execution seems to be enriching elites to a greater degree than before, which is also in line with the expectation of particularist rent distribution associated with clientelist rentier states.

4.3 Laos

The Lao political economy fits within the hegemonic type in the framework advanced here. Time horizons are lengthened by the relative stability afforded by one-party, institutionalised rule, although a lack of investor confidence in the rule of law weakens intertemporal credibility somewhat. By contrast, the one-party system, with the state still heavily involved in economic activity, makes political inclusiveness low; an assessment reinforced by the continued dominance of a few powerful provincial political networks embedded in positions of power within the Lao People's Revolutionary Party. This combination leads us to expect mixed performance on rent generation, along with weak performance on rent distribution.

Laos has recently discovered promising mineral reserves for commercial production, prompting a dramatic start-up in industrial mining in the country over the past decade.[11] The value of mineral production rose from about US$8 million in 2002 to over US$600 million in 2007 and 2008, driven by two mid-size copper and gold sites, Sepon and Phu Bia. Total government revenues from taxes and fees in the mining sector exceeded $120 million in 2007 and $90 million in 2008, adding over 20 per cent to fiscal receipts (World Bank 2010b). The World Bank has estimated that mineral wealth makes up almost one-fifth of total Lao wealth and that the mineral and hydropower sectors will together add over 4 per cent to GDP annually over the next two decades.

Laos has been moderately successful at generating natural resource rents, albeit with some mixed-quality policies and processes in place. The legal framework governing the mining sector has been relatively unstable over the past decade, with both the Minerals Law and the details of the fiscal regime subject to a great deal of flux. For example, during consultations on the revision of the Minerals Law in 2008, development and industry partners advocated a standardised fiscal regime but this provision was not included in the final draft law submitted to the National Assembly. Opaque and overlapping institutional mandates for natural resource management across government agencies and levels of government have negatively affected the ability of the Lao government to generate resource rents.[12] In practice, on the other hand, many mineral concessions—certainly those of any major economic significance—are decided at higher political levels, with very senior officials making decisions on the basis of strategic considerations. This high-level political involvement in contract negotiations has meant that a number of investors have felt secure, on the basis of their confidence in the regime's stability and overall developmental orientation, in making long-term extraction deals with the state and investing in the sector, boding well for revenue generation.

Administrative corruption around contract awards and revenue collection appear to be quite limited. Yet the opacity around the contracting process enables some degree of elite capture of corporate payoffs, diminishing revenue streams to the government. The Lao

11. Laos also has tremendous hydropower potential from abundant water resources, which I do not deal with here.

12. The discussion on mineral sector governance in Laos draws from two World Bank-sponsored research trips to Vientiane in 2009, as well as Barma et al. (2010).

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military owns large tracts of land in the country and there is no record of the mineral contracts that are negotiated on these lands, nor resulting revenue streams, which almost certainly do not enter the state's coffers. Rent generation, more broadly, is likely further diminished by the fact that the government has almost no independent capacity to assess mineral quantity or grade and relies entirely on extractive company-provided information to determine royalty and tax payments.

Turning to rent distribution, public investment planning and prioritisation is quite weak in Laos, even in the context of the 5-year planning system. This is due not only to the country's low institutional capacity, but also to the fact that the ultimate decision-making power over the bulk of investment projects still rests with provincial governors instead of the Ministry of Planning and Investment. It appears, de facto, that projects can still be initiated by provincial governors even if no budget appropriation has been made available and, generally, the execution of projects is the responsibility of provincial governments or of sector ministries, with few supervisory or audit functions being played by central ministries. Attempts at developing a modern procurement system have yet to gain traction. To be sure, available evidence suggests that project execution in at least some sectors works well, with projects being undertaken and finished at reasonable cost such that some portion of rents is indeed translated into public goods. But weak procurement controls have led to a group of rising new contractors with family and business connections to senior officials benefitting disproportionately from resource-backed public investment. In this respect, the resource sector mirrors the economy more broadly, where the marketisation reforms introduced in 1986 have cemented the concentrated and inter-locking political–economic dominance of the powerful Lao clans that dominate the Party and government decision-making (Stuart-Fox 2004; Soukamneuth 2006).

Available evidence from Laos appears to support, for the most part, the typological framework in this article. The relatively longer time horizons and stability afforded by the one-party regime appear to have strengthened intertemporal credibility and enabled the government to continue striking resource extraction deals with investors in an otherwise challenging business climate, hence building the potential for rent generation. Yet revenue collection is hampered on two fronts: first, in terms of the rents siphoned off by hegemonic political and military elites—a problem associated with political inclusiveness; and second, in terms of the rents foregone due to weak institutional capacity for monitoring and collecting royalties and taxes. Rent distribution in Laos is more oriented towards the collective good than one might initially expect and this may be, in part, due to the strong socialist legacy and the regime's developmental orientation, further enabled by the system's longer time horizons. Nevertheless, clear patterns of elite-oriented rent distribution are emerging in both public investment prioritisation and procurement processes.

4.4 Mongolia

Of the four countries considered in this article, Mongolia comes closest to approximating a programmatic pluralist system, with lengthier time horizons and a higher degree of political inclusiveness due to its successful political and economic liberalisation over the past two decades. This combination of greater intertemporal credibility and more collectively oriented politics leads us to expect that Mongolia would perform better than the other countries considered here in terms of both rent generation and rent distribution.

As part of its economic liberalisation package, Mongolia enacted a new minerals law in 1997 that was considered extremely attractive to investors and thought to embed many good mineral management practices, including especially a commitment to the first-come, first-served principle for granting mineral rights (Ortega Girones et al. 2009). But the framework governing the sector was altered in 2006, with the adoption of a Windfall Profits Tax and amendments to the minerals law that compromised the security of mineral rights tenure and introduced new risks

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for license holders. The amendments also designated a category of 'strategic deposits' in which the government had the right to take a 50 per cent equity share in extraction, marking the beginning of a prolonged and energetic public debate about what constituted the government's and, by extension, citizens' fair share in the country's mineral wealth. Rent generation potential and commercial activity in the sector were directly affected by these changes to the legal framework: the enactment of the 1997 law marked a take-off for the sector, while the 2006 amendment, in turn, had a negative impact on the sector, bringing a marked decline in licensing activity and revenues. Mongolia witnessed the consequences of this period of investor uncertainty on the predictability of mineral sector policy: activity on the Oyu Tolgoi copper and gold project, the second largest mine in the world, was halted as a result of the debate on equity share, thus the country was not positioned to take full fiscal advantage of the mid-2000s boom in copper prices. The ongoing debate between 'resource nationalists' and those who would return to more favourable terms for extractive industry investors continues to animate political competition into today, as well as limit Mongolia's rent generation potential due to the uncertainty in extractive terms (Boulegue 2013).

The mining license system in Mongolia has also contributed to a wariness on the part of investors to make extractive commitments.[13] The system is operated manually, with multiple points subject to administrative corruption and political interference and the general perception is that favouritism and conflicts of interest in license allocation are major problems (Reeves 2011). The 2006 World Bank Investment Climate Survey estimated unofficial payments for exploration and mining licenses at 40 per cent of official fees. In addition, civil society groups articulated the view that subnational officials simply engage in contract negotiations with investors themselves, taking side payments from mining companies in return for their approval.[14]

Even though rent generation performance could have been enhanced considerably, the fact that mineral discoveries were proliferating at the time of commodity price highs meant that Mongolia enjoyed a resource rent windfall in the mid-2000s. The government distributed these rents to the population through two major channels—public investments and social transfers. Mongolia's public investment program expanded ninefold from 2005 to 2008, but the country's public investment processes were simply not equipped to handle this volume of resources. There is no institutionalised, comprehensive prioritisation process; investment planning is, instead, highly politicised. The political rules were rewritten in the mid-2000s to explicitly grant members of parliament discretion over a significant portion of public monies in their electoral districts. Hasnain (2011) argues that Mongolian parliamentarians have the incentives to commit public investment funds to smaller projects that benefit particular geographic localities and political supporters, instead of to public infrastructure projects that would enhance collective welfare across the country. Furthermore, until 2010, fiscal rules permitted parliament to increase the budget proposed by the executive, leading to a major source of fiscal instability and overcommitment of public funds that contributed to a fiscal crisis in 2009 and 2010.

In addition to public investment growth, the Mongolian government introduced in 2005 what it termed the Child Money Program as a mechanism for transferring resource rents to its citizens. This and other social transfers were promised in 2004 political party platforms at the height of the commodity boom. Although direct distribution to citizens is certainly with its merits, there has been limited uptake of such schemes in developing countries because they are difficult to implement. The universalisation of the Child Money Program in Mongolia, to avoid the administra-

13. The discussion on Mongolia's mineral sector governance draws from two World Bank-sponsored research trips to Ulaan Baatar in 2008, as well as Boyreau et al. (2009, unpublished draft).

14. Author's interviews with Mongolian civil society representatives; Ulaan Baatar, Mongolia, February 2008.

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tive complexities of targeting, also contributed to the later fiscal crisis.

Mongolia's experiences in rent generation and distribution provide mixed evidence with regard to the typological framework advanced here. The relatively longer time horizons and stability afforded by orderly democratic transitions have been dampened by constant tinkering with electoral and institutional rules and the legal and regulatory framework for the minerals sector. Even under those conditions, however, Mongolia was able to generate a significant stream of rents during the commodity boom of the mid-2000s and successive Mongolian governments have managed to distribute resource wealth to the population through the public investment and social transfer programs. Yet the possible benefits of the higher degree of political inclusiveness overall have been attenuated in the minerals sector—there is clear evidence that political interference and clientelism contributed to rent seeking, elite enrichment and particularist public goods provision. Mongolia illustrates the particular dependence of rentier state outcomes on volatile commodity prices—when resource rent streams were high, rent generation and rent distribution performed as expected; but when the boom turned to bust, performance in the two rent arenas deteriorated rapidly.

5. Conclusion

The brief evidence presented here on the distinct patterns of resource rent generation and distribution in Laos, Mongolia, Papua New Guinea and Timor-Leste supports the expectations motivated by the typology. In resource-dependent developing countries with weak intertemporal credibility and low political inclusiveness, elites are able to channel resource rents to benefit themselves and their clientelist networks and away from investment in broad-based public goods and social welfare. Factors that lengthen time horizons enhance the potential for favourable extractive deals and hence rent generation for society; and improving dimensions of political inclusiveness makes it more likely that rents will be distributed to enhance collective welfare.[15]

Rentier state experiences vary in important ways—and countries will be better able to mitigate the resource curse if we can better identify and understand their particular experience of it. In countries with short time horizons borne of political instability and a lack of commitment to extractive bargains and secure property rights, policies and arrangements that enhance intertemporal credibility in the natural resource sector could alleviate the problems associated with generating resource rents. For example, a simple, rule-based and transparent process for granting resource concessions would help to minimise uncertainty and improve predictability, in turn enabling a country to better reap its natural resource wealth. Timor-Leste's rent generation has indeed been enhanced in this manner through the use of model contracts and exemplary bidding practices. In countries with low degrees of political inclusiveness where elites do not have the incentives to make decisions oriented toward broad-based collective welfare, mobilising collective action could improve rent distribution practices. For example, earmarking a portion of resource rents for social sector and public investment spending or community-based budget oversight or participation at some level of the public investment process could help to ensure that at least some portion of resource rents are spent on the public good. Participatory budgeting with civil society organizations in Mongolia, social transfer schemes in Mongolia and Timor-Leste, and decentralised public investment implementation in Laos have, to some extent, helped focus rent distribution more on the collective good.

Although natural resource dependence brings with it certain structural effects, the resource curse is not a deterministic outcome. Even in Papua New Guinea, where short time horizons and low political inclusiveness appear to make certain elements of the resource curse

15. See Barma et al. (2012) for a detailed treatment of specific potential reform interventions along the natural resource value chain.

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over-determined, decision-makers have the ability to implement policies that can mitigate the worst of the resource curse. Sound resource rent management through stabilisation fund-based mechanisms that ensure expenditure smoothing, along with earmarking of revenues for public goods may yet improve outcomes in Papua New Guinea, with its major new resource stream offering a window of opportunity. The principles of simplicity, predictability, transparency and accountability in resource rent management carry across all rentier states that wish to avoid the resource curse—but finding the best way to achieve these goals in the resource sector depends upon a more finely grained apprehension of a country's particular rentier state experience.

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