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**A CRITICAL STUDY OF THE RESOURCE CURSE THESIS AND
THE EXPERIENCE OF PAPUA NEW GUINEA**

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Business and Creative Arts
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Abstract

According to the *resource curse thesis* (RCT) of the 1990s, a strand of development discourse informed by neoliberal development economics, natural resource-rich developing countries are *cursed* by their natural resources abundance, particularly minerals and petroleum. Based on comparative statistics collected from the 1970s to the 1990s, the resource curse theorists claim that natural resources-rich developing countries have performed very poorly in terms of economic growth leading to industrialisation and improvement in social welfare compared to resource-poor developing countries at similar stage of development such as Singapore, Taiwan and South Korea. The resource curse theorists argue that, contrary to the assumptions of modernisation theory of the 1940s and 1950s that natural resources abundance would lead to rapid capital accumulation that would then lead to rapid industrialisation and usher in a stage of sustained economic growth, resource-rich developing countries have experienced regressive economic growth trends, systemic corruption, civil wars, political instability, and general decline in the standard of living and social wellbeing. The resource curse theorists thus assume that resource-poor developing countries prospered because they pursued ‘free market’ and export-oriented policies such as open trade while resources-rich developing countries sought ‘autarkic’ (heavily regulated) policies that led to their regression. Therefore, these theorists conclude that the solution to the resource curse is ‘free market’ policies epitomised by the Washington Consensus.

This thesis critically examines the RCT from a political economy standpoint and establishes that the resource curse *effects* are the same outcome described by political economists in the 1950s and 1960s as the *underdevelopment of development*. The

difference in the choice of words to describe the same effects stems from the ideological standpoint from which Third World poverty and underdevelopment is discussed. To the resource curse theorists viewing from the standpoint of neoliberalism, internal factors such as political corruption, rent seeking, lack of transparency and good governance cause the resource curse. To the political economists on the other hand, external factors such as the volatility of world commodity prices, capital flight, tax evasion, colonialism, imperialism, neocolonialism and globalisation cause underdevelopment.

This thesis establishes that both external and internal factors contribute to the poverty and underdevelopment of Third World countries. One of the external factors is the legal regime imposed through colonialism. Colonial laws have effectively divested indigenous peoples of their ownership and property rights in natural resources, which the neo-colonial nation-states retained upon independence, which are then transferred to transnational corporations in exchange for licence fees and non-controlling equity. Local ruling elites and foreign capitalists share the resources wealth, leaving the majority impoverished and their countries underdeveloped. Chapters 10 and 11 examine Papua New Guinea's legal regime to demonstrate this point.

The thesis concludes that the solution to the resource curse or underdevelopment is for natural resources-rich developing countries to reform their laws to allow majority ownership and control in their citizens and adopt policies that the now developed countries adopted and followed when they were at similar stage of development. These policies are the 'autarkic' policies rejected by the resource curse theorists but recommended by the political economists of the underdevelopment discourse.

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ABBREVIATIONS

AFRODAD	African Forum Network on Debt and Development
AIAE	African Institute for Applied Economics
AoA	Agreement on Agriculture
APF	Alaska Permanent Fund
AusAID	Australian Aid and International Development
BCA	Bougainville Copper Agreement
BCCI	Bank of Credit and Commerce International
BGFLA	Business Group for Latin America
BI	Business International
BIS	British Intelligence Service
BP	British Petroleum
BSA	Benefits Sharing Agreement
BSR	Benefits Sharing Regime
CDOs	Collateralized Debt Obligations
CC	Control of Corruption
CIA	Central Intelligence Agency (US)
CIC	China Investment Corporation
CIDA	Canadian International Development Agency
CIPA	Country Policy and Institutional Assessment
CIPE	Centre for International Private Enterprise
CIS	Centre for Independent Studies
CPC	Constitutional Planning Committee (PNG)
CPS	Centre for Pensions and Superannuation
CRA	Conzinc Riotinto of Australia
DRC	Democratic Republic of Congo
ECA	Enhanced Cooperation Agreement (Australia & PNG)
ECAs	Export Credit Agencies
EFIC	Export Finance and Insurance Corporation (Australia)
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
EHM	Economic Hit Man
EIC	Expenditure Implementation Committee
EPI	Export-Promotion Industrialisation
EU	European Union
EURODAD	European Network on Debt and Development
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GE	Government Effectiveness
GIC	Government of Singapore Investment Corporation
GNP	Gross National Product
GRICS	Governance Research Indicator Country Snapshot
HDI	Human Development Indicators

HLLG	Hulia Local-Level Government
IAEA	International Atomic Energy Association
IBP	International Budget Project
IDA	International Development Association
IDPE	international development policy establishment
IFIs	International Financial Institutions
IGOs	Intergovernmental Organisations
IMF	International Monetary Fund
IOB	Iranian Oil Bourse
IPBC	Independent Public Business Corporation
IPD	Initiative for Policy Dialogue.
IRI	International Republican Institute
ISI	Import-Substitution Industrialisation
ITIC	International Tax and Investment Centre
ITT	Industrial, Trade and Technology
JECOR	U.S.-Saudi Arabian Joint Economic Commission
KDA	Kutubu Development Agreement
KIC	Korea Investment Corporation
KSPA	Kutubu Special Purpose Authority
LBD	Learning-by-Doing
LNGP	Liquefied Natural Gas Project
MDA	Moran Development Agreement
MDTF	Multi-Donor Trust Fund
MHA	Member of the House of Assembly
MNCs	Multinational Corporations
MP	Member of Parliament
MRA	Minerals Resources Authority
MRDC	Mineral Resources Development Company
NAFTA	North American Free Trade Agreement
NBIM	Norges Bank Investment Management
NED	National Endowment for Democracy
NDCs	Now Developed Countries
NDI	National Democratic Institute
NFRK	National Fund for the Republic of Kazakhstan
NGC	National Gas Corporation Limited
NGDP	National Goals and Directive Principles
NGOs	Non-governmental Organisations
NPT	Nuclear Nonproliferation
OBI	Open Budget Initiative
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
OSJI	Open Society Justice Initiative
OSCs	Observance of Standards and Codes
PDL	Petroleum Development Licence
PNGBC	Papua New Guinea Banking Corporation
PNG	Papua New Guinea
PNGSDP	Sustainable Development Program Limited

PPA	Power Purchase Agreement
PRK	Petroleum Resources Kutubu
PRM	Petroleum Resources Moran
PSAs	Production-Sharing Agreements
PSC	Production-Sharing Contract
PV	Political Instability and Absence of Violence
PWYP	Publish What You Pay
RCT	Resource Curse Thesis
RL	Rule of Law
ROSF	Russian Oil Stabilization Fund
RQ	Regulatory Quality
SAMA	Saudi Arabian Money-laundering Affair
SAPs	Structural Adjustment Programs
SHP	Southern Highlands Province
SHPG	Southern Highlands Provincial Government
SML	Special Mining Lease
SOFA	Status of Forces Agreement
SOF	State Oil Fund
SWFs	Sovereign Wealth Funds
TJN	Tax Justice Network
TNCs	Transnational Corporations
TWN	Third World Network
UN	United Nations
UNDP	United Nations Development Program
UNCLA	United Nations Commission for Latin America
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USAID	U.S. Agency for International Development
UR	Uruguay Round
VA	Voice and Accountability
WBG	World Bank Group
WTO	World Trade Organisation.
WW II	World War II

TABLE OF STATUTES

Papua New Guinea

Companies Act 1997
 Compensation (Prohibition of Foreign Legal Proceedings) Act 1995
 Constitution of Papua New Guinea 1975.
 Courts and Laws Adopting Ordinance 1888.
 Goldfield Ordinance of 1888
 Income Tax Act 1959.
 Laws Repeal Act 1975
 Minerals Resources Authority Act 2005.
 Mineral Oil and Coal Ordinance 1923
 Mining Act 1898 of Queensland (adopted)
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 Mining Development Act 1955
 Mining Ordinance 1899 (Papua).
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 Oil and Gas (Budget Provisions 2000) Act No.21 1999,
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 Organic Law on Provincial and Local Level Governments
 Papua Act 1905.
 Petroleum (Prospecting and Mining) Ordinance 1938-1939
 Petroleum (Prospecting and Mining) Ordinance 1951
 Regulatory Statutory Authorities (Appointment to Certain Offices) Act 2004

Norway

Government Petroleum Fund Act No.36 of 22 June 1990.
 The Government Pension Fund Act No.123 of 2005.

Timor Leste

Petroleum Fund Act 2005.

South Korea

The Korea Investment Corporation Act No. 7393
 Korea Investment Act 2005.

United States

Export-Import Bank Act of 1945.
Export and Investment Guarantees Act.

Australia

Export Finance and Insurance Corporations Act 1991.

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Sarei v. Rio Tinto, No.02-56256, D.C. No. CV-00-11695-MMM, (United States Court of Appeals for the Ninth Circuit in San Francisco, California, USA)

Yapao Lawyers v. Pawe and Porgera River Alluvial Miners Association (1998) N1759.

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2004

Development Agreement Relating to the Central Moran Petroleum Development Project between the Independent State of Papua New Guinea and the Moran Project Area Landowners, Hulia Local-level Government and the Southern Highlands Provincial Government

North Atlantic Free Trade Agreement

PNG LNG Project Umbrella Benefits Sharing Agreement between the Independent State of Papua New Guinea and the Southern Highlands, Gulf, Central, and Fly River Provincial Governments, South Koroba, North Koroba, Hayapuga, Komo, Hulia, Lake Kutubu, West Kikori, West Hiri and Nomad Local-level Governments and the Project Area Landowners.

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Preface

Generally, the law, policy and events discussed in this thesis are stated as at 31 December 2008, although in some instances global developments during the first half of 2009 are included. This reflects the fact that the draft thesis was completed by the end of 2008, while the first half of 2009 was spent on editorial work, structure and arrangement of the thesis.

Every effort has been made to edit and ensure that spelling is English/Australian and not American, but there may still be instances where American spelling may have evaded my attention.

Style citation, including the bibliography, is the Melbourne University standard, which is the standard adopted by the School of Law, James Cook University.