

**House Committee on Financial Services  
Opening Remarks  
By Rep. Maxine Waters**

**Hearing: “Transparency of Extractive Industries: High Stakes for  
Resource-Rich Countries, Citizens and International Business”**

**Thursday, October 24, 2007  
2128 Rayburn, 10:00AM**

I would like to thank Chairman Barney Frank and Ranking Member Spencer Bachus for organizing this hearing on the impact of extractive industries on development in resource-rich developing countries.

**The Resource Curse**

Throughout my career, I have taken an active interest in foreign policy towards the countries and peoples of Africa. I have always noted with dismay that many African countries are desperately poor countries despite being rich in natural resources. The tendency for countries that are rich in oil, gas, and mineral resources to experience slower growth, higher levels of poverty, and more civil strife than countries that are not resource-rich has come to be known as the “resource curse.”

Liberia is a good example. Liberia is endowed with a wealth of diamonds. These diamonds should have been a blessing for Liberia’s impoverished people. Instead, they fueled a civil war that lasted fourteen years, took the lives of 270,000 Liberians, and displaced almost one million more. The civil war finally ended two years ago with the election of Liberian President Ellen Johnson Sirleaf, the first woman head of state in Africa.

I am hopeful that the restoration of democracy will lead to a brighter future for the people of Liberia. However, 75 percent of Liberia’s population still lives on less than \$1 per day, and Liberia owes \$3.7 billion to foreign countries and multilateral financial institutions. It is not hard to understand why the Liberian people might think they have been cursed with diamonds.

Other resource-rich countries have also experienced poverty, authoritarian rule, and civil strife. The government of Sudan has exported billions of dollars worth of oil to China and purchased over \$80 million in arms, ammunition, and aircraft equipment from China, while committing genocide against its own people. Angola is rich in oil, and Sierra Leone is rich in diamonds, and both are recovering from civil wars. South Africa is rich in gold, platinum, and coal, and it is recovering from decades of oppression under the brutal system of apartheid.

Of course, Africa is not the only part of the world where countries rich in resources have experienced poverty, dictatorship, and conflict. When President Bush embarked upon the Iraq War to remove the dictatorial regime of Saddam Hussein, we were told that Iraq could finance its own development because it possessed a wealth of oil. Yet, over four years later, Iraq is in a state of civil war. Meanwhile, 3,837 Americans have died while the United States continues to spend billions trying unsuccessfully to rebuild the country.

## **Causes of the Resource Curse**

There are a number of possible causes of the resource curse. Some analysts claim that resource-rich countries would benefit from their resources if only their leaders did not steal the profits. Others argue that the problem is much deeper.

One theory is that resource extraction is capital-intensive. It requires a significant financial investment, but it does not create a comparable number of jobs. Consequently, the profits from resource development are not broadly shared. Agriculture and manufacturing, on the other hand, are labor-intensive. Therefore, the benefits of development in these sectors are shared by a much larger portion of the population.

Another theory is that the exportation of resources increases the value of the local currency. This, in turn, crowds out other industries and makes agricultural and manufactured products more expensive and less competitive compared with foreign products. This results in declines in income and job losses in agriculture and manufacturing, leaving the resource extraction industry to dominate the economy. This phenomenon is known as the “Dutch disease.”

Yet another theory is that governments that benefit from resource revenues have no incentive to be responsive to their people. When governments are forced to tax the population to raise revenue, they are held accountable by the population for their use of public money. Even dictatorial governments risk revolt if they tax the population but do not provide public services in return. However, when a government can raise revenue without taxation, political leaders can enrich themselves without doing anything for the population.

## **Responses to the Resource Curse**

One way to address the problem of the resource curse is through revenue transparency requirements. Oil, gas, and mining companies should be required to report all of the revenues they pay to resource-rich developing countries. Such reports should include all payments made to government agencies and national and local elites, including bribes and other payments to individual politicians. These reports should be made public, so they will be available to the local population. They should also be made public in the developed world, where the resources are purchased and consumed.

Revenue transparency would allow the people of resource-rich developing countries to hold their governments accountable for the use of public revenues, just as other populations hold their governments accountable for the use of public tax funds.

Unfortunately, requiring transparency is easier said than done. Countries experiencing the resource curse usually lack oversight capabilities. Meanwhile, oil, gas, and mining companies fall under the jurisdiction of several different regulatory systems, including the United States, the European Union, and China. However, if transparency requirements are effectively enforced, they could allow some countries to escape the resource curse.

## **Conclusion**

I look forward to the testimony of the witnesses on the causes of the resource curse, as well as their suggestions for reforms to enable the people of resource-rich developing countries to benefit from their resources.