Beyond Resource Curse: Challenges and Opportunities for the Democratic Republic of Congo's Economy.

Abstract

Despite its rich natural resource base, the Democratic Republic of the Congo ranks among the world's least developed countries. A complete attribution of this underdevelopment to the notion of the resource curse, which is characterized by rent-seeking corruption, price volatility, and the Dutch disease, fails to recognize other factors that have affected both the economy and the workforce. This paper acknowledges DRC as an excellent example of the resource curse concept but emphasizes DRC's structural deficiencies resulting from colonialism and slavery, such as poor governance, insufficient transportation networks, a lack of value-added economic infrastructure, and a shortage of skilled labor. Although the DRC has a long history of exploitation, it still maintains significant sources of revenue, which continue to be impacted by insecurity, poor management, and predatory cultures. This paper suggests that the development of an effective governance system is essential to prioritizing initiatives that will enhance the DRC economy. In addition to reforming the political system, the government must invest mineral revenue in agriculture, infrastructure, energy, and quality of labor to increase capital accumulation. The country will therefore transition from a handicraft economy to an industrial, manufacturing economy, with a corresponding increase in output and productivity as a result.

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I. Introduction

The Democratic Republic of Congo, located in eastern Central Africa, is the largest country in Sab-Saharan Africa and the second largest in Africa with a population of around 108 million as of 2022 (World Bank). DRC suffered from colonial extractive systems for around 75 years, right after a century of slave trade done by the British, Dutch, Portuguese, and French. The country faced the worst colonial atrocities under Leopold II, who took it as his territory and made concessions to private companies to extract resources that fired industrial sectors in the Western world. A series of economic and political shocks followed the Democratic Republic of Congo's independence from Belgian colonial power in 1960. Despite having one of the world's richest natural resources, the DRC is also one of the poorest countries in the world (World Bank, 2023). According to the World Bank, 62% of Congolese live on less than $2.15 a day. Despite its abundance of natural resources and fertile lands, DRC is heavily reliant on imported food. Political predation and conflict have prevented it from sustaining itself for several years. A strategic public asset management program and a special political reform are indispensable to the DRC's economic development.

II. Economic Growth Challenges in the DRC

Understanding DRC's history is crucial to understanding the current economic situation. Since pre-colonial times, natural resources and human resources have been exploited. The Kingdom of Kongo, which includes what is now the DRC and a portion of Angola, had impressive civil services and a well-organized regime in the late 15th century, which attracted slave traders (BBC: 2013). As Nathan Nunn points out, enslaved people were taken from densely populated places, which tended to have a higher income (Nunn:2008). Kongo is a good example. The Portuguese engaged in the slave trade by first destroying indigenous political forces that could hinder their trading interests—resulting in more than 5.7 million enslaved people being forced to migrate to the Americas (Fox:2018). Nunn concludes that this early extraction of human resources and the weakening of governance through the slave trade had led to lower current GDP.

DRC's underdevelopment is also a result of colonization. In 1885, predatory foreign powers began preying on the country; until 1908, the current DRC was the “Congo Free State” of Leopold II. He granted concessions to private companies to collect rubber which was in high demand in Europe; they had monopoly control over violence and a high tax system (Hochschild: 1998). Concessions and management of the territory and people continued even after Leopold's regime; while there were fewer extreme atrocities, Belgian colonialism continued to be violently extractivist (Bak et al:2019). Their continued co-opting of local leaders has affected leadership to this day. According to Lowes and Montero's study, rubber concession has established a series of strongmen who still dominate village politics today (Lowes & Montero: 2021). Their study found that villages in former concessions have worse education, wealth, and health outcomes because village chiefs are less likely to provide public services (Lowes & Montero: 2021). Their study assesses specific concessionary regions under Leopold, but Bak et al. show that concessions, labor subjugation, and resource exploitation, continued throughout the Belgian colonial rule. So, using the Cobb Douglas production function, $Y = AK^{\alpha}N^{1-\alpha}$, colonial exploitation resulted in lack of capital stock (K), enough unskilled labor (N), and poor factor productivity (A), such as technology, skilled workforce, and governance, which have negatively impacted the country’s production (Y). Having limited local participation at high levels during colonial times, as well as a lack of higher education, has negatively impacted DRC’s economic performance. As an example, only three of the 5,000 jobs in government held by Congolese were filled by Congolese and no Congolese doctor, engineer, or lawyer was present (BBC:2013). As depicted in Figure 1, colonial neglect of local workforce development, infrastructure, and technology contributed to economic decline, perpetuating neocolonialism, and foreign aid dependency.

Poor governance and resource management have also affected DRC's economy. The pivotal moments in Figure 1 are 1966-1974 and 19975-2000, periods characterized by authoritarian, kleptocratic, and neo-patrimonial regimes. From 1966 to 1974, President Mobutu's government adopted an old structuralism approach as part of his economic development plan titled "*la politique des grands travaux*" by investing in "white elephant" projects and nationalizing all foreign companies, large and small (Akitobi and Cinyabuguma: 2004). With the establishment of the patronage network and support system, the government monopolized the entire economy (Bak et al:2019). As shown in Figure 1, Mobutu's economic development goal fueled economic growth for a few years, followed by a consistently declining GDP per capita. Poor resource allocation and corruption caused the old structuralism projects to fail. Due to colonial exploitation, DRC lacked the capital and skilled workforce to undertake such big industrial projects, which is why they were monopolized by elites. According to Lin's new structuralism, a country should produce according to its factor endowments (Lin: 2012). DRC has a low capital/labor ratio and a comparative advantage in labor-intensive goods. According to Lin's framework about how Burundi can become Switzerland (Lin:2012), the reconstruction of DRC's economy should have taken place by investing in labor-intensive goods like agriculture, aiming at gradual capital accumulation and upgrading the industrial sector towards capital-intensive products.

Natural resource curses have been exacerbated by colonialism, Mobutu's dictatorship, and the old structuralism regime. Mobutu’s authoritarian and Kleptocratic regime established a political tradition of corruption and neopatrimonialism (Matti:2010). He and his support system mismanaged public funds and a large portion of mining revenue was distributed between patron-client networks(Stepherd: 2019; Bak et al.: 2019; Global Witness: 2017). Consequently, DRC, which relied heavily on mining exports and food imports, suffered from commodity price shocks in the 1970s and 1980s, resulting in high food prices due to currency depreciation. In September 1983, the government launched a strong stabilization and liberalization program. This was followed in 1987, with IMF and World Bank support, by a structural adjustment program aimed at creating a sustainable external financial position and long-term economic growth (Akitobi and Cinyabuguma: 2004). The structural adjustment did not result in any significant growth due to rent-seeking corruption, as well as a slump in commodity prices.

While economic and political liberalization efforts were made, the economy continued to decline, resulting in DRC's collapse between 1990 and 2000 (Usanov et al:2013). In 1997, the Mobutu regime was overthrown by a military coup, bringing the country into democracy. As a result of two deadly wars, the country lost more than 200,000 people during the first Congo war (1996-97) and 3.9 million people during the second Congo war (1998-2002), with the toll increasing to 5.4 million by 2007 (Reyntjens: 2007; Rescue.org: 2007; Deibert: 2013). There was a significant loss of capital stock, infrastructure, and labor force, which discouraged investment.

As reported by Akitobi and Cinyabuguma, as well as in Figure 1, per capita real GDP plummeted from US$224 in 1990 to US$85 in 2000 because of that turmoil. An average of 684 percent increased consumer prices over the same period, 80 percent fell government revenue, and 300 percent increased external debt (Akitobi and Cinyabuguma, 2004).

While the abundance of natural resources exacerbated the turmoil, the wars themselves resulted in a higher level of corruption, unemployment, and food crisis. As presented by Atkin and Donaldson, poor infrastructure caused by the wars and Mobutu regime has contributed significantly to severe humanitarian crises due to high trade costs; that forced the government to depend on foreign aid and citizens to rely on informal sectors, subsistence farming, and artisanal mining. A restructured mining, agriculture, and energy sector would change the image of the DRC and have a positive impact on the continent's economic fortunes.

III. Opportunities for Economic Growth

The mining sector in the DRC is still a potential source of economic growth. The DRC is endowed with the world's most demanded minerals, including diamonds, gold, copper, cobalt, zinc, and coltan, as well as uranium, rubber, crude oil, etc. Over 95% of exports come from the mining industry (atlas of economic complexity: 2017). The DRC is in a strategic position for the world energy transition as it exports the most cobalt and copper and supplies 70% of the cobalt that is used in batteries and electric vehicles (International trade administration: 2022).

According to the international trade administration report, DRC is estimated to have mineral wealth in the tens of trillions, and the World Bank estimates that by 2025, DRC's economy will grow at 7.5%. However, the DRC's economy is still vulnerable to commodity price swings and the growth performance of major trading partners (World Bank: 2022). Since the DRC relies heavily on tradable imports and mineral exports for its economy, natural resources curse sources such as commodity price volatility and Dutch disease negatively affect its economy. Despite that, investing the proceeds in other sectors such as agriculture, energy, infrastructure, human capital, and technology would make the economy immune to multiple shocks.

Agriculture, together with the energy sector, is another source of economic growth in the DRC. While agriculture employs more than 60% of the population, it fails to improve food security as it remains labor-intensive instead of capital-intensive, resulting in limited economies of scale. Less than ten percent of the country's 80 million hectares of arable land are being used (International Trade and Administration: 2022). Considering the country's poor infrastructure, Gebresilasse proposes agriculture extension and road expansion as key solutions to agricultural productivity (Gebresilasse: 2018). Investment in agriculture extension and road expansion simultaneously would provide farmers with sufficient skills and technology to maximize productivity and capture market opportunities. That will lead to an increase in GDP per capita, resulting, according to Engel's Law[1], in high demand for different goods, which will shift the economy from agriculture to manufacturing. MacMillan and Zeufack's study finds that the shift from Agriculture to manufacturing has been one of the hallmarks of job creation and poverty eradication and rapid growth in low-income countries (MacMillan and Zeufack: 2022). So, DRC's industrialization will be fueled by an increase in agricultural productivity.

The energy sector is another source of growth that can significantly contribute to the structural transformation success. DRC has immense and varied energy potential, consisting of non-renewable energy sources such as oil, natural gas, and Uranium, as well as renewable energy

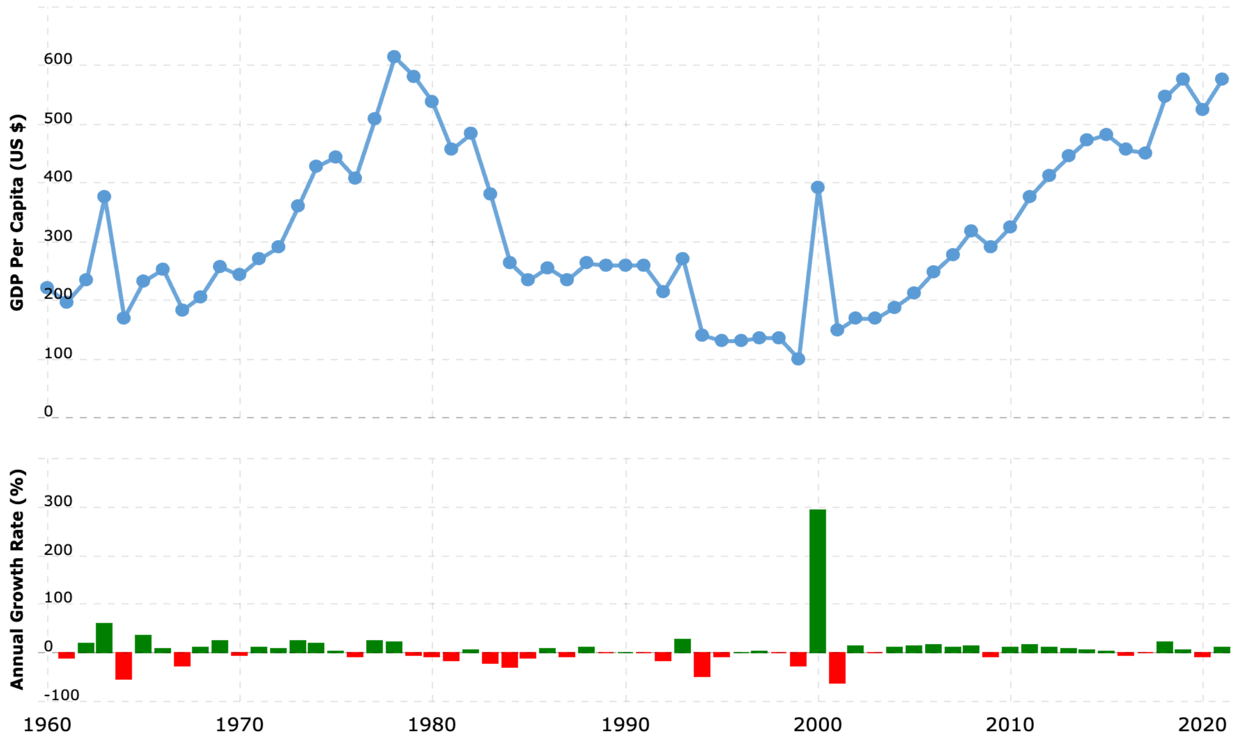
[1] Engel's Law is a 19th-century observation that as household income increases, the percentage of income that a household spends on food will decline while the percentage spent on other things increase.

sources such as hydroelectric, biomass, solar, and geothermal power. Despite the abundance of energy sources and millions of dollar funding in the sector, only 19% of the population have access to electricity–41% in urban areas and 1% in rural areas (International Trade Administration:2022). By improving the energy sector, rural and urban areas will receive more energy, which will attract foreign investment. As a result of foreign investment and access to finance, the DRC will be able to add value to its natural resource and agricultural productions by manufacturing raw materials.

IV. Conclusion

The natural resource curse-the idea that natural resources negatively affect economic growth-does not adequately explain DRC's lagging economic development. The underdevelopment of the DRC can be traced to historical exploitation, including the slave trade, as well as extractive colonialism, which left the nation dependent. Neocolonialism and poor postcolonial authoritarian regimes hindered implementation of corrective policy measures to mitigate many of the patterns that contributed to the resource curse. Despite the long-standing political predation, conflicts, and corruption culture, there are still opportunities to grow the DRC’s economy. As Lin’s new structuralism highlights, government contribution is indispensable. Government should establish a transparent legal and regulatory framework for natural resources that clearly defines institutional mandates and accountability lines, coupled with improving the country’s security situation. Investments in agricultural, infrastructure, energy, and labor force improvements could reduce the country's dependency on mining and shift its economy away from agriculture toward manufacturing. The current government should also learn from Botswana's successful experience in avoiding natural resource curse.

Figure 1.



Source: World Bank, 2022

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