

The Natural Resource Curse

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Outline

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- Negative effects and causes
- Concluding remarks

Introduction

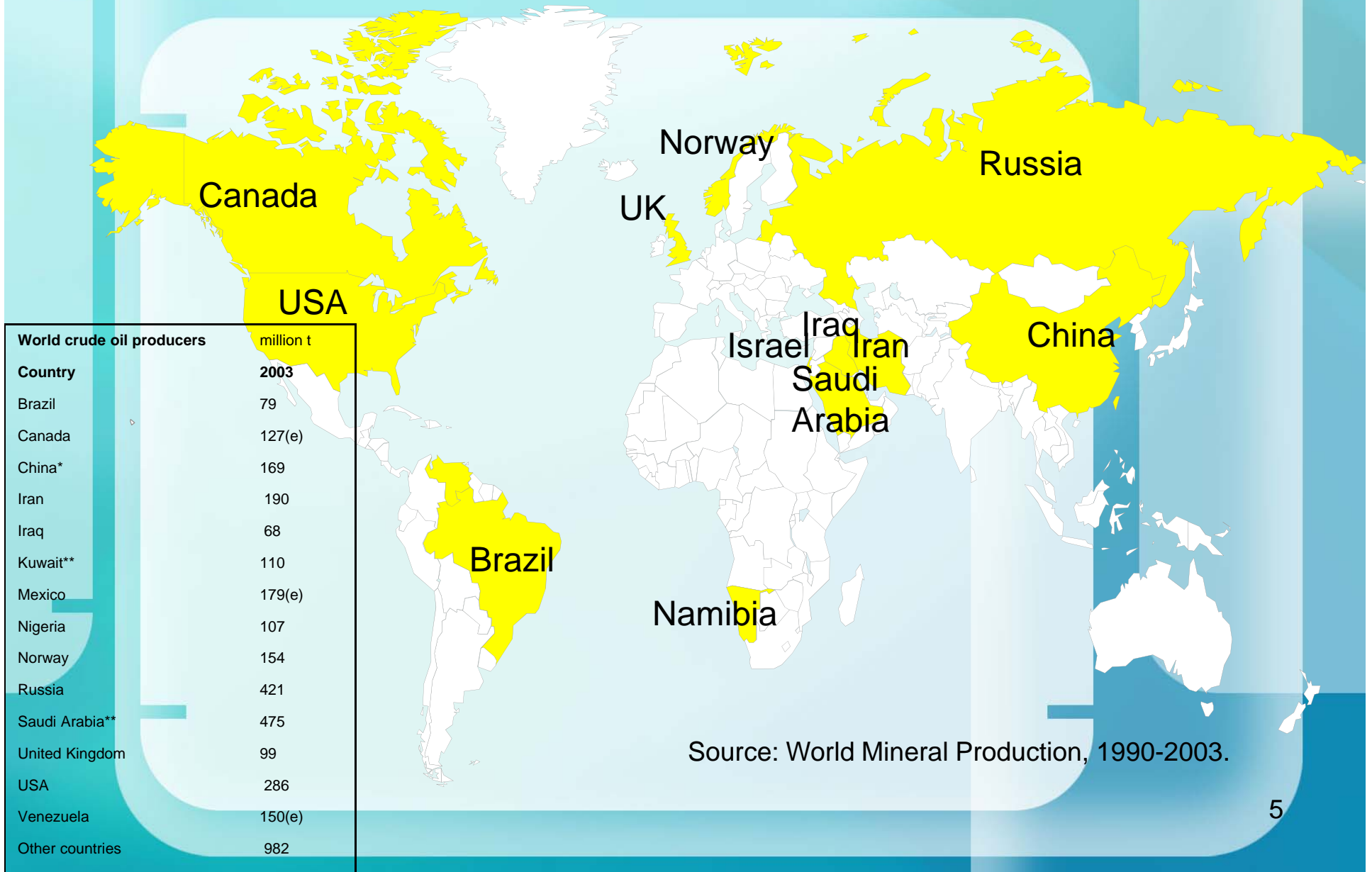
Ten years from now, twenty years from now, you will see: oil will bring us ruin ... Oil is the Devil's excrement.

—Venezuelan politician Juan Pablo Pérez Alfonzo, one of the founders of OPEC(2003)

Definition

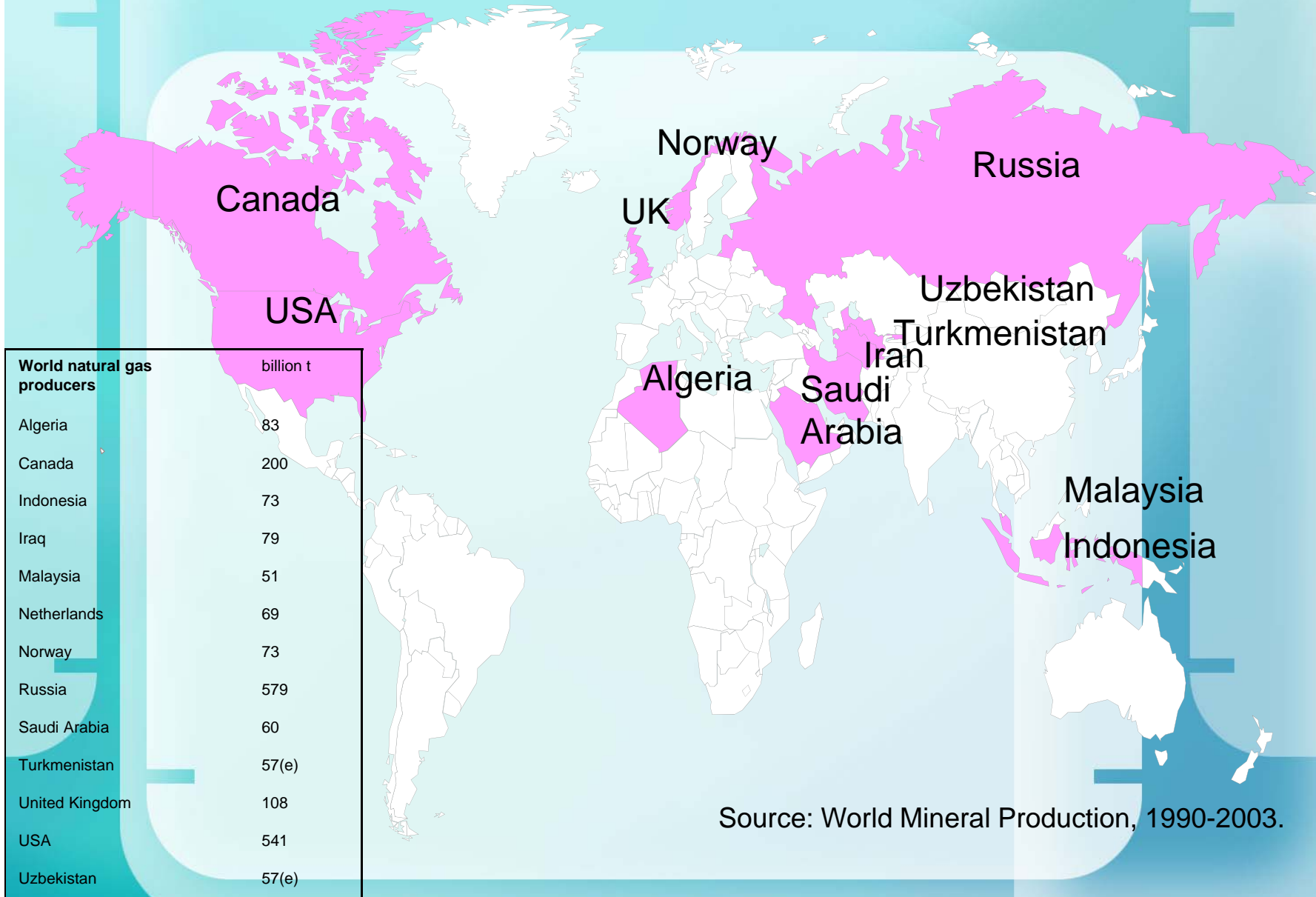
The *Natural Resource Curse* (also known as the *Paradox of Plenty*) refers to the paradox that countries and regions with an abundance of natural resources, specifically point-source non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources.

Major Crude Producers in the World (in tonnes of metal content)



Source: World Mineral Production, 1990-2003.

Major Natural Gas in the World(in tonnes of metal content)

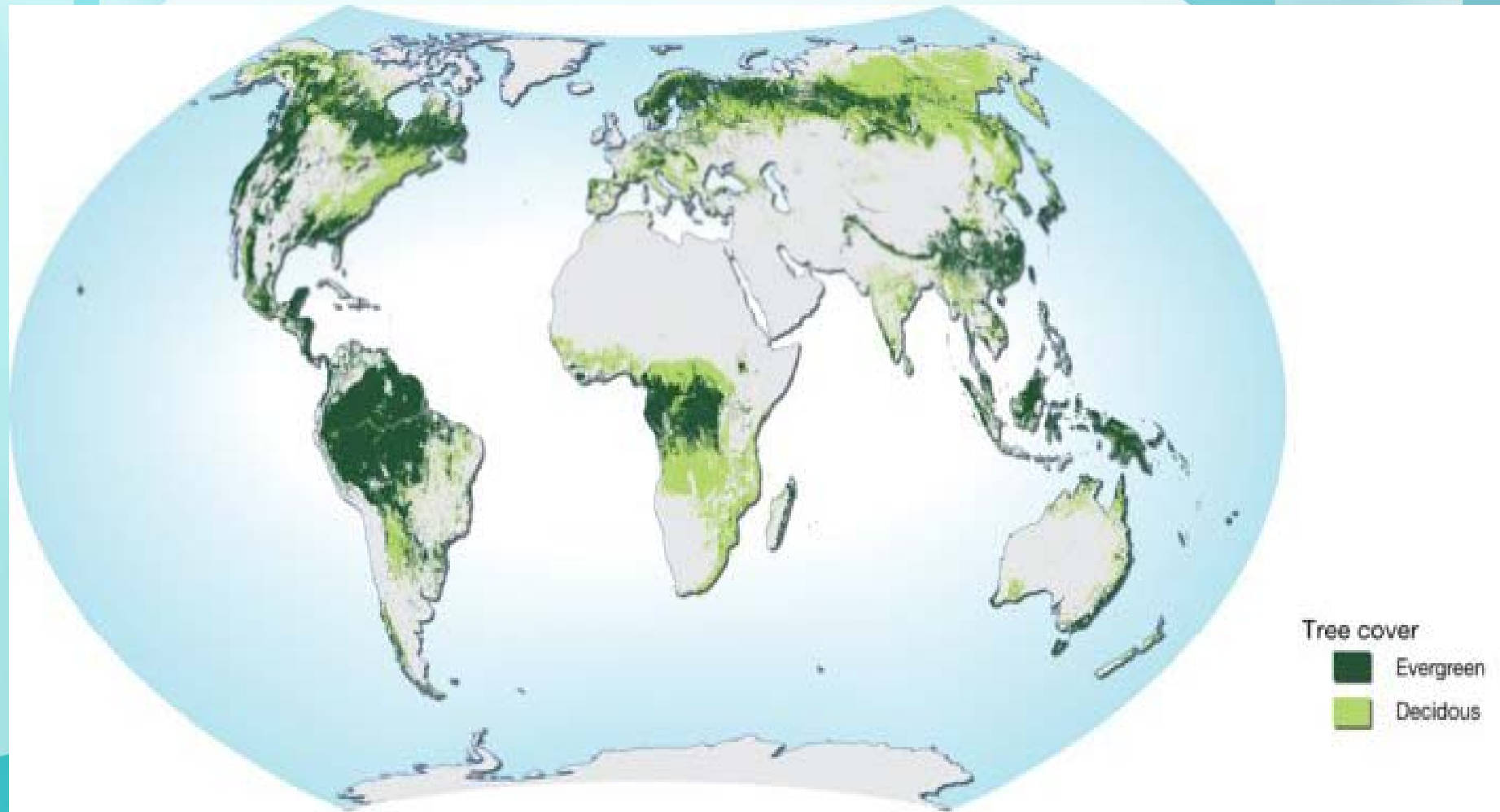


Source: World Mineral Production, 1990-2003.

Mineral Map of THE WORLD

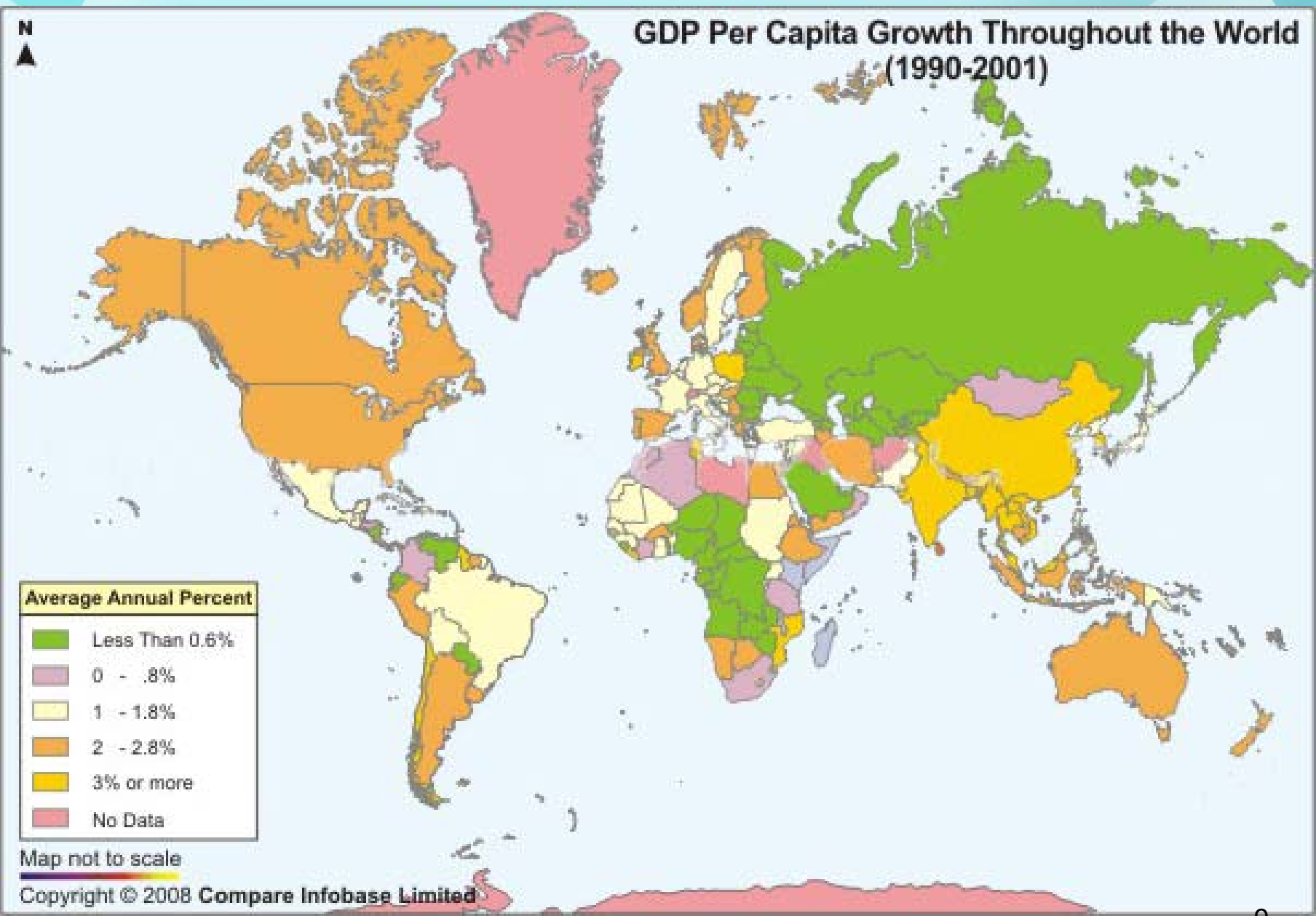


World map of forest distribution (Natural resources - forests)



Source: EC Joint Research Centre 2003

GDP Per Capita Growth Throughout the World (1990-2001)



Negative effects and causes

1. Conflict

- Undermine the quality of governance and economic performances (the 'resource curse' argument)
- Occur over the control and exploitation of resources and the allocation of their revenues (the 'resource war' argument)
- Access to resource revenues by belligerents can prolong conflicts (the 'conflict resource' argument)

Negative effects and causes

2. Dutch disease

Dutch disease is an economic phenomenon in which the revenues from natural resource exports damage a nation's productive economic sectors by causing an increase of the real exchange rate and wage.

Negative effects and causes

3. Revenue volatility

- Prices for some natural resources are subject to wide fluctuation.
- When government revenues are dominated by inflows from natural resources, this volatility can play havoc with government planning.
- Provoke widespread breaking of contracts, and this erodes the rule of law.

Negative effects and causes

4. Human resources

- Substitution effect: higher salaries paid by the natural resource industries attract the best talent from other industries
- Crowding out of human capital

Concluding Remarks

Alternative explanations to be continued...

Taxation

Excessive borrowing

Corruption

Lack of diversification and enclave effects

Liberty and democracy