

The evidence of natural resource curse economics essay

[Economics](#)



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PART 1:

Introduction" The gratification of wealth is not found in mere possession or in lavish expenditure, but in its wise application."- Miguel de Cervantes

Saavedra(1547-1616)Oil – a resource used in several millennia – has been considered to be the lifeblood of modern civilization, fuelling the economy from transports, manufactures and heating to lubricants. Oil is a versatile commodity which can be utilized in everything. Hence, oil has been an essential commodity for centuries which keeps the economy on going. In the past years, the demand of oil has been increasing. This development is likely to prolong both driven by the rising world population and as developing countries such as China and India continue to grow. According to International energy agency's and OPEC's prognosis, the demand on oil will continue to increase in 2035 (IEA 2012, OPEC 2012). Accordingly, it could be argued that oil-rich countries would benefit considerably due to the increased oil demand. However, by looking back in the history, we observe cases where oil resources have not benefited the whole country and its economic growth. A well-known case is the Netherlands' experience in the 1970's where the country had to undergo a process of de-industrialization when gas revenues came to an end. This phenomenon was later referred to as the Dutch disease. Essentially, as Miguel de Cervantes Saavedra emphasized it is not the possession of resources that matters, but it is how you manage it. Like the Netherlands, Norway has earned sizable rents from its oil and gas resources in the North Sea. This has benefited the country for decades in developing a welfare state characterized by good health services and social security system as well as a government that provides a safety

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net for those who fall off from the job market. Nevertheless, in the past years Dutch disease has been a debated topic both for academics and politicians in the Norwegian society. The increasing oil sector, decreasing manufacturing sector and the strong Norwegian krone ring some alarm and raises worries among politicians and economists. Some academics refer to it as the "Norwegian disease" whereas others consider the phenomenon as the "mutated Dutch disease". Indeed, the discussion about the oil rents in Norway has been continuous in the past years. Although politicians are more worried about this phenomenon it is important that the public are also alarmed as the consequences can be considerable and painful. A de-industrialization and a big change in the welfare state may lead to unrest as well as long social adjustments. Importantly, although we see signs of Dutch disease in Norway, it is a challenge to prove whether it is really a disease or just a natural adjustment of the economy. This interesting problem is the main theme of the paper at hand. The aim of the paper is to examine whether there are signs of Dutch disease in Norway as well as study the extent of Norway's oil dependence. This can be analysed by looking at ___(methodology). The results show that _____. However (some strengths and weaknesses) + (does it correspond to earlier studies?). The paper at hand is structured as follows: Part 2 reviews the theory and empirics regarding the natural resource curse, and later introduces the Dutch disease theory. Part 3 recapitulates the Dutch disease phenomenon and discusses theoretical models that explain the phenomenon. In Part 4, we investigate the current state of the Norwegian economy, while in Part 5 we conduct an analysis examining the evidence of Dutch disease in Norway. Part 6 introduces and discusses the main results,

and then finally, Part 7 concludes. Introduction oil as the lifeblood of modern civilization Motivation " mutert hollandsk syke", " norske syke" Purpose of the paper Structure of the paper PART 2: Reviewing Previous Literatures on Dutch Disease and Resource Curse" To refer to a vast, valuable energy resource as the source of a " disease" sounds rather ungrateful."- The Economist (1997) It is a wide belief that natural resources are desirable and beneficial for a country. Indeed, based on intuition and general knowledge, one can argue that abundance in natural resources and the corresponding large natural resource revenues should induce economic wealth and growth. On the contrary, growth models and casual empiricism suggest a negative relationship between natural resource abundance and economic growth. This phenomenon refers to the so-called ' natural resource curse thesis' - a term that was coined by Richard Auty, a British economist, in his 1993 book. Nevertheless, while there is an evidence of resource curse in some resource-abundant countries such as Nigeria (Bevan, Collier, and Gunning 1999, Sala-i-Martin and Subramanian 2003, Van der Ploeg 2011), other resource-rich countries like Botswana and Norway seem to benefit from its natural resources (Van der Ploeg 2011). Hence, the resource curse phenomenon is not necessarily an iron law, but " rather a strong recurrent tendency" (Auty 1994, 12) . The following sections review various findings about the evidence of resource curse in the history. Later, the Dutch disease phenomenon is introduced as a certain form and explanation of the occurrence of resource curse.

2. 1 Empirical works regarding the evidence of natural resource curse

A large body of empirical work appears to support the resource curse hypothesis characterized by a negative link between natural resource bonanza and poor economic performance, for instance Sachs and Warner (1995), Gylfason (2001b), Van der Ploeg (2011), Auty (1993) and (Auty 2001). According to a study of 95 developing countries during the period 1970-1990 in Sachs and Warner (1995), countries with high resource-based exports to GDP ratio had the tendency to have slower economic growth. Van der Ploeg (2011) also analyses the case of Nigeria where the results indicate that as Nigerian oil revenues per capita raised during 1965-2000, the country's income per capita stagnated. This led to Nigeria being one of the world's 15 poorest countries (Van der Ploeg 2011). Furthermore, an analysis conducted by Haber and Menaldo (2011) shows that Congo, Belarus and Liberia can be categorized as potentially resource-cursed countries. Interestingly, as stated in Shams (1989, 978) some OPEC members experience a negative link between oil revenues and GNP in the long run. Given the large amount of literature in favour of the occurrence of resource curse, there is no clear consensus among economists about the subject. Importantly, empirical results are often subject to and hence sensitive to the methodology employed as well as the period chosen (Stevens 2003). Moreover, in analysing the existence of resource curse among oil-rich countries, oil price volatility may also distort the results (Stevens 2003). Some countries have desirable experiences associated with resource bonanza. Hence, several literatures also assert that resources have been a " blessing" for some countries rather than a " curse". Examples of countries <https://assignbuster.com/the-evidence-of-natural-resource-curse-economics-essay/>

which have overcome "the curse" include Botswana, Chile and Malaysia (Ross 2001) as well as Norway (Wright and Czelusta 2002). While diamond-rich Botswana has the world's highest growth rate since 1965 (Sarraf and Jiwanji 2001), the oil-abundant Norwegian economy enjoys a positive growth including the manufacturing sector despite its raising oil exports since 1971 (Andersen 1993, Larsen 2006). Moreover, oil-rich Canada and Australia which is rich in coal and minerals are also considered as resource-blessed nations (Stevens 2003). Notably, results from a study by Haber and Menaldo (2011) do not show any tendency which are in line with the resource curse, and hence, suggest a resource blessing. However, these findings were later criticized by Ross and Andersen (2012). In essence, the extent to which a resource-rich country is immune to the resource curse phenomenon depends on various factors such as political institutions, management of resource revenues, corruption level and more. In order to avoid "the curse", it is crucial to first understand the elements that cause its occurrence. This is the discussion topic on the subsequent section.

2. 2 Explanations of the natural resource curse

Several economists identify a number of explanations for the relationship between the presence of abundant natural resources and poor economic performance, for instance Stevens (2003), Van der Ploeg (2011), Ranis, Stewart, and Ramirez (2000) as well as Costantini and Monni (2006). Based on these literatures, possible explanations of natural resource curse include: 1) the Dutch disease effect, 2) world resource price and revenue volatility, 3) increasing role of the government, and 4) socio-cultural and political effects.

Dutch disease effect Initially, Dutch disease mainly referred to the

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appreciation of the real exchange rate induced by higher natural resource based exports, which in turn led to a contraction of the non-oil, gas or mineral traded sector (Stevens 2003). At present, Dutch disease is a generic term denoting the undesirable macro-economic consequences related to the resource curse (Stevens 2003). The term therefore encompasses effects such as the 1) appreciation of the real exchange rate (Corden 1984) which harms a country's competitiveness; 2) the shrinkage and the negative effects on manufacturing sector due to resource based export boom (Corden 1984, Sachs and Warner 2001, 1995) which is related to the so-called crowding out effects; and 3) the government's consumption of the temporal resource income contributing to raise the welfare state (Wierds and Schotten 2008, Gylfason 2001a, Van der Ploeg 2006). Moreover, several studies have also emphasized 4) the lack of investment in human capital development, wherein resource abundance may have crowding out effects on entrepreneurial activity and innovation (Sachs and Warner 2001, Gylfason, Herbertsson, and Zoega 1999). Several of these effects will be discussed more thoroughly in Part 3.