

»»» The resource curse – its origin and current evidence

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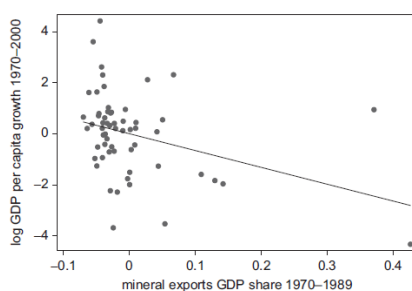
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Against the background of the current energy crisis, there is increasing discussion of development approaches with regard to natural resources. In the context of this topic, the “resource curse” is presented here – it was considered standard theory and has now developed further.

What is the “resource curse”?

The “resource curse” is the following paradox: countries rich in resources appear to be growing more slowly than countries poor in resources. Intuitively, on the other hand, one would expect an advantage through the availability of natural resources. In the past, one attempted explanation included a displacement effect, among other things: by focusing on exports of raw materials, investments in sectors that drive a country’s long-term growth and create jobs are neglected.



Source: Brunnschweiler und Bulte (2008), Figure 1

The World Bank also names the weakening of government institutions as an indirect consequence of a focus on exports of raw materials, as there are few incentives for reforms or the development of infrastructure and tax systems. Greed and allocation conflicts with regard to natural resources also exist and these raise the cost of mining the raw materials. All of this slows down economic growth.

Is the relationship causal?

The key question, however, is: does the availability of natural resources lead to slow growth, or are both phenomena parallel and not directly related? So far, “resource wealth” has been measured by its exports as a share of GDP. However, this reflects the dependence on foreign currency generated by raw material exports rather than the actual resource wealth. Instead, the value of the already confirmed raw material reserves is now used to measure the effects of a wealth of raw materials. This means that earlier analyses are contentious and statements made are open to debate.

What is the current situation?

New research results also find a link between raw materials and economic growth. However, overall there are many effects and also opposing effects, which are correspondingly pronounced depending on the country.

- One positive effect of resource wealth on growth comes directly from more exports and the income they generate.
- An opposing effect is created by the higher volatility of GDP due to price fluctuations in world market prices. The resulting uncertainty triggers a reluctance to invest in both infrastructure and human capital, which has an adverse effect on economic growth.

However, this volatility can be countered in different ways. For example, Bolivia and Norway have roughly the same raw material reserves; GDP is similarly impacted by fluctuations. However, a stable institutional environment allows Norway to better absorb fluctuations so that it can take advantage of resources. Sound institutions and financial markets therefore make a significant

contribution to economic benefits from the wealth of resources.

For countries that can absorb GDP fluctuations well, natural resources thus have a positive growth effect, while countries that are subject to the high fluctuations in raw materials prices may be adversely affected. The “resource curse” is therefore an indirect curse triggered by price volatility.

Conclusion

Resource wealth has various potential ways to influence a country’s growth: positive effects e.g. in the form of income from raw material exports, but also negative effects, including those from rising GDP volatility, in the absence of diversification. The overall effect seems to be driven by the management of this volatility, which changes the view on the benefits of natural resources in partner countries: economic impacts should always be evaluated in the context of the specific country to derive regionally differentiated conclusions. In particular, measures to mitigate volatility in the areas of governance, education and the financial sector could support development cooperation in order to make full use of the positive potential of raw materials in partner countries. ■