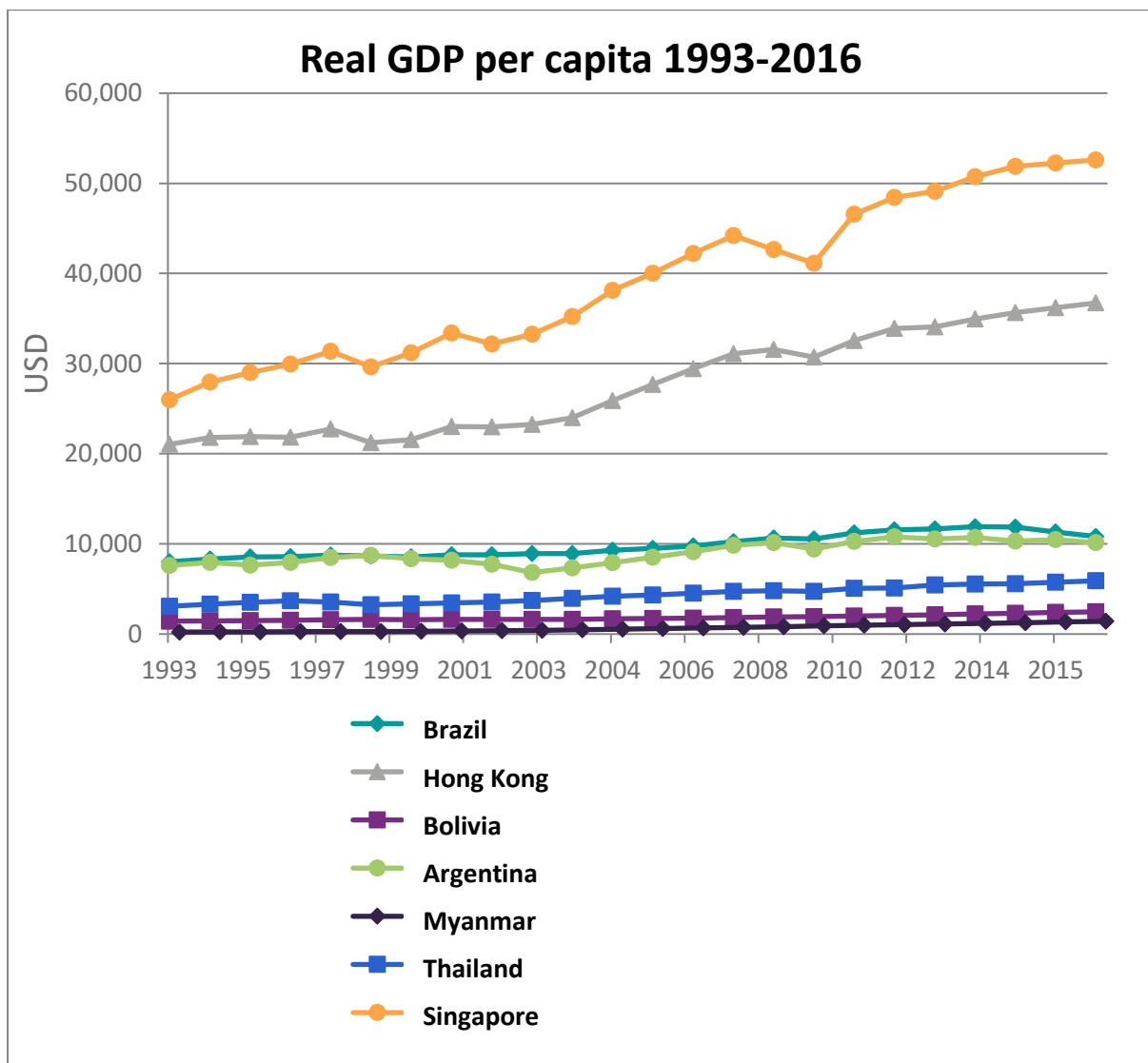


Resource curse

Definition

In general, people believe that abundant natural resources will lift up the country's wealth. Especially, it would bring a comparative advantage in term of trade to the country. Surprisingly, the economies in resource-rich countries tend to grow more slowly than the resource-poor ones. This paradox is called "resource curse". From the analysis by Dr. Kanjana Sanglimsuwan, the economist of Bangkok University, states that 110 countries are match with this assumption.

Figure 1

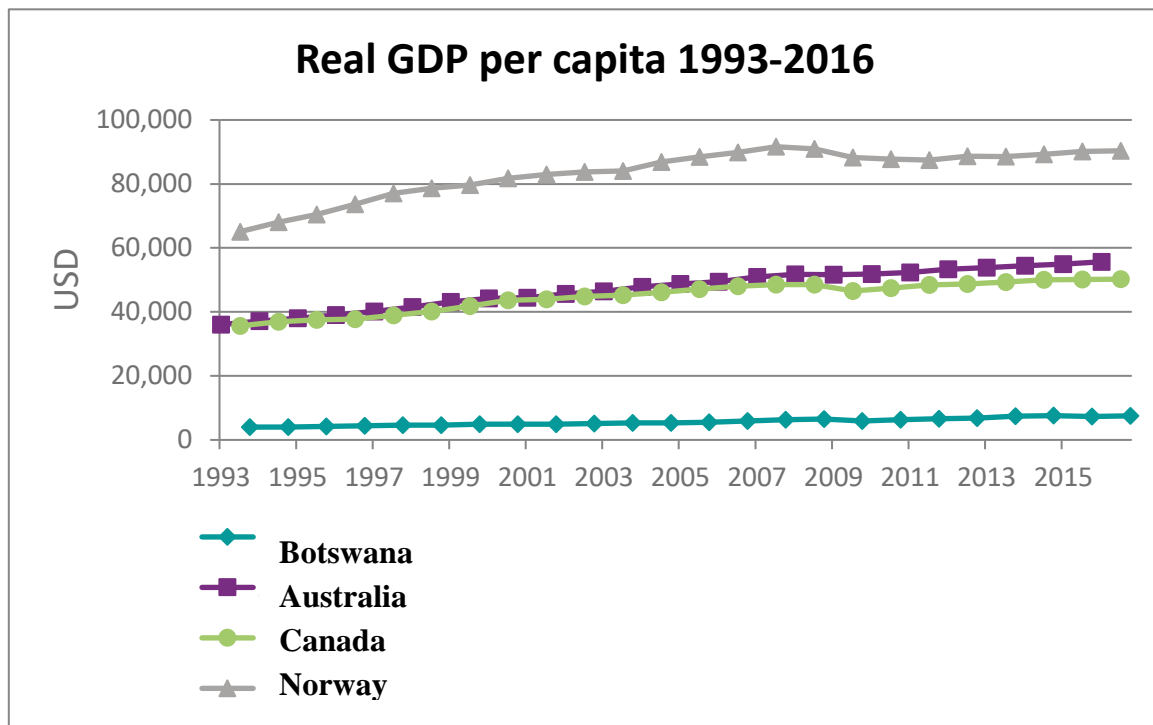


Source: CEIC data

Two hundred years ago, the first industrial revolution occurred in England where there is not much natural resource, only has coal and steel. Also, the emerging market in East Asia such as Hong Kong, Taiwan, China, and South Korea have succeeded in developing their countries like a miracle recently. Out of those countries, Taiwan and Hong Kong do not have abundant in natural resources. The main factor of their successes is exportation in labor intensive manufactures unlike the Latin America such as Bolivia, Brazil, or Argentina that focusing on exporting raw materials but still cannot reach the satisfactory development level. According to the statistic data of the real GDP per capita, an indicator of wealth of people within the country, of developing countries that have poor resource grew faster than resource-rich countries about 2-3 times.

The term of “resource curse” was originated by Auty (1993). The cause of resource curse was result from the Dutch disease, the increase of national income from natural resource cause the negative impact to international trade due to the appreciation in domestic currency. Later, Sachand Warner(1995,1997) also analyzed the relation between the richness of natural resource and the country’s growth, the result shows the a negative relation. By discovering more resource, instead of lift up the nation’s wealth, it slows down the economic growth and worsens the corruption. The civil wars occurred in Nigeria after they discovered the oil resource in 1956. Also, government becomes more aggressive in acquiring the power in controlling the price. Sometimes they get support from foreigners who want to benefit from the resource. For Burma, the military system became stronger after the natural gas has been found. The large amount of revenue earning from this discovered resource was used to buy weapons to kill the minor group of people. Even though most of the people resisted it, no one could stop the military’s power.

Figure 2



Source: CEIC data

Yet we should not jump to the conclusion that all resource rich countries are cursed. Also many growth winners such as Botswana, Canada, Australia, and Norway are rich in resources (figure2). Moreover, of the 82 countries included in a World Bank study, 5 countries belong both to the top eight according to their natural capital wealth and to the top 15 according to per capita income (World Bank, 1994). In the case of Netherland, after they discovered the oil resource 40 years ago, they made a number of revenue to their countries plus the higher value in domestic currency that caused all the exporting goods more expensive.(figure3)

Figure 3



Source: CEIC data

Why resource curse occur?

The IMF classifies 51 countries as “resource-rich.” These are countries which derive at least 20% of exports or 20% of fiscal revenue from nonrenewable natural resources. 29 of these countries are low- and lower-middle-income. Common characteristics of these 29 countries include (1) Extreme dependence on resource wealth for fiscal revenues, export sales, or both. (2) Low saving rates (3) Poor growth performance; and (4) Highly volatile resource revenues.

According to Martin Wolf, he gave the reason that a country which has abundant natural resources tends to have a political war. Politician usurps power to control the revenue occurring from those resources. This is the obstacle in developing the country. This situation happened very often mostly in Sub-Sahara Africa. This usurpation makes the country losing its sustainability in term of trade. In the long-term, losing the comparative advantage in trade may leads to the unsatisfied foreign currency that affect the trade competitiveness in developing the international industry. In contrast to the poor-resource country that relies on

industrial production and exportation. These countries have lower chance in facing the pressure from protecting their own resource from trade partner countries.

Secondly, the price of these resources is very volatile. When the economic is in recession, the economies of these resource-rich countries will worsen a lot especially the country that its export relies on that resource. Moreover, when these countries borrow the money hoping they can pay back after selling this resource but instead when the price drop, they cannot pay back and even create a higher pile of debt.

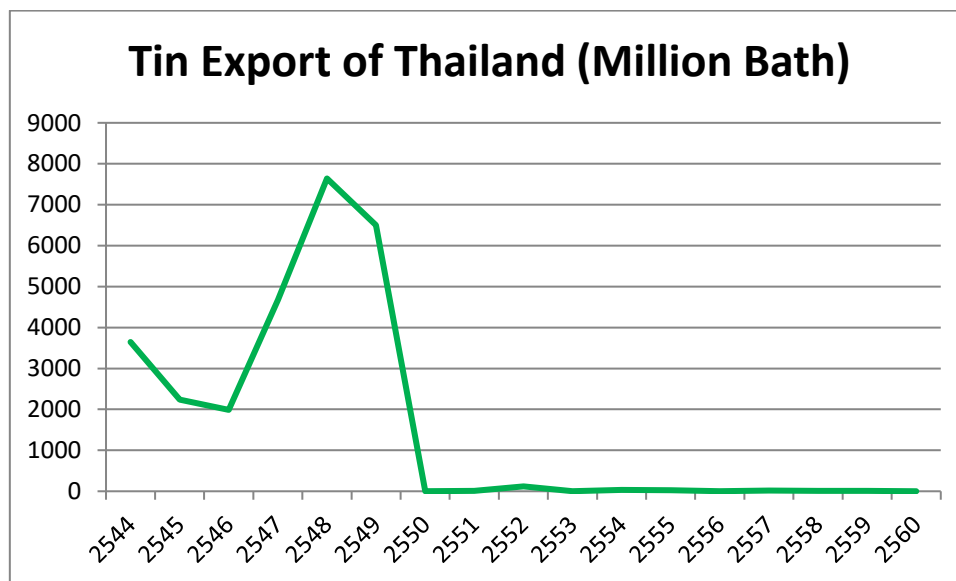
The resource curse also caused from the political effect, the quality in management of the government. Natural resources are a source of economic rent which can generate large revenues for those controlling them. From the study of Lane and Tomell (1999), they explains that rich-resource countries tend to have rent seeking behavior from the intervention of government such as giving the special right to entrepreneur, imposing bias tax policy to help the entrepreneur. These unethical manners of the government slow down the country's growth because those entrepreneurs will try to seek benefit from that special right instead of creating an innovation. Moreover, the special right also leads to corruption within political system which will affect the overall economy. One of the researches shows that by segment countries by government effectiveness index, the countries with good government can turn resource curse into resource blessing. Instead, the development of the country not only depends on natural resources but also how good the government be able to manage them.

Lastly, since these resource-rich countries rely on revenue from exporting their resources, they tend to ignore the human and technology developments. It cannot be denied that making money out of selling asset they already have is easier than making money out of developing human and technology. While the resource-poor countries have no choice but to put the effort in research and development even though it is slower but it is more sustain. Resource-poor economies like Singapore, Taiwan or South Korea, by contrast, spent enormous efforts on education, and this contributed in part of their economic success. This phenomenon shows what can easily make a country wealthy but only in the short run because it will give the negative effect in the long run instead.

Whether Thailand is the resource curse country?

Thailand is also subjected to the resource curse. Thailand is the resource-rich country because of its location in the tropical zone of South East Asia. It has so many natural resources but the ratio between that natural resource export and Thailand's GDP still low compare with the country with poorer resource that have higher GDP growth. We only sell off the resource we have but put so little effort in doing R&D. In other word, we rely too much on what we have instead of building the future from what we have. We ignore the human and technology development that could sustain the economy in the long run. We should care it because natural resource has been running out of but human and capital will remain in the long run. This hope that the FDI keep on flowing in due to our low wage of labor which actually we should have been focus on improve the quality of labor.

Figure 4



Source: Ministry of Commerce

In recent years government tried to dig out a large amount of natural resource to use effectively however many issues have been brought up. The case of tin mine in Phuket in 1975, a foreign company stole the natural resource and cheated to buy the valuable Tantalum mineral at the cheaper price as tin, this also affect the other mineral under the sea.

In the past, Thailand used to be the second largest exporter on tin, about 34 thousand tons in 1980. But now we can export only about 28 tons because we ran out of tin already.(figure 4)

Solution

Some countries could already escaped from this resource curse such as China, India, or Malaysia. They are able to use abundant resource potentially. As we already seen that only the resource-rich country that have bad political system are subject to the resource curse, then the resource-rich country should have been focusing on improve the quality of institutions including make the government become more efficient, well policy management in allocate the resource to reduce the rent seeking problem. Plus, these countries should focusing more on R&D of human and technology. These are important to turn the resource curse into the resource blessing. So that everyone is able to use natural resource potentially and then the country will develop accordingly.

In conclusion resource curse refers to the paradox that having abundant natural resource affects the country a slower growth in economy, less democracy, and worse development outcomes than the resource-poor country. The nation's wealth that comes easily from just drilling natural resource will cause a negative effect in the long run. In fact, the abundance in resource is an obstacle for pushing the economics' growth while lacking the resource becomes the force that drives country to keep on developing human and technology to be able to sustain economy in the long run.

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