



PARADOX OF PLENTY OR RESOURCES CURSE?

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Abstract *The article aims to present the situation of the countries rich in resources, whose paradox is that they are spoiled of their natural gifts, and thus remaining increasingly poorer as for their standard of living, and level of the economic development. The aim of this research is to point out these aspects in order to contribute to the awareness of anyone would be interested in this important matter. As for the theoretical framework it is circumscribed to the development economics area. The concepts used to present the problems faced by these countries are: resources curse, Duch disease, and banana republic. The novelty element of this research is the problem of Romania in this matter. The goal of this trial is to bring into attention this topic, and to see what could be done in order to change to better the present situation. The means of proving these evidences are different, depending on the problems that the countries are facing, and their level of economic development. The results of our research stand in the pertinent conclusions that are in the final part of the study.*

Key words:

natural resources, curse, development, economic growth, national economy

JEL Codes:

D 69, E 61, G 38, H 11

MOTTO:

*„I do not see today's Romania as an inheritance from our parents, but as a country borrowed from our children”.
Mihai I of Romania*

1. Introduction

Power, prosperity and poverty vary dramatically from one country to another. What makes a country to be rich or poor? This study would try to give one of the possible answers, by bringing into analysis more researches, and opinions as well.

In development economics, around the '80s years, specialists have noticed the emergence of a new phenomenon, which otherwise run for decades: by exploiting the natural resources of the richest countries in such matters, however, not only has not developed accordingly to the standards of the countries, but they have also exacerbated their problems, by corruption and under-development. Meanwhile, resources of poor countries of Southeast Asia had a robust growth. In the 2000s, OPEC members were in a half of a worse economic conditions than in 1970.

It became so influential a paradoxical generalization: the more abundant are mineral resources (especially oil) extracted from a state, the lower is its economic growth, and more precarious its state institutions. The resources would rather then be a curse than a blessing for the countries that own them.

In this approach we start from the presume that natural assets held by a country does not belong to a single generation, but for all future generations, and therefore, when deciding on their operation, they must decide how the turnover of selling the resources to be transformed into other forms of capital, in order to help both present and future generations and contribute to development of the country.

The hypothesis of our research stands in the awareness that people have to understand that their millenare inheritance – named natural resources must be used both for their benefit, but also taking into account the future generations development. In the last part of our study it will be presented different ways of investing the revenues in the level of development of a country, so the national economy, and especially other economic sectors do not suffer.

Finally, our research concludes with the epocal words precised by the King Mihai I of Romania, that became the motto of our paper: „I do not see today's Romania as an inheritance from our parents, but as a country borrowed from our children”.

The Curse of Resources

This well-known term "resource curse" (or "paradox wealth") it was first described in 1993 by Richard Auty in his book "Sustaining Development in Mineral Economies The Resource Curse Thesis". Auty shows the fact that those countries that are wealth in resources were not able to develop their own economy, and finally, after exporting a lot of their resources, they scored a weaker economic growth than those countries to whom they sent their resources. Could be this any paradox? The reality is full of examples of this kind. This phenomenon has been described as "the resources curse" by Richard Auty as the "the paradox of plenty" of Terry Lynn Karl (2005).

The difference between rich and poor countries is showed by Jared Diamond in "The New York Review of Books: "it is determined by each country's institutions, which creates very different stimuli for their citizens". Diamond starts from recent „*Why Nations Fail*“ The Origins of Power, Prosperity, and Poverty (2012) written by Daron Acemoglu and James Robinson. „Why are some nations rich and others poor, divided by wealth and poverty, health and sickness, food and famine?“ It is a rhetorical question that Daron Acemoglu and James Robinson put in their book, after fifteen years of research on this topic; they started from the historical evidence of the Roman Empire, continuing with the Mayan city-states, medieval Venice, the Soviet Union, Latin America, England, Europe, the United States, and Africa to build a new theory of political economy with great relevance for the big questions of today. Currently, the richest country in the world is 496 times richer than Burundi, the poorest country in the world. According to the World Bank, in Luxembourg average annual income per capita is \$ 84,290, while in Burundi the same income is only \$ 170. Why is this so? This is the central question of Acemoglu's and Robinson's book.

There it will be further presented in brief, some interesting studies on this matter.

A study funded by the World Bank and conducted between 1971-1983 showed that both oil-exporting countries as well as exporting the raw mineral rock had weaker economic performance than is scarce countries (Ross, 1999).

Another study issued by Jeffrey D. Sachs and Andrew M. Warner (2001), made on 97 countries, for 19 years precised that „the resource-abundant countries tended to be high-price economies and, perhaps as a consequence, these countries tended to miss-out on exported growth“.

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Another interesting approach is that of Duncan Green's book - *From Poverty to Power*, that provides critical insights into the massive human and economic costs of inequality and poverty of the 21st century, and proposes realistic solutions for them. He argues that a radical redistribution of power, opportunities, and assets, rather than traditional models of charitable or government aid, is required to break the cycle of poverty and inequality. Active citizens and effective states are driving this transformation. The author explains both „why active citizens“ and also „why effective states“? So: people living in poverty must have a voice in deciding their own destiny and holding the state and the private sector to account. As for the effective states, the explanation is that because history shows that no country has prospered without a state structure that can actively manage the development process. There is now an added urgency: climate change. We need to build a secure, fair, and sustainable world thin the limits set by scarce resources and ecological realities.

Dutch disease

Economically, cases are "Dutch disease" and the volatility of mineral resources price. Dutch Disease (named macroeconomic difficulties related to the Dutch manufacturing sector in the 1960s and '70s, after gas discoveries in the North Sea) refers to the appreciating national currency, as following the rapid growth of public revenue through the export of mineral raw materials, the effect of reducing the competitiveness of the rest of the economy. Price volatility is a risk resources for the governments the first order in times of boom exports engages in extensive spending - for example, "national pride projects" economically inefficient, or extensive subsidies, as subsidizing fuels price - and thus, guaranteeing loans for the future production.

But, this gloomy picture proves to be incomplete. Obviously, there are countries where exploitation of mineral resources is responsibly and efficiently managed. Norway, Canada, Australia, the US and Britain are, undoubtedly such cases. But not only powerful industrialized countries are on this list, but also some emerging Chile or Botswana. As shown by Daniel Kaufmann, according to international governance indicators World Bank (Worldwide Governance Indicators), some countries bo-rgate in mineral resources, but low income level (as Liberia or Sierra Leone) or the environment (as Ghana, Indonesia, Namibia or Columbia) have improved the "score" of governance in the past 10 years, while it fell for Azerbaidjan, Venezuela, Mauritania and Zimbabwe. Paul Collier (2007) noticed that the poor resources countries, comparing to the rich resources ones, they tend to have more developed infrastructure, medical services, and performing education, at comparable level with their income.

Bu the situation is totally different for the so-called „banana republics”.

Banana republic

A Banana Republic is a pejorative term for a small country that is politically unstable, dependent on limited agriculture (e.g., bananas), and ruled by a small, self-elected, wealthy, and corrupt clique. It is most commonly used for countries in Central America such as El Salvador, Belize, Nicaragua, Honduras, and Guatemala. Many countries in Latin America , such as the Dominican Republic, and Panama , respectively different temporal stages of their history as models of building a sketch of a banana republic . (Hitchens, Christopher/2009)

One of the functional characteristics of a classic banana republics , like those once funded by the CIA in Central and South America space, or the dictatorships of all colors, is the presence of a discrepancy between the extremes of life and concerns of CPU power and the rest of the country. As the existence of a foreign policy consistent with international standards, always looking for sources of credibility, but very far, if not without any internal connection with reality .

In principle, the natural riches should allow the collection of state taxes to fund education, health, development and providing jobs. In reality, taxes often take the path of corruption in civil pockets and the profit leaves the territory rich in resources.

Numerous studies done on the subject concluded that the economy of rich countries, but poor people hit by three factors are difficult to overcome. The problem with big contracts "nailed"

First. The rich resources of the country lead to the strengthening of their currencies, which strikes in the

country's other exports - except raw materials - namely processed products.

Second. Extraction is performed with less labor and cost. Patronage has no interest in developing other sectors with qualified strength, expensive and large. As a result, unemployment grows.

The third. Price volatility generates instability, as banks are attracted when prices are high and are reserved when they fall.

Recent studies show that the curse of resources is a phenomenon dated wave of nationalizations set off of oil industry to the beginning of the 1970 Until then, the reservations, production and international trade with oil had been controlled by the "Seven sisters" - big oil companies of the world. The nationalization of the oil assets in almost everyone developing countries being quickly, it brought enormous revenue to the governments of those states. Oil demand was higher than the offer, and the newly established national oil companies were coordinated by OPEC, to get rising price. On the other part, the collapse of the mechanism of the fixed exchange rates (part of the Bretton Woods system) and the dezaggregating patterns of the controlled global trade. The Seven Sisters contributed to led to volatility of the prices, and in revenues implicitly.

The situation is graphically depicted by Michael Ross in his recent book, *The Oil Curse* (2012) : "The revolution of the energy markets of oil-rich governments made them bigger, richer and more powerful than they ever imagined. But their citizens, the results were often disastrous. Once owned by foreign corporations power passed into the hands of the governments, making it easier for the leeders repressing democratic opposition and resist to the pressions. Ethnic minorities in oil-producing regions have started armed struggle for a greater share of government revenues . Moreover, in many states, the tsunami incomes generated new jobs for men, but not for women. "The study is based on a quantitative analysis of observational data from all countries, basically 170 countries, from 1960 to 2006. The resource curse (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.

There are two categories of countries predisposed to resource curse : the authoritarian ones, the revenues from extractive industries offer a political regimes ample means to stay in power; and those with low incomes, which distortions macroeconomic resources dependency are the most devastating.

Great ability to contract

Next will be given some of the problems of addiction a country's natural resources, problems are manifestations of "resource curse", namely: (a) decreasing economic performance, (b) the weakening government, increasing poverty and corruption levels, and (c) increase the probability of occurrence of an armed conflict.

At renegotiation, host countries can defend their other interests, such as investor can curb the tendency to develop its own infrastructure purposes only (railway, road and marine). Employment contracts and renegotiate their are key moments when the host State has the opportunity to put its conditions, in favor of social protection, to encourage local small industries, the elimination of unemployment. If holders giant raw materials discovered in Uganda, Ghana, Tanzania and Mozambique will know how to be good managers of contracts, then these will be underground riches, for the population, a blessing. If not, will be a curse. Eventually, some profiteers will bless the administration or political environment, sometimes legitimately elected.

Is Romania also in this resources curse?

What then are the prospects for Romania? Our country today is a marginal producer of oil. The development promising new sources of natural gas are the Black Sea offshore deposits of gas-bearing clays. But these directions have no potential to generate a massive and destabilizing public revenue.

Controlling resource management (private majority) and taxation in the gas perpetuates not such a "predatory elite" - although phenomenon of "smart guys" who parasitizing the energy industry is a form of rent extraction, but one derived. Then social violent conflict that Romania has experienced in the 1990s, but they did not have control of resources at stake. Finally, even if România has a great technical expertise and resource management, it is under a dense network of European and national regulations.

But while the mining industry has a century old, Romania has the democratic habit of consultations on the appropriateness of resource exploitation projects. Confidence intentions and the capacity of the public state to protect the interest is low, which radicalizes positions, when discussing costs and gains extractive projects. The protests and the public debate in recent months are just the beginning of a process of learning for the company with articulate points for their views and informing mechanisms, communication and representation.

Firing line, Romania is not seriously threatened by a resource curse, although the government's ability to take bad decisions should never underestimated. On the other hand, the prospect remote resources is

sustainable and involves an effort to regain public trust in the governing. It requires transparency and accountability, and creates a culture of informed negotiation and the common good.

Conclusions

The dilemma of the exporting natural resources countries is how to return the incomes for the benefit of their population. The politics of their governments have to be for long term, taking into account the development of their countries for the future generations which could remain without resources. The existing mirage of obtaining not only money, but also places of labour for the present, it is very dangerous for the future. Also, due to volatile prices of resources, economic growth is unstable. Volatility is often exacerbated by international banks that rush to come and invest when prices are high and retract without hesitation in difficult times, all in compliance with the principle that bankers lend only to those who do not need their money. But the most obvious reason is that resource-rich countries do not pursue sustainable growth strategies. Governments do not realize that if you do not use the wealth resulting from the exploitation of resources for productive investment to diversify the economy impoverished country. Political dysfunctions exacerbates the problem, given that conflicts over access to resources gains from corrupt and undemocratic governments favor the establishment.

The problem has solutions, as well documented as causes. These include a low exchange rate, creating a stabilization fund investing 'intelligent' resource revenue, including humans, prohibiting lending and transparency, as residents of the country to see who the money comes from and where they go.

These measures are necessary, but not sufficient, and resource-rich countries have to make some vital steps to become "blessed nation".

First, governments must ensure that citizens are those who profit most from the country's resources. There is an inevitable conflict of interest between companies, most often foreign, exploiting resources, and host countries. Premiums will pay as little as possible and maximizing the return to the past. Auctions transparent and well developed can generate more revenue than the understandings reached behind the scenes. Also, contracts should be more transparent and to ensure that if prices rise, gains not only flowing into the coffers of companies. Equally important is that money from natural resources to be used to stimulate development. Often in resource-rich countries infrastructure - roads, railways and ports - was built with the sole purpose of removing the country's natural assets at the lowest possible price, with efforts that

resources are processed locally , the less for the development of local industry .

Real development requires exploring all possible implications , as well as local staff training , helping small and medium businesses to become suppliers to mining groups , oil or natural gas, building up internal processing and integration of natural resources in the economic structure of the country.

There is decisive for the quality management of mineral resources a good governance, that meaning: effective governance, fighting against corruption, regulatory quality , participation and consultation, democratic rule of law.

International organizations pay attention to the policy of risk and promote transparency and the growth of the responsibility regarding resource management. The international financial institutions (World Bank and IMF) , NGOs (Global Witness or Revenue Watch) and mix initiative of governs' and corporates' (such Extractive Industries Transparency Initiative) supporting reform extractive industries.

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