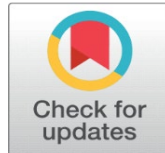
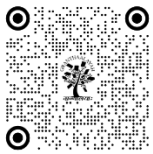


# THE RESOURCE CURSE HYPOTHESIS

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DOI

[10.29121/shodhkosh.v5.i4.2024.5531](https://doi.org/10.29121/shodhkosh.v5.i4.2024.5531)

**Funding:** This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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## ABSTRACT

The abundance of natural resources is often considered a key driver of a country's economic growth and development. Resource-rich nations are believed to benefit from increased investment, accelerated industrialization, and expanded employment opportunities, fuelled by the rents generated from these resources. However, academic literature highlights a critical insight: possessing abundant natural resources does not necessarily guarantee economic growth. Drawing on vast literature the paper argues that weak institutional quality, rent-seeking behaviour and political distortions often negate the potential benefits of resource wealth. The paper further explores political economy models that explain this phenomenon, including the Dutch Disease effect, centralized and decentralized political economy models and theories such as the Rentier State, Staple Trap, Dependency and Institutional theories. Our analysis highlights the critical importance of transparent governance, accountable institutions and strategic investments in human development to convert natural wealth into inclusive and sustainable growth.

**Keywords:** Resource Curse Hypothesis, Economic Growth, Dutch Disease

## 1. INTRODUCTION

The presence of abundant natural resources is often assumed to be a catalyst for economic growth and development. Resource wealth can potentially fuel investment, accelerate industrialization, and generate employment by harnessing the rents derived from these assets. However, empirical literature reveals a paradox: natural resource abundance does not automatically translate into sustained economic growth or broad-based development. While some resource-rich countries such as Australia, Norway and Canada have successfully leveraged their endowments to achieve high-income status and inclusive welfare, others like the Democratic Republic of Congo, Nigeria and Venezuela have struggled to convert their wealth into long-term prosperity. Thus, both affluent and low-income nations may possess similar levels of natural wealth, but experience vastly different development trajectories.

The key differentiator lies in the governance and institutional framework managing the resource rents. Whether these rents are transformed into productive and sustainable investments largely depends on the quality of institutions, the strength of policy frameworks, and the integrity of governance structures. When resource revenues are allocated efficiently—towards infrastructure, education, health and innovation—the economy tends to flourish. Conversely, when rents are misappropriated due to poor policy choices, institutional weakness, corruption, and rent-seeking behaviour, economic stagnation and social inequality often follow.

Inclusive development, therefore, hinges critically on effective state institutions and sound policymaking. Strategic investment in human capital, environmental sustainability, and equitable growth distribution is essential to translate resource wealth into social welfare. In contrast, governance failures and self-serving elites can derail the development process, deepening poverty and instability.

The subsequent section reviews selected empirical research on the subject, the literature highlights that the resource paradox has assumed great significance in economic research.

## 2. REVIEW OF SELECTED LITERATURE

A significant body of empirical research provides strong econometric support for the existence of a negative association between natural resource abundance and long-term economic growth. One of the foundational studies in this area is by Sachs and Warner (1995), who find that a higher share of primary commodity exports is correlated with slower economic growth. According to their findings, this inverse relationship arises from institutional degradation, increased rent-seeking behaviour and pervasive corruption triggered by resource wealth.

Several other prominent scholars have expanded on this phenomenon. Auty (1997, 2001) presents a comparative framework where resource-scarce countries, often characterized by peasant-based landholding systems, develop relatively autonomous political institutions that foster stronger economic performance. In contrast, resource-rich nations frequently exhibit rent-based political structures that are fragmented and conflict-prone. His 2001 work introduces the "staple trap" model, highlighting how the predatory nature of political elites in resource-rich states undermines inclusive development.

Jensen and Wantchekon (2004) analyze the African context and conclude that resource-rich countries exhibit significantly lower levels of democracy, particularly in the post-Cold War era. Their empirical results show that democratic reforms have largely succeeded in resource-poor African countries, while resource-rich nations face institutional stagnation. The authors advocate for strengthening both vertical (citizen-driven) and horizontal (inter-institutional) accountability mechanisms to support democratic deepening in these contexts.

Bulte et al. (2005) explore the dynamics of rent-seeking and conflict through theoretical modelling. They argue that not just the abundance, but also the "pointiness"—or spatial concentration—of natural resources intensifies competition among groups, thereby increasing the likelihood of conflict and reducing economic performance.

Collier and Hoeffler (2005) further investigate the relationship between resource wealth, governance and violence. They propose that natural resource abundance reduces the opportunity cost of rebellion, thus increasing the probability of civil conflict. In such contexts, governments tend to foster patronage systems that undermine democratic institutions, curtail civil rights, and weaken electoral competition.

Hodler (2006) builds on this literature by examining the role of ethnic fractionalization. He posits that in divided societies, resource-induced conflict erodes property rights and deters productive economic activity, further compounding the negative effects of resource wealth on growth.

More recent scholarly work, however, challenges the universality of the resource curse hypothesis. Kolios (2017), using a panel data approach, provides counter-evidence, showing a positive relationship between resource abundance and improvements in income and welfare indicators. Unlike earlier studies, this work incorporates welfare measures and avoids cross-sectional bias, marking a methodological advancement.

Sharma and Pal (2020) apply heterogeneous panel cointegration techniques to a dataset spanning 111 countries from 1970 to 2015. Their results broadly affirm the resource curse hypothesis, reinforcing earlier findings on the negative effects of natural resources on growth under certain institutional conditions.

Haseeb et al. (2021) focus on the top five Asian economies—China, India, Malaysia, Indonesia, and Thailand—during the period 1970–2018. Employing quantile-on-quantile regression methods, they find that natural resource endowments positively influence economic growth in all these countries except India, where the relationship appears insignificant or negative.

Nichofoung et al. (2021) turn the spotlight on inclusive human development. Their empirical investigation reveals a positive link between resource rents and inclusive development in developing nations, although the strength and direction of this relationship vary by region, income level, development status, and export composition.

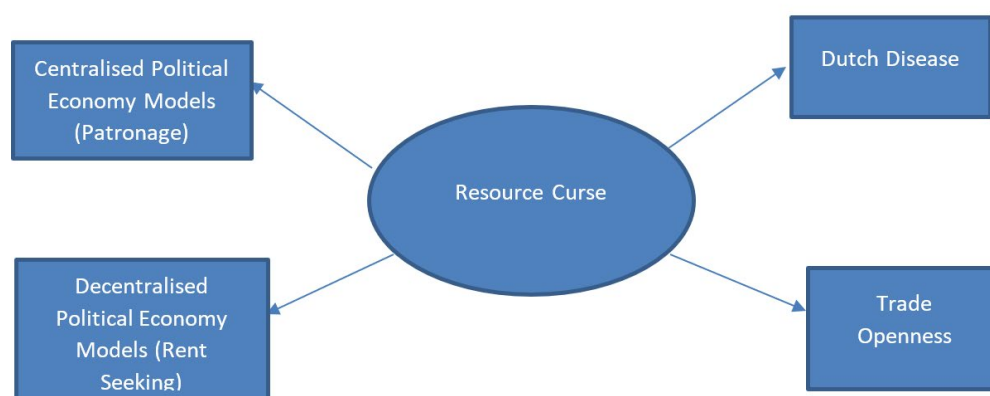
The next section delves into political theories that seek to explain this phenomenon—often referred to as the "resource curse"—and how the political economy of resource management shapes development outcomes.

### 3. POLITICAL THEORIES ON THE RESOURCE CURSE

The paradox of poor development outcomes in countries endowed with abundant natural resources has long puzzled economists and political theorists alike. Termed the "resource curse", this phenomenon challenges the traditional view that natural wealth should lead to prosperity. Empirical patterns reveal that many resource-rich countries experience dismal economic performance, rampant corruption, authoritarianism, and institutional decay. Political theories have offered robust explanations for this phenomenon, emphasizing how the political economy of resource management shapes development trajectories.

Kolstad and Wiig (2009) outline four central mechanisms perpetuating the resource curse as shown in figure 1, below. These mechanisms collectively underscore the interplay between economic incentives and political structures in shaping the curse's effects.

**Figure 1** Resource Curse Mechanisms



**Source** Kolstad and Wiig (2009)

The Dutch disease explanation posits that resource booms lead to an appreciation of the real exchange rate due to increased exports and inflow of foreign currency. While such booms may initially generate employment and improve GDP, the rising currency value harms non-resource export sectors, making them less competitive globally. As a result, economies may become overly reliant on resource exports, weakening other productive sectors and stifling diversification. Trade openness plays a moderating role here. Countries more integrated into global markets tend to access better technologies and negotiate competitive prices, potentially mitigating some effects of Dutch Disease. However, research on how trade openness can circumvent the resource curse remains limited and emergent.

The political dimension of the resource curse can be examined through centralized and decentralized political economy models, which reveal how institutional arrangements and power dynamics determine outcomes. In the centralized political economy models, control over resource revenues incentivizes ruling elites to stay in power, not necessarily to govern responsibly but to maintain control over lucrative rents. Governments may engage in populist spending, patronage (such as distributing public sector jobs for political loyalty), or suppress opposition groups—expenditures that often lack long-term productivity.

However, this path is not inevitable. A government that allocates resource revenues towards productive public investment—such as infrastructure, health, and education—can leverage resource wealth for inclusive and sustained growth. Political will, accountability, and institutional checks are key determinants here.

The decentralized political models shift focus to individuals and groups outside the ruling elite. In resource-rich environments, individuals may either pursue productive activities or engage in rent-seeking behaviour—competing for slices of the resource pie rather than creating new value. Such behaviour leads to inefficiencies, misallocation of labour and wasteful expenditures that hinder broad-based development.

Mlambo and Borz (2022) extend the theoretical discourse by identifying four explanatory frameworks:

### **1) Rentier State Theory**

In resource-rich states, governments derive a substantial portion of revenue from natural resources rather than taxation. This rentier effect reduces the incentive to develop strong tax institutions or respond to citizen demands. The result is often a disconnect between the state and society, fostering elite capture, unaccountable governance, and systemic corruption.

### **2) Staple Trap Model**

This model argues that resource-abundant economies may become fixated on the extraction and export of staple commodities, limiting structural transformation. The dominance of resource sectors crowds out innovation and industrial diversification, undermining long-term growth potential.

### **3) Dependency Theory**

Rooted in post-colonial critiques, dependency theory highlights how global economic structures perpetuate inequality. Historically, colonial powers extracted raw materials from colonies and used them to fuel their own industrialization. Today, the remnants of this structure are seen in developing countries dependent on exporting raw resources, with profits often siphoned off by multinational corporations from the Global North. This perpetuates underdevelopment and external dependency.

### **4) Institutional Theory**

Institutions play a pivotal role in determining whether resource wealth becomes a blessing or a curse. In countries with strong, transparent, and accountable institutions, resource revenues can be effectively managed for public benefit. In contrast, weak institutions and corrupt governance structures tend to foster mismanagement, rent-seeking, and conflict. Institutional quality is, therefore, both a mediator and an outcome of the political economy surrounding resource wealth.

## **4. CONCLUSION**

The paper affirms the possession of abundant natural resources does not inherently lead to sustained economic growth or inclusive development. A key insight emerging from the literature is that natural resource wealth can distort economic and political incentives. Through mechanisms such as Dutch Disease, weak democratic accountability, and rentier state dynamics, resource-rich countries often experience diminished industrial diversification, weakened institutions, and heightened risk of conflict. However, these adverse outcomes are not predetermined. They can be mitigated through proactive policy design and institutional reforms.

The political economy theories explored—ranging from the Staple Trap and Rentier State theory to Dependency and Institutional theories—offer nuanced frameworks for understanding why some nations fall victim to the curse while others escape it. Strong institutions, transparent governance, and effective management of resource rents are critical in transforming natural wealth into sustainable and equitable development.

## **CONFLICT OF INTERESTS**

None.

## **ACKNOWLEDGMENTS**

None.

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