

Andrey Movchan. 23/03/17.

Resource abundance - redundancy, dependency, controversy

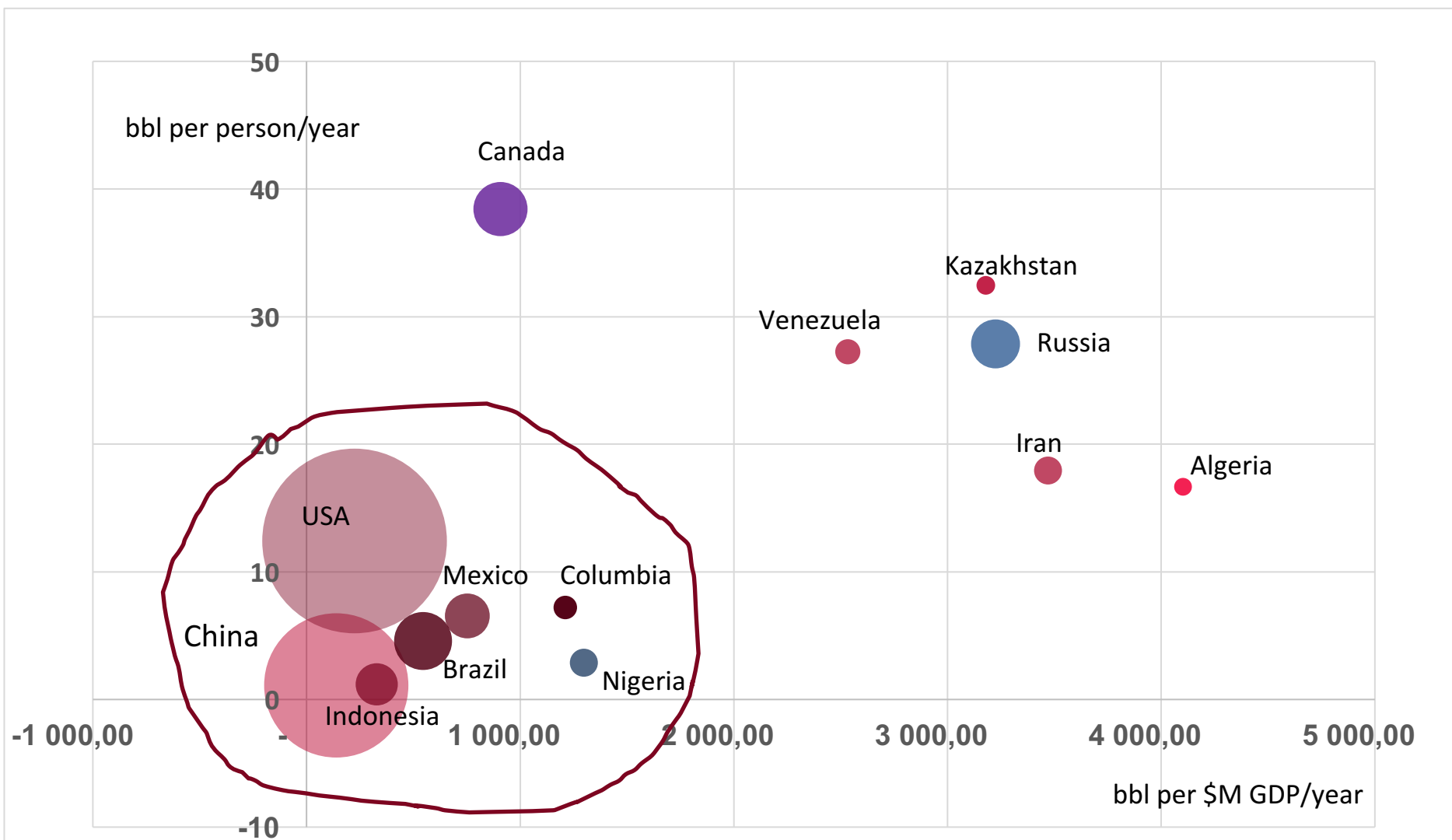
Major research outcomes

The research has focused on countries with past and/or present oil/gas abundance and significant share of oil/gas in world's extraction and exports

The main question of the research was – how economies with resource abundance protect themselves from common “resource trap” problems, such as deindustrialization, inequality growth, corruption and loss of efficiency, post-cycle shock, etc.

Over 20 countries reviewed; 10 countries analyzed in detail; 3 countries visited for interviews with stakeholders; two separate questions – influence of institutions and Russian oil curse history – were separately studied

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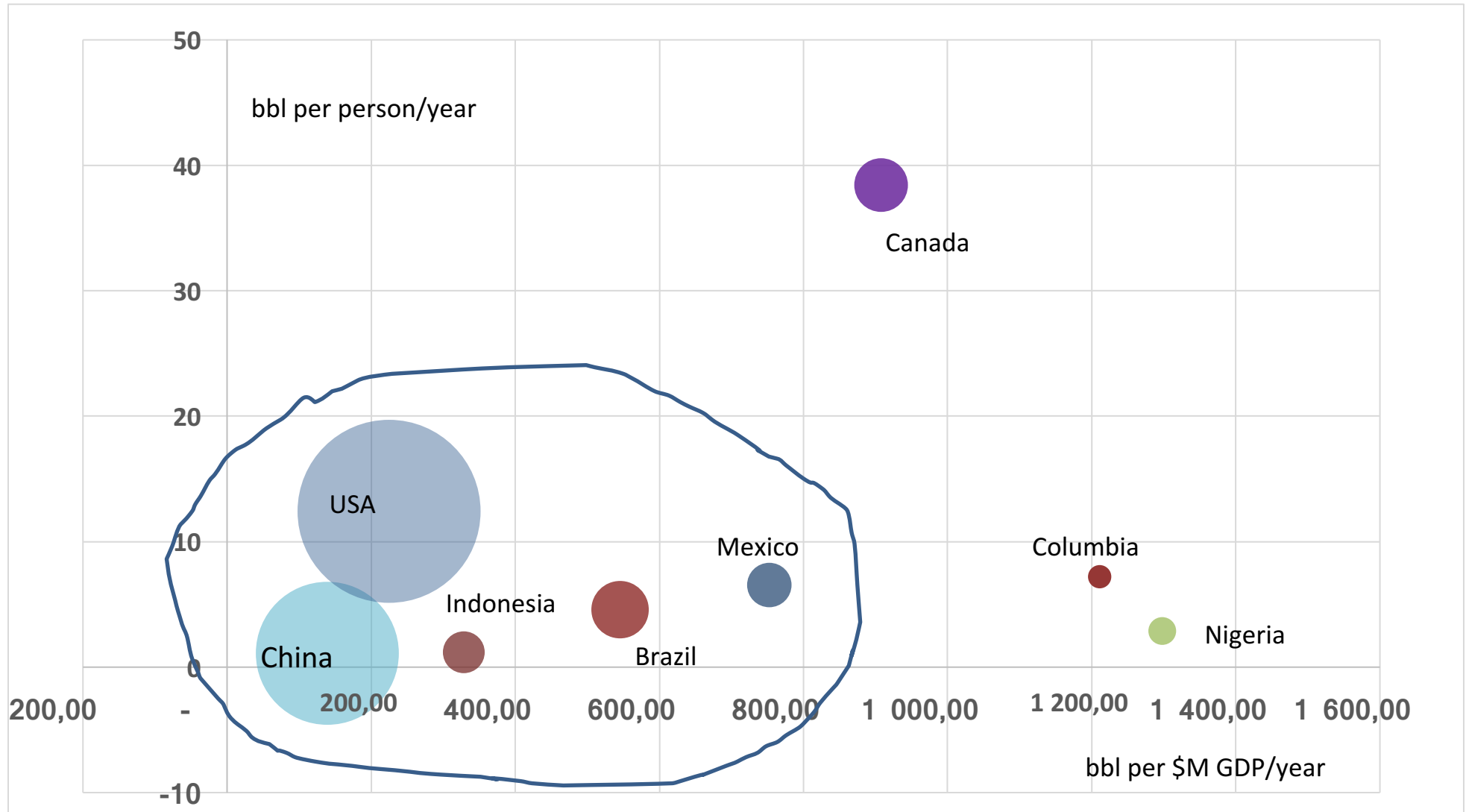


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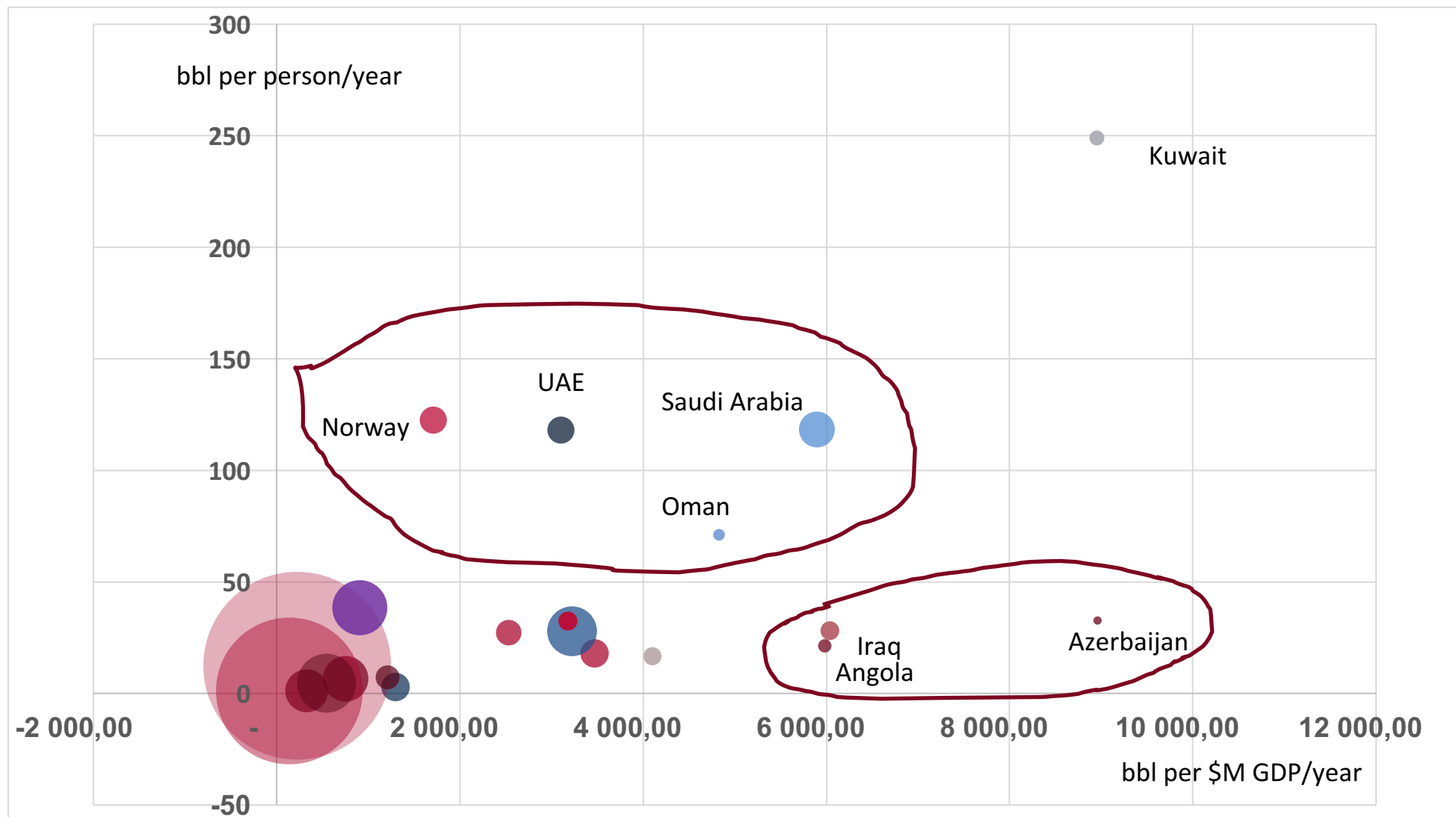


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Major outcomes:

- It is “mentally” hard to resist the consequences of resource spell.
- Regardless of the magnitude of resource based economy, countries have enough tools to successfully fight the resource curse.
- Countries with average level of resources are in worst circumstances. Countries with low level of resources are in the biggest risk, though highest probability of success.
- In almost 100% of cases fighting resource spell starts late and requires reforms.
- Civil wars have similar effects on diversification and industrial potential as bad practices in resource-dependent countries do.
- Good practices in resource-rich countries still provide for more moderate economic diversification and non-resource growth than that of most advanced countries with no resource abundance.

Additional issues:

- Economic openness is necessary for progress in fighting the resource spell. No examples of successful “sovereign economy” and/or “import substitution”.
- Tight monetary policies and rightfully managed sovereign funds help a lot. Liberal economies win; regulated economies lose.
- State spending does not help. State investments help where power institution is strong, and harm where it is not. In all cases they drive low added value businesses and increase inefficiency.
- Resource rent extraction with low taxation leads to higher diversification but higher inequality; resource sector liberalization with higher tax rates leads to less inequality but lower diversification.

Other ideas:

- Corruption is a clear consequence of resource abundance; however decrease of corruption levels itself has negligible effect on economic diversification and growth.
- Demonopolization of resource industries helps survive shocks and provides for more efficient economies.
- Implied risks play key role in neutralizing all efforts. Low risks almost certainly provide for success.
- Property rights protection level is one of the very few indicators clearly predicting the success in diversification of a resource-dependent economy and in increasing of its robustness.

- Political regimes by themselves do not matter too much; the quality of power institution matters a lot: preservation of power is the most destructive goal the regime can have regarding the consequences of the resource spell.
- It is very important WHO is managing the reforms. Experience is the key factor, low “agency cost” is another important factor.
- Cost of human resources tends to increase during resource boom and plays the key role in de-diversification of the economy. Taxation and discrimination of resource industries do not help. Workforce imports prove to be more efficient.
- All the above is not a secret or a very complicated idea; however elites in most countries are unprepared for efficient implementation of proper ideas – for different reasons.