

TOPIC OF THE WEEK

JULY'19 (11 to 17 Jul)

RESOURCE CURSE

Human progress and development requires a rational use of natural resources, which will seek to avoid waste, which can occur both in production and in consumption. The purpose of development is to enable people to enjoy long, healthy and fulfilling lives. The development should be both people-centered and conservation-based. Otherwise it will not achieve this purpose and investment will be wasted. Sustainable Development we mean to say that the level of utilization of environment and natural resources should be up to that optimum level which may not create any trouble of nature and environment in discharging the services of waste disposal and automatic recovery of natural resources and environment. Now we have realized that our economic activities and zest for quick development are threatening the very survival of mankind over the earth. Our survival depends on the realization that we have to live in harmony with the various elements of environment which are interconnected. Recently various studies show that there is a continuous decline of natural resources increasing the vulnerability of the poor as a result of ecosystem stress, competition for space, securing food

and energy prices, resource depletion, environmental degradation and climate change. Therefore, there is the need to develop strategies for better management of natural resources to promote the welfare of the poor.

Moreover, the international context of natural resource management is changing. Many emerging economies are major importers of natural resources. This increased demand for natural resources makes improved resource management even more urgent. It is intended to encourage decision makers from development co-operation agencies and ministries of finance and planning in partner countries to recognize the contribution of natural resources to pro-poor growth and the importance of policies which nurture their sustainable management. There is the need to look into the “politics” of natural resource management, aimed at identifying the roles and influence of different stakeholders and their incentives and disincentives for sustainable natural resource use. There is also the need for innovative coalitions to drive change and promote sustainable management. Past approaches that focused on more technocratic interventions have often overlooked these political challenges. Additionally, ways to increase policy coherence for development in natural

resource management are outlined. Policy makers in OECD and partner countries, as well as development co-operation agencies, are in prime positions to address the political challenges of natural resource management for long-term pro-poor economic growth.

For example if we talk about the Venezuelan economy, which is based primarily on the production and exploitation of petroleum. From the late 1940s to 1970 the country was the world's largest petroleum exporter; it remains one of the principal exporters of oil to the United States. Venezuela's economy has relied on earnings from the petroleum sector to modernize and diversify other economic sectors; thus "sembrando el petróleo" ("sowing the oil") has been a national slogan since the 1940s. The development of rich deposits of iron ore, nickel, coal, and bauxite (the ore of aluminum), as well as of hydroelectric power, have further expanded the economy. Now, we see Venezuela as another example of what scholars call the "resource curse." That's the unfortunate correlation first described by the British economic geographer Richard M. Auty between nations with vast wealth from oil or other natural resources and political instability. Only a few oil- and natural gas-rich countries, such as the United States, Canada and Norway

have avoided this curse – in part because they built solid institutions and diverse economies before their petroleum drilling began. Venezuela has been unsuccessful in its attempt at getting rid of this economic plague. Distorted government policies, soaring levels of corruption and authoritarianism, and a reckless political agenda have only fuelled the crisis. During the 1970s and 2000s oil booms, the Venezuela spent bountifully on disintegrated diversification projects, unproductive social welfare programs and far-reaching international aid and development apparatus. Thus, in a nutshell, Venezuela lacked a reliable economic infrastructure to help the economy cope up during times of turmoil (falling oil prices). Corruption in Venezuela has been prevalent in many forms, ranging from an increasing level of capture of natural resources by the elite class to an overpowering authoritarian government. In 2015, Venezuela tied for the country with the ninth highest perception of corruption in the world. Among 58 Latin American and the Caribbean countries, Venezuela ranks poorly on measurements of corruption control and the rule of law. Also, it is at the 38th rank regarding its institutional and legal setting, reflecting the country's lack of independent licensing system and insufficient

public disclosure system. The government policies of Venezuela are singularly dependent on the increase in oil revenues for growth. The economy is crippled due to inefficient utilization of its vast oil resources and overvaluation of its currency. Apart from oil, everything is cheaper to import than to manufacture domestically. Since it is mainly dependent on its oil reserves, it has to maintain its productivity by improving its competitiveness and to do this it has to establish partnerships with foreign countries which it is unable to do effectively due to a large number of barriers imposed by the government. Owing to the failed policies of the government and the presence of a corrupt bureaucratic system, the inflation rate has been sky-rocketing.

Norway is an exemplary example of a country that was successfully able to combat the resource curse. Efficient revenue collection mechanism, fiscal stability and competent management of the resource coupled with the country's established democracy, visionary policies and facilitative and corruption-free institutions enabled it to accelerate its growth and development. Norway has catered to develop the already flourishing petroleum sector as well focus on the remaining domestic industry. It has adopted a diversification policy to reduce the

dependency on the petroleum industry and prevent the economy from the risk imposed by the fluctuations in the oil and natural gas segment.

To conclude we can say a host of futuristic policies, systematized governance and a structured management of oil wealth prevented Norway from falling into the resource curse trap. On the contrary, decadent utilization and management of resources, widespread corruption, excessive state intervention and a ragbag of economic and political decisions made it inevitable for Venezuela to escape this curse. Norway's experience is a lesson for resource-rich countries, like Venezuela and other countries, that how the resource curse can be turned into a blessing with the implementation of right economical and political framework. In a state-led economy like Venezuela, it is vital to curb the illicit usage of revenues at the cost of deteriorating the economy. The Venezuelan government must lay emphasis on a stable inflow of petroleum wealth through mechanisms like the well managed Norway's Pension Fund. Lastly, since oil reserves are public goods, the government must responsibly bear the onus of managing and utilizing its vast reserves through a scrupulous and transparent apparatus.

For reference:-

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- <https://www.pri.org/stories/2019-02-08/why-venezuela-s-oil-money-could-keep-undermining-its-economy-and-democracy>
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Additional Readings:-

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- <https://www.theguardian.com/commentisfree/2019/jun/10/the-guardian-view-on-digital-injustice-when-computers-make-things-worse>