College of Business and Public Policy
UNIVERSITY of ALASKA ANCHORAGE

Department of Economics & Public Policy
Working Paper Series

WP 2014-03
September 2014

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The Resource Curse: A Statistical Mirage?*

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September 24, 2014

Abstract

A surprising feature of resource-rich economies is slow growth. It is often argued that natural-resource production impedes development by creating market or institutional failures. This paper establishes an alternative explanation—a slow-growing resource sector. A declining resource sector is disproportionally reflected in resource-dependent countries but appears to have little affect on the rest of the economy. More generally, this paper illustrates the importance of considering industry composition in cross-country growth regressions.

Keywords: Resource Dependence; Economic Growth; Resource Curse.

JEL Classification: Q2; Q3; O1

*Part of this work was completed while the author was a research fellow at the Center for the Analysis of Resource Rich Economies at the University of Oxford. A previous version was circulated under the title, *Resource Dependence and the Slow Growth of Resource Industries*. Thanks to Klaas van't Veld, Jason Shogren, Charles Mason, Robert James, Tony Venables, Rick van der Ploeg, members of the Department of Resource Economics and Environmental Sociology at the University of Alberta, the Department of Economics and Finance at the University of Wyoming, the Center for the Analysis of Resource Rich Economies at the University of Oxford and two anonymous referees for helpful comments and suggestions. All errors are my own.

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Without natural resources life itself is impossible. From birth to death, natural resources, transformed for human use, feed, clothe, shelter, and transport us. Upon them we depend for every material necessity, comfort, convenience, and protection in our lives. Without abundant resources prosperity is out of reach. Gifford Pinchot.

1 Introduction

Poor countries are relatively resource dependent (Barbier, 2005). Understanding the relationship between resource wealth and growth is therefore a necessary step towards understanding the growth performance of poor countries. Surprisingly, a large literature documents a negative relationship between resource dependence and economic growth. This remarkably robust phenomenon is commonly attributed to the so-called "resource curse" — the systematic tendency for resource dependence to impede economic growth and development by creating market or institutional failures (Sachs and Warner 1995, 1999, 2001; Papyrakis and Gerlagh, 2007; James and Aadland, 2010). According to this theory, developing countries like Brunei are poor not in spite of resource endowments but rather, because of resource endowments.

With nearly 3000 citations, this literature is largely motivated by the seminal work of Jeffery Sachs and Andrew Warner (1995) who, using a cross section of international data estimate a negative conditional relationship between growth and resource dependence. Specifically, Sachs and Warner estimate a variation of the following equation

$$G_i = b_0 + b_1 r_i + \epsilon_i, \tag{1}$$

where G_i is the average annual growth rate of GDP per capita over a specified period, r_i is resource dependence (resource production relative to GDP) at the beginning of the period, and i denotes countries.[1] Sachs and Warner conclude that the coefficient on resource dependence, b_1, is negative and significant, and consider this to be evidence of a "resource curse". While others have similarly tested for a resource curse (Papyrakis and Gerlagh, 2007; Williams, 2010; James and Aadland, 2010), this methodology has since been heavily criticized.

Perhaps most notably, Brunnschweiler and Bulte (2008) question whether a negative correlation between resource dependence and growth implies an underlying story of causation. More specifically, they argue that such cross-sectional regressions suffer from problems of reverse causality. Because resource dependence is defined as resource earnings relative to income, poorer countries that may grow relatively slowly will tend to be more resource dependent than their wealthier, perhaps faster growing counterparts. Using a cross-section of

[1] Sachs and Warner define resource dependence as exports of primary products relative to total exports. Equation (1) is a simplified version of Sachs and Warner's main estimation equation which includes a variety of relevant controls.

data, they instrument for resource dependence and find a positive and significant relationship between resource *abundance* and growth and an insignificant relationship between resource *dependence* and growth.[2]

This paper abstracts from questions of causality and asks an even more fundamental question regarding the interpretation of b_1 from equation (1). A negative relationship between resource dependence and growth appears to be specific to periods for which the price of the natural-resource decreased. Conversely, a positive relationship between resource dependence and growth persists for periods in which the price of the natural resource increased. This paper highlights the importance of considering sector-specific growth when testing for a resource curse. Further, there is little evidence of a Dutch Disease. Rather, a booming resource sector appears to generate economic spillovers that positively affect growth in non-resource sectors.

2 Existing Explanations for the Resource Curse

Why do resource-rich economies grow slowly? A prominent explanation is the so-called Dutch Disease phenomenon. Named after the decline in the tradable sector that is said to have been caused by the discovery of natural gas in the Netherlands (Stijns, 2005), an economy suffers from a Dutch Disease when natural-resource industries "crowd out" other growth-promoting industries such as manufacturing (Matsuyama, 1992; Sachs and Warner, 1999). In Matsuyama's model, an increase in resource technology in a small and open economy pulls labor out of a non-resource industry that benefits from learning-by-doing and into a resource industry that does not. A resource discovery decreases the level of technology in the non-resource industry and decreases total economic growth. The equilibrium is inefficient because the positive externality associated with working in the non-resource industry is not internalized by labor. The Dutch Disease is similarly modeled by van Wijnbergen (1984), Krugman (1987) and Sachs and Warner (1999).

Auty (1994) argues that resource endowments can prolong anti-growth policies. For example, countries that are resource dependent may be more likely to favor autarkic trade policies. One reason for this may be that the presence of natural resources (think agriculture and energy) make autarky a more viable trade policy.

Similarly, some economists and political scientists have argued that natural-resource endowments create the opportunity for rent-seeking, whereby rent-seeking and productive enterprise are competing endeavors (Lane and Tornell, 1996; Tornell and Lane, 1999; Torvik, 2002;

[2]van der Ploeg and Poelhekke (2010) argue that the measure of resource abundance used by Brunnschweiler and Bulte is endogenous. Using what they argue to be a more exogenous measure of resource abundance they find no significant effect on growth of resource dependence or abundance.

Mehlum *et al.*, 2006). In Torvik's model, the potential gains from unproductive rent-seeking activities are increasing in total tax revenue and a resource endowment. An exogenous increase in the resource endowment causes some entrepreneurs to switch from producing a good in an industry that benefits from increasing returns to scale to participating in unproductive rent-seeking activities. Production and therefore consumption decrease as a result of an increase in the resource endowment. Rent-seeking has also been shown to lead to distortions in the allocation of resources, greater social inequality and political corruption (Ross, 1999; Sala-i-martin and Subramanian, 2004).

Natural-resource production can also lead to social conflict, as factions of society compete over control of natural resources (Collier and Hoeffler, 1998).[3] Collier and Hoeffler find that the effect of natural-resource abundance on civil war is non-monotonic. Increasing resource abundance when resource abundance is low increases the risk of civil war. When resource abundance is high, increasing resource abundance tends to decrease the risk of civil war. Collier and Hoeffler posit that small endowments of natural resources provide taxable revenue that rebels wish to take control of while large endowments of natural resources provide a government with the means to heavily invest in their military.

Gylfason (2001) argues that vast endowments of natural resources can lead to over-confidence and a false sense of economic security, which leads to under-investments in human capital. Gylfason documents a direct negative effect of resource dependence on growth and a negative indirect effect of resource dependence on growth, through its effect on school enrollment rates. As Gylfason puts it, "Rich parents sometimes spoil their kids. Mother Nature is no exception." See van der Ploeg (2011) for a more complete review of existing theoretical explanations of a resource curse.

Present in each of the theories above is a mechanism by which natural-resource production actively impedes the development process in non-resource industries. The alternative theory presented in this paper, namely that the slow growth of resource-dependent economies is due to the systematic slow growth of resource industries, is not entirely new.

Boyce and Emery (2011) raise the same concern and argue that "whether resources are a curse or a blessing for an economy can only be determined with an investigation of the correlation between resource abundance and income levels."[4] Using U.S.-state level panel data, they subsequently test for a resource curse by regressing the level of income per person on the share of employment in a natural-resource industry. They find some evidence of a

[3]In contrast, Brunnschweiler and Bulte (2009) find little evidence to support the claim that natural resources lead to increased social conflict. Rather, they conclude that social conflict increases resource dependence.

[4]Alexeev and Conrad (2009) similarly argue that a proper test of a resource curse includes exploring the relationship between resource wealth and income levels.

positive relationship between resource abundance and income levels.

Davis (2011) refers to this phenomenon, whereby a slow-growing resource industry slows the growth rate of the entire economy, as a "resource drag". The difference between a resource "drag" and a resource "curse" created by a Dutch Disease is effectively described in Figure 1 of Davis's paper. A straightforward test of this theory involves regressing growth on resource dependence while controlling for growth in resource production. Davis applies this methodology to the growth period 1971 to 1990 and finds evidence that a so-called "resource drag" explains a significant amount of the negative relationship between growth and resource dependence. Specifically, he finds that "even after controlling for resource drag effects there are some residual nefarious impacts of having high mineral production at the start of the growth period. The economic importance of the effect is, however, about half of what was estimated [prior to controlling for resource sector growth]." In the empirical section of this paper I will employ Davis's methodology as a robustness check on a series of baseline results.

Using methodology similar to that outlined in this paper, James and James (2011) test for a resource curse at the sub-national level. Applying their methodology to the international level is important for a couple of reasons. First, a large majority of empirical tests for the resource curse focus on the relationship between growth and resource dependence across countries. Second, there are reasons to believe the resource curse is more prominent among countries. For example, institutional quality and cultural customs vary across countries, but less so across U.S. states. This is important because such factors play crucial roles in some explanations of the resource curse. For example, Mehlum *et al.* (2006) among others have argued that poor institutional quality can lead to, or exacerbate a resource curse. Finally, while James and James consider the growth period 1980 to 2000, this paper judiciously examines the relationship between growth and resource dependence for a variety of growth periods using a range of regression specifications.

3 Deriving The Coefficient On Resource Dependence

Similar to James and James (2011), consider economy i that produces a non-natural-resource good, M_i, and a natural-resource good, R_i. Income and growth are respectively given by

$$Y_i = M_i + R_i \tag{2}$$

and

$$G_i = \frac{M_i g_i^M + R_i g_i^R}{M_i + R_i}, \tag{3}$$

where g_i^M and g_i^R are the growth rates of non-resource and resource production per capita, respectively. Noting that $\frac{M_i}{Y_i} = 1 - \frac{R_i}{Y_i}$ and making the appropriate substitution, equation (3) can be re-written as

$$G_i = g_i^M + (g_i^R - g_i^M)r_i, \tag{4}$$

where $r_i = \frac{R_i}{Y_i}$, is resource dependence. In the absence of a resource curse, differentiating (4) with respect to resource dependence yields $(g_i^R - g_i^M)$, implying that the estimate of b_1 from equation (1) is equal to the difference in average resource and non-resource sector growth rates. This result is not robust to a resource curse though. To see this, assume that the growth rate of the non-resource sector is negatively affected by resource dependence. Specifically, let $g_i^M = g^M(r_i)$ where $g_i^{M\prime} < 0$. Differentiating (4) with respect to resource dependence now yields $g_i^{M\prime}(1 - r_i) + (g_i^R - g_i^M)$, where the first term is negative. This implies that if resource-dependent economies are indeed cursed with slow growth, an OLS estimation of equation (1) will yield a coefficient on resource dependence that is *less* than the difference in average sector growth rates.

4 Empirical Estimation

4.1 Estimation of Equation 1

According to equation (4), in the absence of a resource curse, whether the coefficient on resource dependence (b_1 from equation (1)) is positive or negative depends on the relative average rates at which the non-resource and resource sectors grow (a large amount of which is explained by variation in the price of oil). For a given growth period, if the average resource sector grows relatively slowly, the relationship between resource dependence and growth will tend to be negative. The opposite will tend to be true for periods in which the average resource sector grows relatively quickly. This idea is borne out in this section by estimating equation (1) of a variety of growth periods—ones for which the price of oil grew rapidly and ones for which the opposite was true. This approach reveals that, for a variety of growth periods, 98% of the variation in the relationship between resource dependence and growth is explained by variation in average sector growth rates (and 94% is explained by variation in the price of oil alone).

Cross-country data on GDP and population were collected from the World Bank, World Development Indicators. The extant resource curse literature suggests that point-resources—and fuels in particular—may be especially conducive to a resource curse (see for example, Ross, 2001; Sala-i-Martin and Subramanian, 2003; Bulte *et al.*, 2005). Following this literature, resource dependence is defined as the value of crude oil and natural gas production relative to GDP. Data on oil and natural gas production is collected from Ross (2013).[5] This allows for the examination of many and some relatively long growth periods, e.g., 40 years (1970 to 2010).[6]

The World Bank provides GDP and population estimates for 190 countries spanning the years 1970 to 2010. Ross (2013) gives data on oil and natural gas production over the same time period. I use values of oil and gas production that reflect real prices based in 2000 U.S. dollars which are provided. Dropping countries that did not have any GDP values for any of the relevant years (1970, 1980, 1990, 2000, 2010) and matching this data with the oil and gas production data leaves 111 observations. The growth rates of income, resource and non-resource production are respectively defined as, $G_i = (1/T)\ln(Y_{i+T}/Y_i)$, $g_i^R = (1/T)\ln(R_{i+T}/R_i)$ and $g_i^M = (1/T)\ln(M_{i+T}/M_i)$, where T is the length of the growth period, Y_i is GDP per capita, R_i is the value of resource production per capita and M_i is the value of non-resource production per capita. All prices are in 2000 U.S. dollars. Countries that had zero resource earnings at either time t or time $t+T$ but not both, were dropped from the oil and gas data set prior to being merged with the World Bank data as resource (and hence non-resource) growth rates cannot be computed. A list of all countries included in the analysis is given in Table 1. As can be seen, the data set consists of both rich and poor countries covering a wide range of regions.

As a starting point, I estimate the relationship between growth from 1970 to 1980 (a period in which the price of oil grew tremendously) and 1970 resource dependence. I then contrast these results to those from the estimation of the relationship between growth from 1980 to 1990 (a period in which the price of oil significantly decreased) and 1980 resource dependence. This approach highlights the sensitivity of the results to changes in the oil price.

Figure 1a plots growth in GDP per capita from 1970 to 1980 against 1970 resource dependence. As can be seen, the relationship is strongly positive. Countries that were relatively dependent on natural-resources in 1970 experienced rapid growth in GDP per capita over the subsequent ten years, reflecting that from 1970 to 1980, the price of oil increased 21.97%, annually. Later, it will be relevant to know that this result is robust to the omission of potential outliers. For example, after dropping Kuwait, Saudi Arabia and Brunei (the three most heavily resource-dependent countries) from the data set, the estimate of b_1 increases from

[5]Ross collected data on oil and gas production from 1970-2000 from the World Bank's "Wealth of Nations" database then merged this data with that from the US Energy Information administration for the years 2001 to 2010.

[6]While existing cross-country examinations of the resource curse largely rely on the use of primary export data (see, e.g., Sachs and Warner, 1995; Brunnschweiler and Bulte, 2008), this approach is not suitible for a sector-specific analysis because export growth may reflect, but is not equal to, sector growth.

.182 to .223 and remains significant. Figure 2a similarly plots growth in GDP per capita from 1980 to 1990 against 1980 resource dependence. The relationship is strongly negative (-.113), reflecting that from 1980 to 1990, oil prices decreased by 4.15% annually. Again, this result is robust to the omission of outliers (dropping Kuwait, Saudi Arabia and Brunei causes b_1 to increase from -.113 to -.095 and remains significant).

The previous results are solidified by considering all 10, 20, 30 and 40 year growth periods between 1970 and 2010. This approach yields results that are consistent with the previous ones and are detailed in Table 2. For growth periods based in 1980 (a year of remarkably high oil prices), the relationship between resource dependence and growth tends to be negative. The opposite is true for growth periods based in 1970 (when the price of oil was relatively low). The correlation between the growth rate of the price of oil and the estimate of b_1 is about .94, implying that 94% of the variation in the relationship between resource dependence and growth is explained by variation in the price of oil.

Recall from equation (4) that, in the absence of a resource curse, the coefficient on resource dependence reflects the difference in the average resource and non-resource sector growth rates, $(\bar{g}^R - \bar{g}^M)$.[7] If a resource curse exists though, the difference in average sector growth rates will underestimate b_1 from equation (1). It is therefore worth noting that for each growth period the difference between b_1 and $(\bar{g}^R - \bar{g}^M)$ is statistically insignificant. Put differently, average sector growth heterogeneity (that is not country specific) explains a significant amount of the variation in b_1 and the remaining unexplained variation is insignificantly different from zero. The correlation between the estimate of b_1 and $(\bar{g}^R - \bar{g}^M)$ is large (.98), implying that 98% of the variation in b_1 is explained by average sector-growth heterogeneity that is not country specific.

4.2 Resource Dependence and Sector-Specific Growth

The previous results demonstrate that whether resource-dependent countries grow relatively quickly or slowly depends critically on whether a country's resource sector grows quickly or slowly over the corresponding growth period. This is not to say that the growth rates of resource and non-resource sectors are not linked. During a significant oil price bust (e.g.,

[7] Average growth rates of resource and non-resource production are respectively given by $\bar{g}^R = \frac{\sum_i^k r_i g_i^R}{\sum_i^k r_i}$ and $\bar{g}^M = \frac{\sum_i^k (1-r_i) g_i^M}{\sum_i^k (1-r_i)}$, where r_i is resource dependence (and hence $(1-r_i)$ is non-resource dependence) and k denotes countries. Weighting growth rates by resource and non-resource dependence is important as even large changes in non-resource production is not reflected by changes in GDP in highly resource-dependent countries. By design then, the average non-resource sector growth rate is predominantly determined by the performance of non-resource-dependent countries.

1980 to 1990) non-resource production may grow more or less quickly than in other periods. According to the "Core Dutch Disease Model" by Corden and Neary (1982), a booming (or busting) resource sector can affect non-resource production in a variety of ways. For example, in the case of a resource boom, the resource sector may offer relatively high wages and hence attract labor from non-resource sectors (or even other economies). This may work to decrease non-resource production, a result Corden and Neary refer to as the direct "labor movement effect". However, the income gains associated with a resource boom may increase spending and wages in the non-traded—and often non-resource (e.g., service)—sectors, which may attract labor and counteract the direct so-called labor movement effect.

I further test for the existence of a Dutch Disease by splitting each country's economy into two parts: a resource sector and a non-resource sector. I then re-estimate equation (1) using sector-specific growth as the dependent variable. Before turning to these results, however, it should be noted that total economic growth may only weakly reflect sector-specific growth rates. For example, a country that is 90% resource dependent may experience rapid growth in non-resource production, but this would not necessarily be reflected in total growth as non-resource production accounts for only 10% of national income. Second, recall that average sector growth rates are weighted averages such that a country with zero resource earnings and zero growth in resource production did not contribute to the estimate of the international average growth rate of resource production. Only those countries with positive levels of resource production (and hence those countries with non-zero growth rates of resource production) are used to estimate the relationship between resource dependence and growth in resource production. This significantly reduces the sample size.

The results for all ten growth periods are given in Table 3. For comparison purposes, I have also included scatter plots of sector-specific growth against resource dependence for both the 1970-1980 and 1980-1990 growth periods. Consider first the relationship between 1970 resource dependence and non-resource sector growth from 1970 to 1980 (Figure 1b). The relationship is positive (.181) and significant, indicating that a booming resource sector generates positive economic spillovers which enhance non-resource-sector growth. This result should be viewed with caution though because it is sensitive to the omission of outliers. After dropping the three most resource-dependent countries from the data set (Brunei, Kuwait and Saudi Arabia), the relationship remains positive (.043) but is statistically insignificant. While highly resource-rich countries tended to experience rapid non-resource-sector growth from 1970-1980, this was not the case for the corresponding resource sectors. Rather, there is an insignificant relationship between 1970 resource dependence and resource-sector growth from 1970-1980 (see Figure 1c).

Consider now the relationship between sector growth and resource dependence for the growth period 1980-1990 (a period during which the price of oil significantly decreased). While non-resource sector growth is insignificantly correlated with resource dependence, the relationship between resource dependence and resource-sector growth is negative (-.085) and significant at the 5% level. Though again, this result is sensitive to the omission of outliers. Dropping the three most resource-dependent countries from the data set (Kuwait, Saudi Arabia and Brunei), the magnitude of the relationship decreases to -.046 and becomes statistically insignificant.

The key result that should be taken away from Figures 1 and 2 is that non-resource sectors appear to expand disproportionately in highly resource-dependent countries when the price of oil rises, perhaps reflecting positive economic spillovers. However, this result is not robust. After dropping potential outliers, the relationship between growth and resource dependence is maintained, but sector-specific growth is no longer correlated with resource dependence (for either the 19870-1980 or 1980-1990 growth periods). In other words, while resource-dependent and resource-scarce countries grow at different rates, the sectors within these two types of countries grow at similar rates. This highlights the role that average sector-growth heterogeneity plays in determining country-wide growth rates. Resource-dependent countries grew slowly from 1980 to 1990 in part because they were dependent on the production of a commodity that experienced a rapid decline in its international price.

Examining the remaining growth periods yields consistent results. With the exception of the growth period 1980-1990, resource dependence is uncorrelated with resource-sector growth. For all growth periods based in 1970, resource dependence is positively correlated with non-resource-sector growth, but again these results are sensitive to the omission of outliers.

As discussed above, there are reasons to think resource booms and busts affect traded and non-traded sectors of the economy differently. A resource boom may inflate the price of non-traded goods (e.g., services) but would not, in theory, increase the price of traded goods (e.g., manufacturing) as those prices are internationally determined. I therefore also examine the relationship between resource dependence and growth in service and manufacturing production specifically. As before, data on service and manufacturing value added, expressed as a share of GDP, were collected from the World Development Indicators provided by the World Bank. Resource dependence is defined as before. Data on manufacturing and service production is inconsistently reported. For example, there are many more missing observations for manufacturing production in 1970 than in 2000. Therefore, sample sizes vary according to the growth period in consideration. This robustness check has the added benefit of quelling concerns that the previous findings are somehow the result of an accounting identity. For example, in the previous analysis, non-resource production is defined as total production (GDP) less resource production. This is not a concern here as levels of manufacturing and service production are reported independently from resource production. Finally, this robustness check utilizes a slightly different country set (countries included vary according to data availability). This re-assures that the previous findings are not specific to a particular set of countries.

The results re-inforce the previous ones and are detailed in Table 4. For most growth periods based in 1970, service and manufacturing sector growth rates are both positively correlated with resource dependence. Perhaps reflecting positive economic spillovers to both the service and manufacturing sectors. Though, as with the previous sector-specific analysis, the opposite tends not to hold during corresponding resource-price busts. When the price of oil began to fall in the early 1980's, manufacturing and service production grew at similar rates across resource-dependent and resource-scarce countries. Finally, during the oil price boom of the 2000's, there is evidence of positive economic spill overs coming from large and booming resource sectors, particularly in the manufacturing sector, a result that complements nicely the findings of Kuralbayeva and Stefanski (2013) who find that resource-rich economies have relatively productive manufacturing sectors.

Thus far, all prices have been in terms of 2000, U.S. dollars. To account for possible bias created by differences in purchasing power across countries, I re-estimate Table 3 using purchasing power parity (PPP) price levels. Using data provided by the Penn World Tables,[8] PPP conversion factors were computed for each country (defined as PPP relative to the market exchange rate). Values of resource and non-resource production were then weighted by the appropriate conversion factor.[9] I then re-estimate the relationship between resource dependence and resource-sector and non-resource-sector growth. The results, given in Table 5, compliment the previous findings. For all growth periods, non-resource growth is either positively or insignificantly correlated with resource dependence. Though, resource-rich countries tended to experience slower growth in resource production from 1980 to 1990 (as before) but also from 1970 to 1990.

As a final robustness check, following Davis (2011), I estimate the relationship between growth in GDP per capita and resource dependence, conditional on the growth rate of resource production.[10] This is an intuitively pleasing approach as variation in total growth that is attributed to variation in resource-sector growth is captured by growth in resource production. Any remaining nefarious effect of resource dependence on growth would then be reflected by

[8] Available at: https://pwt.sas.upenn.edu/

[9] Conversion factors could not be produced for 11 countries for the years 1970 and 1980. For those years and countries (Kuwait, Saudi Arabia, Czech Republic, Armania, U.A.E, Bosnia, Eritrea, Estonia, Latvia, Macedonia and Moldova) 1990 conversion factors were used.

[10] Similar to Davis's earlier work, growth in resource production is weighted by each country's respective level of resource dependence. Weighting growth rates is important as rapid resource-sector growth will not be reflected in GDP growth for a country that is only weakly dependent on natural resources.

the coefficient on resource dependence. The results are given in Table 6. For all growth periods, the coefficient on resource dependence is statistically insignificant. Though, it does enter negatively in all but 2 regressions. This may be evidence of some relatively minor but nonetheless perverse growth effect of resource dependency. As expected, the coefficient on resource growth is positive in all regressions, reflecting that a booming (busting) resource sector positively (negatively) affects total growth.

5 Resource Abundance vs. Resource Dependence

The seminal work of Jeffery Sachs and Andrew Warner (1995) helped to motivate the large stream of research that has attempted to verify and explain the curse of natural resources. The title of their paper "Natural resource abundance and economic growth," is somewhat misleading though as they proxy for resource-*abundance* (proven reserves of natural resources) with the share of resource exports in GDP (resource dependence), due to data availability constraints. This proxy may be a poor one because (i) resource exports do not reflect total resource production and (ii) resource dependence may be a poor proxy for resource abundance.

Is there a negative correlation between resource abundance and economic growth? The answer appears to be, "probably not." Brunnschweiler and Bulte (2008) find that growth in GDP per capita from 1970 to 2000 is positively correlated with 1994 resource abundance. Similarly, Brunnschweiler (2008) finds that economic growth is negatively correlated with resource dependence but positively correlated with resource abundance. Michaels (2010) explores the effect of oil discoveries on economic growth and education and finds that the effects of oil discoveries in the southern United States were, "large and beneficial" and specifically led to a sustained increase in income per person.

How does one reconcile the fact that growth in income is positively correlated with resource abundance but negatively correlated with resource dependence? Brunnschweiler and Bulte posit that "one possible explanation could be that resources in the ground do not pose the same problem for institutional quality or economic performance as flows of resource rents do. But this begs the question - since resource stocks can be converted into flows of money, why would outcomes for stocks and flows be different?" This paper offers an explanation for this apparent anomaly. The overall growth rate of an economy reflects the growth rate of specific sectors, and the growth rate of the resource sector is defined by the price and flow of a resource—not the stock.

6 Conclusion

A large literature documents a robust negative relationship between economic growth and resource dependence (Sachs and Warner, 1995, 1999, 2001; Papyrakis and Gerlagh, 2007; James and Aadland, 2010). This surprising result has fueled an even larger literature that seeks to explain it. It is commonly argued that natural-resource dependence creates market and institutional failures that induce slow economic growth (Matsuyama, 1992; Auty, 1994; Sachs and Warner, 1995; Gylfason, 2001; Bhattacharyya and Hodler, 2010).

Consistent with existing literature, this paper documents a negative relationship between resource dependence and growth in GDP per capita for certain growth periods, e.g., 1980 to 1990, but a positive relationship for others (e.g., 1970 to 1980). These results are largely explained by average sector-growth heterogeneity. In essence, resource-rich countries grew slowly from 1980 onward because they were dependent on a commodity that experienced a rapid decline in price. Examining the relationship between resource dependence and sector-specific growth affirms this idea. For all growth periods considered, the relationship between resource dependence and growth in non-resource production is non-negative. These results are at odds with a large and growing literature that contends natural resources "curse" economic growth and development.

Finally, the importance of this paper reaches further than the resource curse literature. In fact, it demonstrates that a large degree of cross-country growth heterogeneity can be explained by the types of industries that a country employs. From a development standpoint, the important question may not be why some countries grow faster than others, but rather, why sector-specific growth rates vary across countries.

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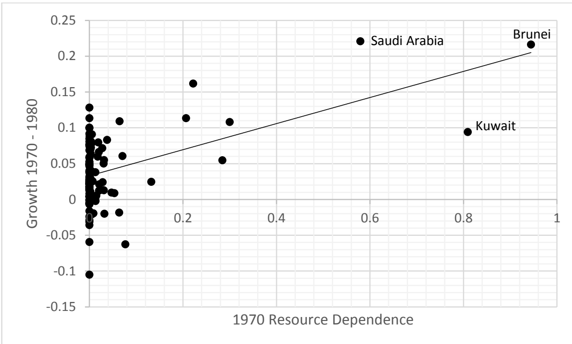
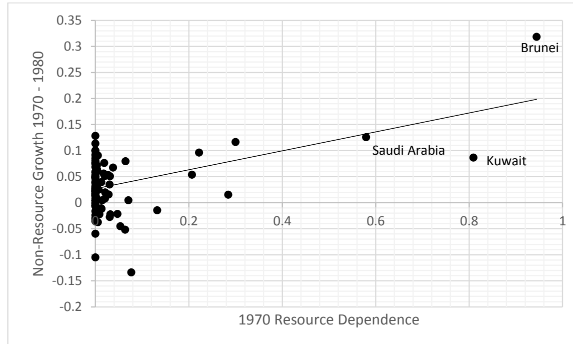
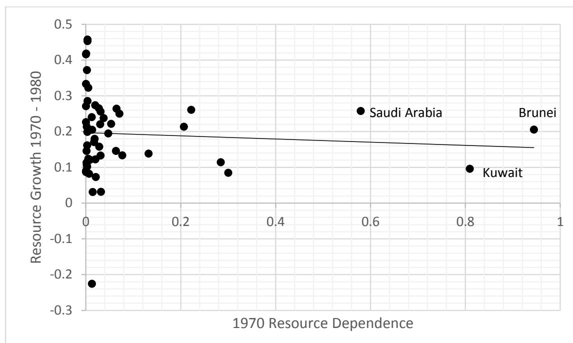
Figure 1: Plots of Total and Sectoral Growth and Resource Dependence, 1970 - 1980



(a) Growth and Res. Dep.

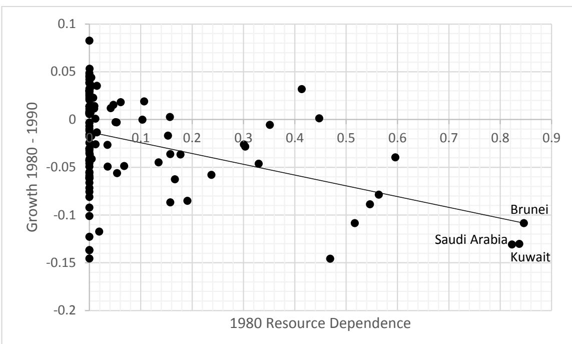


(b) Non Res. Growth and Res. Dep.

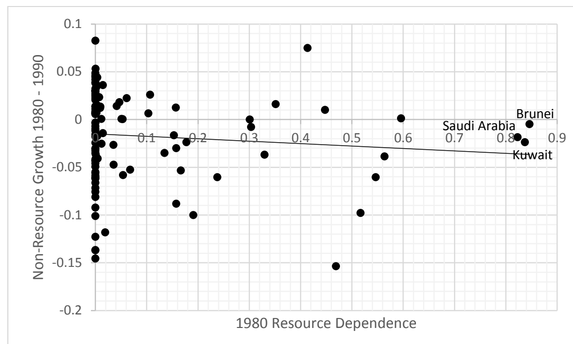


(c) Res. Growth and Res. Dep.

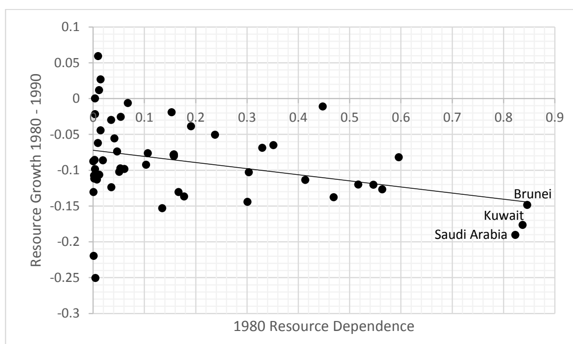
Figure 2: Plots of Total and Sectoral Growth and Resource Dependence, 1980 - 1990



(a) Growth and Res. Dep.

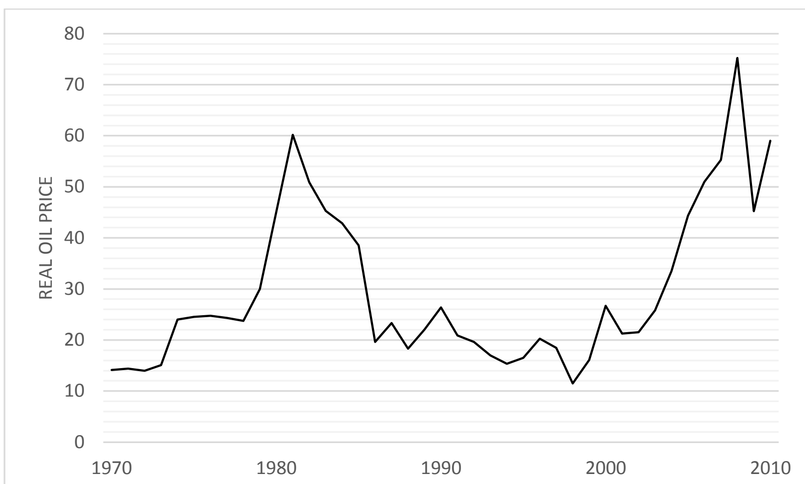


(b) Non Res. Growth and Res. Dep.



(c) Res. Growth and Res. Dep.

Figure 3: Real Oil Prices 1970-2010



Note: Oil prices reflect real domestic crude oil first purchase prices, where 2000 is the base year. Price data was collected from the Energy Information Administration and is available at: eia.gov/petroleum/.

Table 1: The Data Set

Africa	Americas	Europe	Middle East Cont'd
Angola	Bahamas	Albania	Saudi Arabia
Botswana	Barbados	Austria	Syria
Burkina Faso	Cuba	Bosnia	U.A.E
Burundi	Dominican Republic	Bulgaria	North America
Central African Rep.	Haiti	Cyprus	Canada
Comoros	Jamaica	Czech Republic	United States
Congo, Dem. Rep.	Trinidad and Tobago	Estonia	Oceania
Egypt	Asia	Finland	Australia
Eritrea	Afghanistan	France	Fiji
Ethiopia	Armenia	Germany	New Zealand
Gabon	Bhutan	Hungary	Solomon Islands
Gambia	Brunei	Iceland	South America
Guinea	Cambodia	Italy	Argentina
Guinea-Bissau	China	Latvia	Bolivia
Kenya	India	Luxembourg	Brazil
Lesotho	Indonesia	Macedonia	Chile
Liberia	Japan	Malta	Colombia
Madagascar	Laos	Moldova	Ecuador
Malawi	Malaysia	Netherlands	Guyana
Mali	Maldives	Poland	Paraguay
Mauritius	Nepal	Portugal	Peru
Morocco	Pakistan	Romania	Uruguay
Namibia	Singapore	Spain	Venezuela
Nigeria	Sri Lanka	Turkey	
Niger	Central America	United Kingdom	
Sierra Leone	Costa Rica	Middle East	
Swaziland	El Salvador	Bahrain	
Togo	Honduras	Iran	
Tunisia	Mexico	Israel	
Uganda	Nicaragua	Kuwait	
Zambia	Panama	Lebanon	
Zimbabwe			

Table 2: Estimations of Equation 1

Dep. Var.: $\frac{1}{T}\ln(Y_{t+T}/Y_t)$, $N = 111$.						
Growth Period	T	b_0 (Std. Err.)	b_1 (Std. Err.)	$\bar{g}^R$	$\bar{g}^M$	Δ Oil Price
1970-1980	10	.039***	.182***	.1744	.0304	.2197
		(.006)	(.029)			
1970-1990	20	.008**	.0196	.0196	.0067	.0435
		(.003)	(.023)			
1970-2000	30	.0038	.0189	.0173	.0027	.0298
		(.003)	(.019)			
1970-2010	40	.016***	.0155	.0230	.0158	.0795
		(.002)	(.015)			
1980-1990	10	-.013***	-.113***	-.1133	-.0163	-.0415
		(.005)	(.023)			
1980-2000	20	-.009**	-.049***	-.0573	-.0107	-.0204
		(.004)	(.017)			
1980-2010	30	.011***	-.025**	-.0227	.0108	.0102
		(.003)	(.013)			
1990-2000	10	-.004	.0061	.0011	-.0049	.0012
		(.005)	(.034)			
1990-2010	20	.024***	.0214	.0229	.0247	.0617
		(.003)	(.019)			
2000-2010	10	.051***	.046**	.0513	.0533	.1208
		(.004)	(.021)			

Note. ***, **, * corresponds to 1%, 5% and 10% significance, respectively. Δ denotes average annual changes in the real first purchase price of crude oil, where the base year is 2000. The independent variable is resource dependence at the beginning of the corresponding growth period, $r_{i,t}$. For example, the first row gives b_0 and b_1 from the estimation of equation (1) for the growth period 1970-1980. $\bar{g}^R$ and $\bar{g}^M$ are international average resource and non-resource sector growth rates for the corresponding growth period.

Table 3: Sector-Specific Growth Regressions

Growth Period	T	Resource Growth b_1 (Std. Err.)	Non-Resource Growth b_1 (Std. Err.)	Δ Oil Price
1970-1980	10	-.044	.181***	.2197
		(.018)	(.088)	
1970-1990	20	-.076	.083***	.0435
		(.011)	(.054)	
1970-2000	30	-.037	.053**	.0298
		(.008)	(.042)	
1970-2010	40	-.031	.045***	.0795
		(.006)	(.030)	
1980-1990	10	-.085*	-.025	-.0415
		(.009)	(.033)	
1980-2000	20	-.035	-.018	-.0204
		(.007)	(.026)	
1980-2010	30	-.023	.0017	.0102
		(.006)	(.022)	
1990-2000	10	.0219	-.032	.0012
		(.008)	(.040)	
1990-2010	20	.011	.019	.0617
		(.008)	(.042)	
2000-2010	10	.017	.082***	.1208
		(.016)	(.065)	
N		52	111	

Note. ***, **, * corresponds to 1%, 5% and 10% significance, respectively. b_1 is the coefficient that is estimated from a regression of sector-specific growth on resource dependence at the beginning of the growth period. Δ denotes average annual changes in the real price of oil, where the base year is 2000.

Table 4: Service and Manufacturing Growth Regressions

Growth Period	T	Manufacturing Growth b_1 (Std. Err.)N	Service Growth b_1 (Std. Err.)/N	Δ Oil Price
1970-1980	10	.185***	.195***	.2197
		(.040)60	(.030)85	
1970-1990	20	.112***	.082***	.0435
		(.029)61	(.025)86	
1970-2000	30	.082***	.059***	.0298
		(.024)62	(.021)84	
1970-2010	40	.0526	.023	.0795
		(.043)53	(.032)74	
1980-1990	10	-.0314	-.040	-.0415
		(.040)60	(.026)105	
1980-2000	20	-.002	-.019	-.0204
		(.023)87	(.020)102	
1980-2010	30	-.0006	-.028*	.0102
		(.019)74	(.0155)88	
1990-2000	10	-.038	-.027	.0012
		(.043)119	(.034)139	
1990-2010	20	.023	-.005	.0617
		(.026)101	(.021)122	
2000-2010	10	.061***	.035**	.1208
		(.019)125	(.017)130	

Note. ***, **, * corresponds to 1%, 5% and 10% significance, respectively. b_1 is the coefficient that is estimated from a regression of sector-specific growth on resource dependence at the beginning of the growth period. Δ denotes average annual changes in the real price of oil, where the base year is 2000.

Table 5: PPP Sector Growth Regressions

Growth Period	T	Resource Growth b_1 (Std. Err.)	Non-Resource Growth b_1 (Std. Err.)
1970-1980	10	-.096	.141***
		(.088)	(.042)
1970-1990	20	-.101*	.059**
		(.055)	(.026)
1970-2000	30	-.058	0.0282
		(.043)	(.022)
1970-2010	40	-.043	.029*
		(.0331)	(.016)
1980-1990	10	-.073**	-.028
		(.036)	(.028)
1980-2000	20	-.032	-.030
		(.028)	(.020)
1980-2010	30	-.022	-.008
		(.023)	(.013)
1990-2000	10	.031	-.055
		(.046)	(.038)
1990-2010	20	.005	-.0008
		(.044)	(.019)
2000-2010	10	-.0008	.064***
		(.066)	(.017)
N		52	111

Note. ***, **, * corresponds to 1%, 5% and 10% significance, respectively. b_1 is the coefficient that is estimated from a regression of sector-specific growth on resource dependence at the beginning of the growth period. Δ denotes average annual changes in the real price of oil, where the base year is 2000.

Table 6: Results after controlling for resource sector growth, à la Davis (2011)

Growth period	T	Coeff. on Res Dep. (Std. Err.)	Coeff. on Res. Growth (Std. Err.)
1970-1980	10	-0.078	1.505***
		(.079)	(.429)
1970-1990	20	0.011	1.204**
		(.023)	(.585)
1970-2000	30	-0.0008	1.429
		(.026)	(1.277)
1970-2010	40	-0.023	2.087*
		(.026)	(1.199)
1980-1990	10	-0.008	.772*
		(.066)	(.459)
1980-2000	20	-0.044	0.087
		(.087)	(.674)
1980-2010	30	-0.0006	.881*
		(.0189)	(.499)
1990-2000	10	0.0005	1.204
		(.034)	(1.042)
1990-2010	20	-0.010	1.272**
		(.024)	(.609)
2000-2010	10	-0.032	1.171***
		(.031)	(.350)
N		111	111

Note. ***, **, * corresponds to 1%, 5% and 10% significance, respectively.