International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 6 Issue 12 || December. 2017 || PP—19-23

"Impact of Natural Resources on Economic Development"

Shamanth Kumar B U
Assistant Professor, Dept. of MBA, Kalpataru Institute of Technology, Tiptur-572202
Karnataka, India.

Abstract: *The economic development of any country depends on the availability of natural resources and optimum extraction & utilization of it. Whether it is fair to characterize natural resource wealth as a curse is still in discussion. Most of the evidence derives from cross-country analyses, providing cases both for and against a potential resource curse. Scholars are increasingly turning to within-country evidence to deepen our understanding of the potential drivers, and outcomes, of resource wealth effects. Moving away from cross-country studies offers new perspectives on the resource curse debate, and can help overcome concerns regarding economic instability. Therefore, research scholars are leveraging datasets which provide greater disaggregation of economic responses and exogenous identification of impacts.*

This paper surveys the literature on these studies of local and regional effects of natural resource extraction. We discuss data availability and quality, recent advances in methodological tools, and summarize the main findings of several areas of research. These include the direct impact of natural resource production on local labor markets and welfare, the effects of government spending channels resulting from mining revenue, and regional spillovers. Finally, we take stock of the state of the literature and provide suggestions for future research.

Key Words: *Economic Development, Natural Resources, Extraction*

Date of Submission: 22-11-2017 Date of acceptance: 09-12-2017

I. INTRODUCTION

The relationship between natural resource abundance and economic performance has been the subject of a long and rich tradition in the literature.The purpose of this paper is to explore the link between certain types of naturalresource dependence and poor recent economic performance in certain developing countries.The term natural resources can include agricultural andmineral assets, as well as resources associated with water and forests. Among these,certain types of natural resources such as oil and minerals have a tendency to lead toproduction and revenue patterns that are concentrated, while revenue flows from othertypes of resources such as agriculture are more diffused throughout the economy. With respect to this direction we could find out that all countries which are calling as developed countries are well planned and equipped in utilizing their natural resources, even some countries just started to extract their resources are turned towards economic development.

Even some countries are there (like African Countries) they are well in natural resources but they are not economically strong, this is because those countries are poor in educationally, Economically as well as Technically to extract their Resources. This is the reason they economically lack behind. But in the other hand some countries are not wealth in Resources but they are leading countries of the world, this is because they are well in managing scared resource and they are properly utilizing other countries resources.

Coming to developing countries like India, it is wealth in Natural as well as Human Resources also but, from last two decades it recognized as developing county only. With this direction the reason may be lack in technological advancement and resources are utilizing by wrong hands.

II. LITERATURE REVIEW:

James Cust (March 2015): "The Local Economic Impacts of Natural Resource Extraction":

The relationship between natural resource abundance and economic performance has been the subject of a long and rich tradition in the literature. Some of early pioneers of modern economics such as David Ricardo and Adam Smith were concerned by both the positive and negative potential of resource wealth. More recent scholars have revisited this topic and sought to understand the ways in which natural resources can positively and negatively impact on national economic performance.

Frederick van der Ploeg& Anthony J VenablesOxCarre (2011): "Natural Resource Wealth: The challenge of managing a windfall":

Many countries have failed to use natural resource wealth to promote growth and development. They have been damaged by volatility of revenues, have failed to save a sufficiently high proportion of their resource revenues and failed to make high return investments to support diversification of their economies.

Natural resource rents exceed $4 trillion per annum, amounting to some 7 percent of world GDP. Non-renewable resource revenues are a dominant feature of 50 economies with a combined population of 1.4 billion people. There are 24 countries for which resources make up more than three quarters of their exports, 13 countries for which resources make up at least 40 percent of their GDP, and 18 countries in which resources provide more than half fiscal revenue (2000-5, IMF 2007). Some countries (e.g., Botswana, Malaysia, Chile or Norway) have grown fast on the basis of these revenues but others (Nigeria, Cameroon, Iran) have not, and have been labeled as victims of the 'resource curse'.

George Mavrotas, Syed MansoobMurshed, and Sebastian Torres (2011): Natural Resource Dependence and EconomicPerformance:

Certain natural resources called point-source, such as oil and minerals, exhibit concentrated and capturable revenue patterns, while revenue flows from resources such as agriculture are more diffused. Developing countries that export the former type of products are regarded prone to growth failure due to institutional failure.

The term natural resources can include agricultural and mineral assets, as well as resources associated with water and forests. Among these,certain types of natural resources such as oil and minerals have a tendency to lead to production and revenue patterns that are concentrated, while revenue flows from othertypes of resources such as agriculture are more diffused throughout the economy.Following the classification inAuty (1997), countries rich in the former category may becalled point-sourced economies, while nations abundant in the latter type may bereferred to as diffuse. Sometimes, agricultural commodities such as coffee/cocoa arealso considered point-sourced, if they are produced or marketed in a manner akin tothe concentrated conditions prevalent with minerals. Isham et al. (2005) find thatpoint-sourced economies identified as exporters of oil, mineral, and plantation-based crops have lower growth rates compared to other diffuse and manufactured exporters between 1975 and 1997 because of the poorer governance engendered by a fuel, mineral, or plantation-dependent economy.

Paul Collier (2009):"Managing Resource Revenues in Developing Economies":

This article addresses the efficient management of natural resource revenues in capital scarcedeveloping economies. Since revenue streams are highly volatile governmentsshould protect consumption from shocks by increasing it only cautiously. Volatility in domestic investment can be moderated by a buffer of international liquidity, but it is also important to structure investment processes to be able to cope efficiently with substantial fluctuations. To date, most of the resource-rich countries of Africa have not had investment rates commensurate with their rate of resource extraction.

The critical issue is therefore how to harness resource revenues for faster growth. Potentially, the extra revenues enable faster growth of the domestic economy both by increased supply of capital to the private sector and by public sector investments that raise the productivity of private capital. Increased supply of capital to the private sector comes from a range of sources. Some may be at the level of the households, as people save some of the proceeds of lower taxes or social protection schemes. Some may be through asset substitution as reduced supply of government debt induces people and the commercial banks to seek out alternative investments. Some may possibly be through direct government lending if appropriate institutions can be developed that are able to lend funds in an honest, efficient and accountable manner.

Jeffrey D. Sachs, Andrew M. Warner (1995): "Natural Resource Abundance and Economic Growth.":

One of the surprising features of modern economic growth is that economies with abundant natural resources have tended to grow less rapidly than natural-resource-scarce economies.This negative relationship holds true even after controlling for variables found to be important for economic growth, such as initial per capita income, trade policy, government efficiency, investment rates, and other variables. Research explores the possible pathways for this negative relationship by studying the cross-country effects of resource endowments on trade policy, bureaucratic efficiency, and other determinants of growth.

Elena Paltseva and JesperRoine (2011): "Are Natural Resources Good or Bad for Development?"

Natural resources undoubtedly play an important role in the economy of many countries. Whether their contribution to development is positive or negative is, however, a contested and difficult question. Arguably countries like Australia, Botswana and Norway have gained enormously over long periods from their natural resources, others like Azerbaijan, Kazakhstan and Russia have gained in economic growth terms but maybe at the expense of institutional development, while in some countries, such as Angola and Sierra Leone, natural resources have been at the heart of violent conflicts with devastating effects for society. With many developing countries being highly resource dependent a deeper understanding of the sources and solutions to the potential problem of natural resources is highly relevant. This brief reviews the main issues and points to key policy challenges for turning resource rents into driver rather than a detriment of development.

Louis-Marie Philippot (2010): "Natural Resources and Economic Development in Transition Economies"

In this paper, we investigate the impact of natural resources on economic growth among transition countries. It is widely admitted that natural resource abundance is a "curse" for economic performances. Transition countries provide an interesting case of study. Despite their initial conditions were rather the same around 1990, their growth rates dramatically diverged during the next decade. Some have recovered quickly whereas other still have a lower GDP than before the beginning of the transition.

ThorvaldurGylfason and GylfiZoega (2002): "Inequality and Economic Growth- Do Natural Resources Matter?"

In theory as well as empirically, how increased dependence on natural resources tends to go along with less rapid economic growth and greater inequality in the distribution of income across countries.The inverse empirical relationship between inequality and economic growth across countries that has emerged from several recent studies has spurred several authors to suggest various potential theoretical explanations for the relationship.

III. OBJECTIVES

1. To Understand the Importance of Natural Resources.
2. To evaluate the relationship between availability of natural resources and countries economy.
3. To identify the role of natural resources in economic development.
4. To give suggestions to manage available resources productively.

IV. METHODOLOGY

The research methodology adopted for the study is descriptive method. It is purely based on secondary data. Data collected from Published Articles and websites. No Statistical tools has used for research.

V. DATA ANALYSIS

6.1 Importance of Natural Resources:

Natural resources are important because they contribute to the economy of the nation in which they exist. They also provide necessary supplies for humans to thrive.Natural resources in the United States that have a considerable impact on the nation's economy include the land, coastlines and water.

As of 2009, the U.S. coastlines have contributed billions of dollars and over two million jobs. Many of these jobs are in the areas of recreation and tourism. Additionally, coastlines in the country provide economic opportunity in the areas of transportation, construction, boating, shipping, and oil and drilling. Farmland provides a nation with fertile soil that is renewable and suitable for agricultural uses. Water present in rivers, streams and lakes is not only beneficial to farmland. It also provides energy and power, such as electricity, to buildings. Oil, gas and coal are all sources of fuel used in the transportation and heating industries.

Economic activity of any county is depends on the Manufacturing & Operational activities, these activities are purely depends on 5Ms. We can find the many counties with plenty of natural resource but belongs to under developed country; this is because of utilization of available resources. But one or the other day they will get strengthen.

Natural resources are available, in varying quantities, in all parts of the world. The natural availability of certain resources in a given region makes it easier for the people to acquire and use them. Otherwise, a country, where a certain natural resource is not available, has to depend on other countries, in order to acquire it, owing to which the former has to invest a lot of monetary resources in the trade.

The Developing Country Scenario

- It is important to note that in a developing economy, natural resources can provide a number of opportunities, in order to enhance the economic development.
- In an agrarian economy, for instance, natural resources, such as land, soil, forests, animals, fisheries, etc., may be extremely important.
- These not only maintain the livelihood of the people, but also provide them with subsistence.

- Therefore, it becomes very necessary to keep a check on the use of these resources, as even if some of them like land may be renewable, the law of diminishing returns still applies.

The Developed Country Scenario
- Contrary to the developing countries, natural resources may not occupy a prominent place in the process of economic development of the developed countries.
- Developed countries are technologically advanced, and hence, even if there is a scarcity of some natural resource, say cultivable land, they can still produce enormous amount of crop using sophisticated technology.
- Therefore, technology and capital overshadows the need for natural resources in the economic development of these countries.
- Owing to this, the law of diminishing returns rarely applies to the natural resources of the developed countries. As the economist, Sir Henry Roy Forbes Harrod has said, "I propose to discard the law of diminishing returns from land as a primary determinant in a progressive economy. ... I discard it only because in our particular context it appears that its influence may be quantitatively unimportant."

List of Top Ten World's Resource Rich Nations Statistics:

Sl #	Country Name	Main Natural Resources	Total Cost Of Natural Resources
1	Russia	Coal, oil, gold, gas and timber	$75.7 trillions
2	United States	Natural gas, gold, copper and oil	$45 trillion
3	Saudi Arabia	Gas, timber and oil	$34.4 trillions
4	Canada	Uranium, timber, oil, phosphate and gas	$33.2 trillion
5	Iran	Natural gas and oil	$27.3 trillions
6	China	Coal & timber	$23 trillion
7	Brazil	Gold and uranium	$21.8 trillions
8	Australia	Coal, iron ore, timber and copper	$19.9 trillion
9	Iraq	Oil & natural gas	$15.9 trillions
10	Venezuela	Iron, oil and natural gas	$14.3 trillion

(A report on "TOP 10 Countries with Most Natural Resources in the World" by Nancy Carroll 2015)

All the above countries are belongs to developed counties segment. So it is clear that natural resources are at most important for development of any nation.

On the other hand there are some of the countries in the world that are least in natural resources but they also comes in developed countries list. This is because they are rich and efficient in using the available resource. E.g. (Switzerland, Belgium, Taiwan,Vatican City,Hong Kong, Singapore) Even these countries became economically stronger indirectly by natural resources only i.e. tourism.

VI. FINDINGS

The study reveals that economic growth of any country is directly or indirectly depends on the allocation of different types of natural resources. Without natural resources and its effective usage no county will be stronger in any economic activities.

1) Availability of natural resources plays a vital role in economic growth.
2) Majority of Developed countries are blesses with abounded natural resources.
3) Many countries still not developed economically even though blessed with natural resources.
4) Natural resources have direct impact on the economic stability of any nation.
5) Over usage of natural resources is happening all over the world.

VII. SUGGESTIONS

To gain economic strength either the county should have abounded natural source or it should manage the available resources and effectively use the other countries resources,

1) The country which have plenty of natural resources but fails to use it efficiently, they can go with the countries which are good in efficient use of the same, which will helps both countries to grow.
2) As natural resources have direct impact on economy countries should plan to use the resources which are renewable and try to manage and develop the non-renewable sources.
3) As natural resources are over using international organizations and local governments should implement strict rules to avoid the same. Especially with respect to petroleum products and manufacturing of anti-environmental friendly goods. E.g. plastic and some chemical related items.

4) By implementing the strategies which are not effects on natural resources countries can become economically stronger. E.g. Tourism development(Now Dubai is following the same, they faced the recession and there is a problem with extracting crude oil and dollars rate fluctuation. They are developing tourism to retain their economic stability.)

VIII. CONCLUSION

From the Theoretical Study on the availability of natural resource and economic development of any country, it is possible to conclude that the Economic strength of any country depends on the allocation of natural resource and how the country is efficient enough in using it.

So called many of developed countries are blessed with oodles natural resources & they are using to the maximum extent. On the other hand some countries are having prosperity in natural resources but they don't have knowledge and economic power to extract to make use of it. Perhaps other countries are also there, they are leading in economy race without having sufficient Natural resources but depend on other country.

Even developing counties like India have to concentrate on maximum & efficient use of available resource. Resources productivity is not sufficiently using in some countries. Environment friendly use of any resources has to be adopted.

Finally it is possible to conclude that there is link between economic development and natural resources utilization. When the counties start effectively utilizing its available natural resources it is possible for substantial growth. Which countries are using all natural resources including solar energy as well they stand in the economic race as it is also any alternative sources of energy for various activities.

REFERENCE

[1]. How Do Natural Resources Affect Economic Development (August 2016) retrievedfromhttp://www.buzzle.com/articles/how-do-natural-resources-affect-economic-development.html.

[2]. TOP 10 Countries with Most Natural Resources in the World (February 2016) Retrieved from http://www.countrydetail.com/top-10-countries-natural-resources-world/.

[3]. The Local Economic Impacts of Natural Resource Extraction (March 2015) Retrieved fromwww.oxcarre.ox.ac.uk.

[4]. Natural Resources and Economic Development in Transition Economies (November 2010) Retrieved from http://www.cerdi.org/.

[5]. Managing Resource Revenues in DevelopingEconomies (May 2009) Retrieved from http://citeseerx.ist.psu.edu/messages/downloadsexceeded.html.

[6]. The Roles of the Environment and Natural Resources in Economic GrowthAnalysis (May 2003) Retrieved from http://www.rff.org.

[7]. The Role of Natural Resources In EconomicDevelopment (September 2003) Retrieved fromhttp://homepage.univie.ac.at/adusei.jumah/natural_resources.

[8]. Natural Resources Abundance and economic growth (Dec 1995) Retrieved fromhttp://www.nber.org/

International Journal of Business and Management Invention (IJBMI) is UGC approved Journal with Sl. No. 4485, Journal no. 46889.

Shamanth Kumar B U ""Impact of Natural Resources on Economic Development"." International Journal of Business and Management Invention (IJBMI), vol. 6, no. 12, 2017, pp. 19-23.