

N.A. Ibadildin PhD, KIMEP University,
Kazakhstan, Almaty, e-mail: nygmet@kimep.kz**POLITICAL ECONOMY OF NATURAL RESOURCES.
ACADEMIC DEBATES ON CONCEPTS, MODELS,
INSTITUTIONAL INTERPLAY**

Abstract. This paper analyses the political economy of natural resources literature classifying it on the economic, political, and social aspects regarding institutional interplay. Natural resources might lead to economic prosperity and political development or they destabilize macroeconomic system with windfalls and create political rivalry and social unrest. The specific type of resources matters and makes a difference as well; is it oil or coffee or timber? Institutional development and strategic choices make differences and final outcomes as they determine policies and choices by individual actors. Definitely there are country specific contexts in terms of political culture, demography, historical past and general path dependence but current consensus among researchers is that institutions matter the most. In our paper we look to the different approaches to analyze natural resources in their political and economic parts, and first of all to oil, we look at Dutch disease as a special case of that political and economic interplay.

Key words: Kazakhstan, natural resources, political economy, post-Soviet, oil and gas.

Н.А. Ибадильдин

PhD., КИМЭП Университеті,
Қазақстан, Алматы қ., e-mail: nygmet@kimep.kz**Табиғи ресурстардың саяси экономикасы.
Тұжырымдамалар, модельдер, институттар бойынша
академиялық пікірсайыс**

Аңдатпа. Бұл жұмыста табиғи ресурстар әдебиеттерінің саяси үнемділігі, оларды институционалдық өзара байланысты экономикалық, саяси және әлеуметтік аспектілер бойынша жіктелген. Табиғи ресурстар экономикалық өркендеуге және саяси дамуға алып келуі мүмкін немесе олар макроэкономикалық жүйені тұрақсыздандырады және саяси бәсекелестік пен әлеуметтік толқулар тудыруы мүмкін. Ресурстардың нақты түрі маңызды және өзгереді; бұл май ма, кофе ме, ағаш па? Институционалды даму мен стратегиялық таңдау жекелеген субъектілердің саясаты мен таңдауын анықтайтындықтан, айырмашылықтар мен түпкілікті нәтижелерге қол жеткізеді. Әрине, саяси мәдениетке, демографияға, тарихи өткенге және жалпы жолға тәуелділікке байланысты елдің нақты контекстері бар, бірақ зерттеушілердің қазіргі консенсусы – бұл институттардың ең маңыздысы. Біздің жұмысымызда табиғи ресурстарды олардың саяси және экономикалық бөліктеріне, ең алдымен мұнайға талдау жасаудың әртүрлі тәсілдеріне назар аударамыз, біз голландиялық ауруды сол саяси және экономикалық өзара іс-қимылдың ерекше жағдайы ретінде қарастырамыз.

Түйін сөздер: Қазақстан, табиғи ресурстар, саяси экономика, посткеңестік, кеңістік, мұнай және газ.

Н.А. Ибадильдин

PhD., Университет КИМЭП,
Қазақстан, г. Алматы, e-mail: nygmet@kimep.kz**Политическая экономия природных ресурсов.
Академические подходы к концепциям,
моделям и институтам**

Аннотация. Данная статья представляет собой анализ основных подходов политической экономии природных ресурсов. Эти подходы классифицируются по экономическим, политическим и социальным аспектам, а также отдельно по подходам институционального взаимодействия. Наличие природных ресурсов может вести к экономическому процветанию и политическому

развитию, но в отдельных случаях дестабилизировать макроэкономическую систему и создавать политическое соперничество и сепаратистские движения. Тип природных ресурсов также имеет значение: нефть ли это, кофе или древесина? Институциональное развитие и стратегический выбор влияют и на конечные результаты, поскольку они определяют политику и осознанный выбор действующих сил данной системы. Проблема институционального развития и различия тем более важна для пост-советских стран, таких как Казахстан. Существуют специфические для страны контексты с точки зрения политической культуры, демографии, исторического прошлого, но в настоящее время среди исследователей существует единодушное мнение о том, что именно институты важнее всего во влиянии на конечные результаты. В нашей статье мы рассмотрим различные подходы к анализу природных ресурсов, как сил, влияющих на политическое и экономическое положение, где главным объектом рассмотрения является нефть. Голландская болезнь определяется нами как особенный объект этого политического и экономического взаимодействия.

Ключевые слова: Казахстан, природные ресурсы, политическая экономия, постсоветское пространство, нефть и газ.

Introduction

Political economy of natural resources is quite specific. People have great expectations, politicians are thinking of ‘energy weapon’, research invent metaphors like ‘oil spoils’, ‘Dutch disease’, ‘resource curse’. Oil is a key mineral in this regard; even though other resources can also make some negative impact, oil is a special one. As it requires and creates a lot of capital and does not require a lot of labor.

In the research field, there is a widespread debate on the classification in terms of natural resource differences and their political influences. These arguments include ideas on how a specific resource can shape political and economic processes in a developing country (Ross 2002; Isham et al., 2003; Harford and Klein 2005). The illustration of the importance of such differences and comparisons is that, for example, oil does not require massive labor involvement like agriculture; so a small group of ruling elite can capture the rent and exclude the rest of the people from it. Diamonds or tantalite ore, in some cases, do not need the complicated transportation infrastructure, technology, or substantial initial capital investments that oil and deep shaft minerals do. International trade is also specifically different for oil, uranium, or bauxites. Each of them has different market trends and, as a consequence, different political importance. Drugs are considered as a type of natural resource in this research and they are very specific in terms of trade, transportation, criminality, and investments (Ross 2004, 338). The main outcome of this interplay between resources and state policies is clearly stated in Karl’s (1997, 13) Paradox of Plenty:

“It matters whether a state relies on taxes from extractive industries, agricultural production, foreign aid, remittances, or international borrowing

because these different sources of revenues, whatever their relative economic merits or social import, have powerful (and quite different) impact on the state’s institutional development and its abilities to employ personnel, subsidize social and economic programs, create new organizations, and direct the activities of private interests”.

There are specification needs if some special process in the given country takes place. It is necessary to mention that not only the state is influenced, but society as well. The emphasis on the state, in this case, is understandable because quite often in developing countries the state has 18 namely been considered as an engine for growth. Thus, institutions, and not only state ones, are influenced by the type of the resource and not only by the income derived from the resources. While mentioning the concept of institutions, we will introduce a definition for our analysis of the institutions made by North who defined them as ‘formal rules, informal norms, and enforcement characteristics’ (North 2005, 48). These formal, or informal, rules make actions for the participants predictable. Some of them produce economic growth and overall social improvement while others prevent growth and social development. The main classification of these institutions for our case will be what Bergloff (2005) called ‘good’ and ‘bad’ institutions. The idea is that ‘good’ ones promote growth and overall social benefits and the ‘bad’ ones create obstacles to growth and social benefit. The ‘good’ ones can also erode if they are not well established.

Oil and gas production does not require a lot of labor but needs a lot of capital. In this regard, these natural resources do not lead to wealth redistribution within society or create wide employment. In addition, the need for large initial capital and high returns enriches only a very small group within society. These two circumstances make these resources very

political ones, meaning that they generate power and attract power rivals. The competition for control over resources, both on the domestic and international level, created an entire stream of research on how resources influence the level of conflict (Collier and Hoeffler 1998, 564; Ross 2003, 337).

The control of the natural resources is the prize that gives the power in a conflict. It is not only rivalry between superpowers but, what is interesting for our research, the rivalry inside a country. However, the conclusion that natural resources and oil provoke conflicts is not so inclusive. While Sudan, Nigeria, and Iraq have been areas of long-term conflicts, the United Arab Emirates, Saudi Arabia, and Venezuela have not experienced large scale violence for decades. Here, the differences in the population, size of the resources, urbanization level, maturity of the bureaucracy, and institutional development can all be intervening factors as well.

Ross (2003, 337-339) also classifies resources on how they influence the nature of conflict; whether resources make the conflict separatist or non-separatist ones. So, natural resources are different and have different impacts on economic and political performance. From another side, here, we see that interactions among different actors in the economy, politics, and society are regulated by institutions because, namely, institutions make some expectations of certainty for the actors possible. Depending upon the institutions, actors behave differently.

Oil as political economy phenomenon

However, before going into the analysis of different explanations it would be good to specify the properties of oil, which have some political meaning both locally and internationally (Amuzegar 2002, 12):

1. Oil still is of huge importance for contemporary industry and styles of living where automobiles are a necessary part of everyday life. It means western powers will be interested in safe access to oil deposits, transportation routes, and processing;

2. There are not significant substitutes for oil yet. Hybrid engines, alternative power, biofuel, and plastics substitutes are all still expensive and not competitive enough with oil as a chemical basis. This means that the interests of powerful players, both in politics and in business, still focus oil

3. Oil involves a high level of different geological, economic, and political risks. It requires a very large amount of initial investments

4. The returns in oil business, despite the initial investments, are very high. While the market price

can be as high as US \$140 per barrel in 2011, there are oil fields with production costs of US \$20 per barrel. In times of high prices, costs are usually rising too because companies are trying to get to difficult and problematical oil fields which are not profitable when oil prices are low. This feature of small costs followed by large returns after investment explains the profitability of oil corporations and the rent behavior of oil states.

5. Oil can be delivered on short notice, within two or three weeks after the signing of a contract.

6. Oil production involves very limited labor. This makes it less vulnerable to labor disputes and limits the influence of trade unions. This definitely has an impact on institutions and wealth distribution within society.

For this research, there are four main points regarding the importance of politically related oil properties. First feature of oil is the vital interest of the great powers, because oil is a key resource for the industry. Second feature is huge capital costs of oil business meaning involvement of big companies. Third one is a power of the oil lobby in the producing country because it is usually a source for the state revenues. Fourth feature is a weakness of the trade unions in producing country because oil does not bring redistribution of the wealth as oil production does not employ too many people. These properties of oil, in the context of institutional reform, are even more important because the apparent weakness of institutions makes the risks involved with these properties very obvious.

Resource curse metaphor

One of the first recognized formulations of the resource curse as a concept was introduced by Richard Auty. He wrote a prominent work in 1994 introducing the thesis itself. His main claim is that, 'The mineral economies have underperformed compared with countries of a similar size and level of economic development which lacks the mineral bonus'.

This work, as Auty puts it, '...the skepticism ... concerning the advantages of a bountiful natural resource endowment and it also reinforces the resource curse thesis' (Auty 1994, 12). One of the problems with Auty's claims on the underperformance of the resource rich countries is that it is not a universal claim. First, there are some developed countries, like Norway or Canada, where natural resources became a basis for economic growth and social well-being. They might have been on a different level of economic development compared to other countries. However, some developing countries can

also grow significantly due to their natural resources. Some developing countries can diversify their economy as well, e.g. Malaysia. So, the rule was not universal and, as later critics argued (for example Jones or Alekseev and Conrad), the main issue was a choice of the strategies and not the endowment in itself. Some authors talk about the positive role of natural resources toward economic and political performance, or at least regime survival within a natural resource rich country (Smith 2004, 233).

Prior to Auty, many important works in the same field were done by Mahdavy (1970), Beblawi and Luciani (1987), Karl (1997), Gelb et alia (1988), and many others who contributed much to the conceptualizations of this phenomena in resource rich developing countries⁷. The concept of the resource curse is somewhat of a generalized one and refers to the range of empirical evidence of unstable and unsustainable economic, political, social, and behavioral situations in countries rich in natural resources. This study by Auty was important conceptually because this concept has become an umbrella for the different approaches and explanations. Today, literature on the resource curse can be classified into three main groups on the explanation of the reasons of this curse. Actually, even a classification of the literature is an issue because some authors define four main approaches (Robinson et alia 2002, 2). According to Ross (1999), it is classified into economic and political groups and each group is divided into three sections. We will focus our attention on economic, political, and social aspects of the resource curse, and their institutional dimensions.

Economic explanations have been introduced within concepts on the resource curse and, consequently, can be divided amongst the areas of unfavorable terms of trade, fluctuation of world commodity prices, Dutch disease and linkage theories, and the neo-classical or gaps approach.

Political explanations are divided into cognitive, societal, and state centered explanations; the last one being the most developed and quoted. It is worthwhile to mention that, quite often, studies consider several reasons and explain the resource curse simultaneously from different reasons. Many of these explanations refer to institutions in one way or another and the key role of institutions in many of them, both political and economic ones, is supported by different researchers (Robinson et al. 2002, 1).

According to Ross (1999), economic explanations began back in the 1950's. Up to now, four main theories were developed in economics to analyze the effect of natural resources in the development of the

economy. These four theories include the linkage theory, neo-classical or gaps model, export fluctuation, and the 'booming sector' theory (Gelb et al. 1988, 120). Separately, and later on, models of the Dutch disease and institutional approaches were developed. The linkages theory comes from the staples theory which was developed in the 1950s by Harold Innis and Douglass North. The idea is that by benefiting from staple trades like cod, grain, cotton, or minerals, a country would re-invest the capital in industrial development and some regional associates would emerge. It was an explanation of the industrial growth in the USA and Canada. It is very common for the development theories of the 1950s and 60s to share this view and to be optimistic about the future growth of developing countries.

Linkage theory

The linkage theory emphasizes the necessity of a booming sector, in this case oil, to get services and products or links to function. These links can be down and up in the production chain. Before the 1970s and later of twentieth century has been a case of more applied approach and policy oriented recommendations (Hirschman 1958, 15). It has prescribed that the booming sector, which is a mineral or oil production one in the case of resource curse, would be playing a role of an engine for the growth of domestic economy. This dissemination of the growth would be done by fostering the linkages in the two directions of the production chain – backward and forward. In case of oil, as a main product in the economy, forward linkage will create a production of petrochemicals or any product where oil is a basic initial ingredient. Backward linkage is a development of the sectors which precede oil in the production chain. It can be geological exploration, acquisition of equipment and intermediary materials, and supplies needed for oil production. Building both forward and backward linkages is used to overcome the so called 'enclave character' of the economy. However, linkages were not built in many developing countries due to policy failures and mismanagement, which requires researchers to pay attention to the actors and their motivations.

As the World Bank states in a paper on Kazakhstan,

'...windfalls also lessen the imperative to address corruption and other general business environment problems, which serves to further weaken investment and performance in the non-oil economy' (World Bank 2005, iv).

Neo-classical theory and terms of trade

Neo-classical theory considers income from natural resources in developing countries as a means to solve the problem of absent characteristics typical for developing country, like the lack of technology, savings, education, healthcare, and infrastructure. The theory begins with the idea of filling two main gaps, like the lack of savings and lack of foreign reserves (Chenery and Bruno 1962). Conclusion from this theory is that oil income helps to create various non-oil sectors of the economy. Export fluctuation theory places attention to the fact that it is not possible for exporters of primary resources to predict the prices for commodities and then adequately develop relevant policies. If prices or terms of trade change, then the budget earnings change and this can cause macroeconomic shocks and unfinished projects. Policy blunders are made due to the expectation that the inflow of income would be continuous. Unequal terms of trade between developing and developed countries can be an important factor in slowing the growth of a natural resource exporter. The principal idea is that the exporters of natural resources, almost always in the case of developing countries, are importers of processed goods. Price structures on the world markets are made as exporters of natural resources will lose income to the producers of the processed goods (Prebisch 1950, 7).

This relates more to dependency theory ideas about the world dominance of developed countries who shape it for themselves and exploit the developing ones. The booming sector theory looks at the influence of a booming sector in shaping the overall economic structure of a country. The booming sector can become an economic enclave. The concept of enclave economy refers to the situation when one sector exists almost autonomously from the rest of the economy. This sector is financed from abroad and sells its product abroad. Quite often, outside companies also provide employment, technology, and management. Connections with the mainland economy of this enclave are only in the form of taxes. The developing country and its main economy and population can become a load or addition to the enclave economy which is dominated by transnational corporations. To change this situation, linkages should be created.

The booming sector influence internal shift of the capital and resources would be transformed later into the Dutch disease model, which will be analyzed in detail below. Jeffrey Sachs and Andrew Warner (1997) wrote a frequently quoted article on

this topic of the resource curse demonstrating the clear evidence of slow economic growth and natural resource abundance. This study has been one of the main starting points for the debate over the issue of natural resource availability and its negative influence on economic growth. The conclusion of Sachs and Warner was that oil rich countries were not growing fast in the seventies when oil boom was taking place.

These oil countries were lagging behind even in comparison with the rest of developing countries. One of the points of critique for this study is that it is only a correlation between sets of data without a clear explanation of the causes of this correlation. The main indicator for them was a share of the raw materials in the total export. This implication was a volatility of world prices and growing share of manufactured goods and services in the world economy. Later, studies were focused not only to finding the correlation but also some explanatory causes of it.

Despite studies utilizing statistical evidence of the resource curse, it is still difficult to state clearly the direct correlation. Still, it is even difficult to define how to measure the dependency of the economy on the production of natural resources. It is a more or less accepted idea that more than 30 percent of exports are to be constituted from the natural resources; if this threshold is passed then the dependency is clear. However, recently, new developments have been going on. Ross and Moore made it clear that the percentage in export or in GDP do not matter but the received rent itself makes the most difference and should be studied and compared country by country (Ross 2006, 266; Moore 2007, 21).

Economic studies on the detrimental effects of natural resource abundance to economic performance have begun long before the introduction of resource curse concept introduction itself. So, neoclassical, linkage theory, structural, and Dutch disease models do not explain the motivation of the individual actors in cases of the resource boom and this gap of the models is researched by the scholars who evaluate cognitive biases and institutional development. Cognitive bias refers to the decision makers' failures due to overconfidence in continual oil income and so the quality of the decision making is worsened while income from natural resources is misused. Also, some political science explanations have come forward, in this case, when the state monopoly over resources, which is a normal case for a developing country, creates authoritarian tendencies within the government and managerial errors in an economic

sense increase because of political considerations (Lam and Wantchekon 2002, 15). This is one of the classical themes in resource curse literature on why the government tends to be authoritarian if it has a lot of income from natural resources.

Rentier state model

It is called differently by different authors and one of the widespread and heuristic concepts is the 'rentier state' concept by Mahdavy (1970), and later by Beblavi and Luciani (1990). Michael Ross formulates several effects which take place in the state that are dependent upon the production of natural resources. If oil or another resource is the only substantial source of income in the given economy and the government controls it by having a monopoly over it, none of the other actors can challenge the ruling group in the government. So, the monopoly of economy creates a monopoly in politics. The government is not interested in the taxation of the citizens as well because income is derived from natural resources; Ross calls this the taxation effect (Ross 2001, 325). Citizens also cannot challenge the government in other bodies like parliament or collective bargaining unions because the government is not dependent upon their taxes. The classical formula applicable in this regard is 'No taxation, no representation'.

The government undermines civil society because the government considers it as a competitor for the minds of the people. Ross calls this group formation effect. Civil society is also inherently weak because citizens depend upon government subsidies and their loyalty to the government is bought. If someone calls for change, the current order or ruling group tries to co-opt him or her (Co-optation effect) or repress the action if the cooptation would not be successful (repression effect).

Staple trap and petro-state models

One of the first and interesting models related to economic issues of resource rich developing countries has been introduced by Auty. It is the so-called 'staple trap model'. The reference is to the earlier mentioned idea that countries which have primary commodities or staple goods can invest into different sectors like the USA or Canada did in the 19th century. Today, countries with staples are unwilling to diversify and so the dependency upon one export commodity is created and diversification does not happen; this is even more obvious when a developing country exports oil. Despite sharp

fluctuations, it generates profits which cover all the losses and costs of production.

Paradox of plenty, which is a seminal work by Terry Karl (1997), has introduced the idea of a petro-state where the economic system is dependent upon oil production creates almost, necessarily and naturally, a state with a special system of relations and structures. The state cannot survive without the oil because the whole system of governance and power is configured from oil income. In this model, some actions from the decision makers are required to change the petro-state character. Authoritarianism in resource rich countries brings policy failures where societal control over decision making is weak and there is an erosion of labor ethics because it is a system where loyalty is bought. I will elaborate more on the definition of a petro-state when discussing the state as an actor in an oil exporting country. Overall, despite of the resources available or not, a difference is made by the quality of the decisions made, policies selected, and diversification successfully realized. This idea by Erika Weinthal and Pauline Jones (2006, 36) has more of a normative or prescriptive meaning but it explains the difference in the performance of different developing countries in their ability to manage their natural resources. Technology, human capital, labor productivity, and an increase of the absorptive capacity of the economy have left behind conscious efforts, political will, and certain policy choices. So, resources are neither bad nor good in their nature, it is the people or government who use them for the benefit of the whole society or not; or as another author who writes about the resource curse has put it, 'It is something that can be and has been avoided with careful mineral windfall management' (Davis 1995, 1767).

Dutch disease preconditions

The Dutch disease model has been one of the most widespread themes in the resource curse analysis of economic issues. It happened in the late 1970s in the Netherlands and The Economist created the concept of Dutch disease, itself, in 1977. It was introduced to explain the economic stagnation in the Netherlands due to the easily available financial revenues from a large gas field called Groningen and the debates over it began when the term was introduced. These debates referred to the strange situation of when wealth brought problems. The Economist formulated this contradiction as, 'to refer to a vast, valuable energy resource as the source of a disease is surely rather ungrateful' (quoted from Neary and

van Wijnbergen 1986, 41). Some researchers mix the resource curse concept and the Dutch disease, considering the first one as a journalist term and the other one as a more academic one. However, more focused and academic research shows a distinction between them considering the resource curse as broader concept and the Dutch disease as a specific case of the resource curse .

The model behind the Dutch disease (Bruno and Sachs 1982, Neary and van Wijnbergen 1986, 42, 44) has three basic preconditions:

1. the economy should be open to international trade;
2. it is relatively small and does not have too many investment opportunities;
3. and unemployment should be low.

This was the case in the Netherlands in the 1970s. Three main sectors are considered for the analysis. There is a boom export sector; in this case it is oil, which has very good prices on the world markets. Secondly, there is a sector of tradable goods; this means that these goods are traded internationally and prices for them are determined internationally. It is usually known as the manufacturing export sector but not always, and it is easy to export and import tradable goods. Thirdly, there is a non-tradable sector, in which it is difficult to export or import. These are usually services, including government ones as well. The booming sector produces enormous amounts of income for the economy in hard currency, which has several effects.

Effects of Dutch disease

First, the local currency starts to appreciate in relation to the international one. It undermines other manufactured or tradable exports making them expensive and encourages tradable imports. Capital is invested into the booming sector and other sectors are undercapitalized. It is first a capital movement effect in the model and if the tradable sector prices are determined internationally because the economy is open to the world, trade capital starts to shift in to the non-tradable. This is obvious because the booming sector cannot absorb all of the capital due to physical limitations.

So, a second resource movement effect happens when non-tradable sectors, the goods which cannot be easily imported like construction, real estate, or any domestic services, begin to attract capital and labor from the shrinking manufacturing sector. Prices in the service or non-tradable sector grow very fast because there is a lot of capital and not so much of investment opportunities. Prices can grow

so fast that it would look like an ‘overheating’ of the economy and expectations of growth finally create a ‘bubble’.

Therefore, non-tradable sectors and imports grow while the tradable sector shrinks. When world prices are unfavorable or a gas field is exhausted, doom’s day comes; the country has a huge and overheated non-tradable sector, imports dominate local consumption, and there is no source of hard currency except for the state possibly borrowing from abroad. The Dutch disease model explains why deindustrialization happens in a resource rich country which suddenly faces a boom in the natural resource sector or any other single dominant sector (Corden 1984, 360). Signs of the Dutch disease are domestic currency revaluation, fast growth of non-tradable goods or services, rapid decrease of unemployment, growth in government spending, growth of imports, and shrinkage in the manufacturing sector.

In addition, it is important to notice that the Dutch disease can happen not only with oil; it can happen within any booming sector with the conditions of openness and lack for investment opportunities. The Dutch disease describes how positive externality, like favorable prices for one export commodity of the given country, can destabilize economic processes. Therefore, positive externality has not played a positive role within the whole system because the actors were not able to use it productively. Dutch disease creates a risky situation for a country because if world prices for the booming sector fall, or the resource would be physically exhausted or any other factor would end the positive externality, then the country would remain with an oversized service sector and a destroyed industrial sector. Huge government and private debt would accompany this because both state and private actors tend to borrow a lot in times of economic growth, and the quality of investment decisions is poor. Therefore, a one-sided economy with overdependence on one resource that used to be a booming sector combined with an anemic or non-existing manufacturing sector, distorts price structures and the labor market; this is the final result of the Dutch disease.

Recommendations to manage Dutch disease

The main recommendations for preventing the Dutch disease are strict fiscal discipline, an active role by the National Bank in the exchange rate and inflation control, sterilization of the excessive amount of money by saving it in some special fund,

and other monetarist recommendations. The debate on each of these policies is extensive with special attention on National fund issues that were efficient for Norway and the state of Alaska (Hjort, 2002, 183). There is debate over the contradiction to the earlier mentioned 'gap' theory, when oil income helps to fill the gaps in savings for a developing country.

Conscious efforts to create infrastructure, invest in education and social services, and stimulate manufacturing exports with high value added goods are recommended too, but it is more about structural changes in the economy. The creation of the special fund is recommended by almost every expert and international financial agency, like the World Bank, and this creates some misunderstanding and resentment in developing countries. Transitional or developing countries usually have so many problems that can be solved with the additional capital so creation of the fund is viewed as strange. Debates in Kazakhstan over the stabilization of funds have been going on fiercely even from the very inception of the funds (Tsalik 2004, 33).

The main recipe for the Dutch disease is not the fund or other ways to sterilize the money but institutional capacity of the country. It means authority of the legislative body, law enforcement, transparency, freedom of speech and independent civil society. All these institutions create environment where oil income spending is accountable. The Netherlands was able to overcome

the Dutch disease due to the social consensus and so-called Wassenaar accords when business, state, and trade unions agreed to conduct some coordinated policies; it involved institutionalized social dialogue between the parties concerned. Still, it remains an issue within the Dutch disease model to explain the experiences of some countries with an initially underdeveloped industrial sector, like the Gulf countries or Nigeria, before the oil boom happened. They did not have virtually any industries and their population is uneducated and very traditional. Subsequently, they had a need for employment opportunities for the people and the need for some social development with the growth of government spending. There is also a question of applicability of this concept to the oil-rich countries in transition like Russia or Kazakhstan. They have industrial and agricultural sectors but their economic downfall can be explained by structural and institutional changes. Because of this downfall, unemployment was very high and so the condition of low unemployment would not be applicable. When economic growth occurred both in Russia and Kazakhstan due to high international oil prices, the manufacturing and agriculture sectors were growing too despite the de-industrialization aspect in the Dutch disease model. Perhaps the Dutch disease model can partially explain some processes in developing and transition countries, or their governments take conscious policies to avoid the Dutch disease like the creation of national oil funds.

References

- Alexeev, Michael and Robert Conrad (2005) —The Elusive Curse of Oil SAN Working Papers Series No 7.
- Amuzegar Jahangir (1982) —Oil Wealth: A Very Mixed Blessing! Foreign Affairs Volume 60, Number 4, Spring, pages 814-835
- Auty, Richard (1993) Sustaining Development in Mineral Economies: The Resource Curse Thesis, London: Routledge, 296
- Bruno Michael and Jeffrey Sachs (1982) Energy and Resources Allocation: A dynamic model of the Dutch disease. Review of Economic Studies. Vol. 51, № 159. P. 845-859.
- Beblawi, Hazem, (1990) —The Rentier State in the Arab World, in Luciani, G., The Arab State, London: Routledge
- Corden, Max (1984) —Booming Sector and Dutch Disease Economics: Survey and Consolidation, Oxford Econ. Papers 36, 3, pp. 359-380
- Collier, Paul and Anke Hoeffler. (1998) On Economic Causes of Civil War. Oxford Economic Papers 50, p. 563-573.
- Chenery, Hollis and Michael Bruno (1962). —Development Alternatives in an Open Economy: The Case of Israel, Economic Journal 72, pp. 79-103
- Davis, Graham (1995) —Learning to love the Dutch disease: Evidence from the mineral economies! World Development, Volume 23, Issue 10, October 1995, pp. 1765-1779
- Gelb, Alan and associates (1988) Oil Windfalls: Blessing or Curse? A World Bank Research Publication. New York: Oxford University Press
- Hirschman, Albert (1958) The Strategy of Economic Development. New Haven: Yale University Press
- Hjort, Jonas (2002) Citizen funds and Dutch Disease in developing countries. Resources Policy, Volume 31, Issue 3, September 2006, pp 183-191
- Innis, Harold (1999) The Fur Trade in Canada Toronto: University of Toronto Press Ismagambetov, Talgat (2008) —Once again about the succession or will the prince from East come? The Exclusive" #07(76). July 2008. Available at <http://exclusive.kz/index.php?uin=1215489338&chapter=1215492566> Accessed at May 6, 2009

Jones Pauline and Weinthal Erika (1999) —Prelude to the Resource Curse: Oil and Gas Development Strategies in Central Asia and Beyond. Yale University Working Papers, Available at www.yale.edu/leitner/resources/docs/1999-08.pdf Accessed on November 2, 2006

Karl, Terry (1997) *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press

Lam, Ricky and Leonard Wantchekon (2002) —Political Dutch Disease. Manuscript, Department of Politics, New York University, November 2002 Available at <http://www.nyu.edu/gsas/dept/politics/faculty/wantchekon/research/dutch.pdf> Accessed on May 15, 2009

Mahdavy, Hussein (1970), “The Patterns and Problems of Economic Development in Rentier States: The Case of Iran,” in *Studies in Economic History of the Middle East*, ed. M. A. Cook, London: Oxford University Press, pp. 428-467

Moore, Mick (2007) —How Does Taxation Affect the Quality of Governance? Working Paper No. 280, Institute of Development Studies

North, Douglass (1993) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press P. 45

Neary, Peter and Sweder J. G. van Wijnbergen (1986) *Natural Resources and the Macro economy*. MIT Press: Cambridge, Massachusetts

Prebisch, Raul (1950) *The Economic Development of Latin America and its Principal Problem*. UN publication, Lake Success, N.Y.: United Nations

Robinson, James and Ragnar Torvik (2005) —White Elephants. *Journal of Public Economics* Vol. 89, Nos. 2-3, pp. 157-566, February 2005

Ross, Michael (1999) —The Political Economy of the Resource Curse. *World Politics*, January 1999

Ross, Michael (2001) “Does Oil Hinder Democracy?” *World Politics* 53, 3 (April): 325-361

Ross, Michael (2003) ‘Natural Resources and Civil War: An Overview’ *Journal of Peace Research*, May 2004

Ross, Michael (2006) —A Closer Look at Oil, Diamonds and Civil War. *The Annual Review of Political Science* 9, pp. 265-300.

Sachs, Jeffrey and Andrew Warner (1995) *Natural Resource Abundance and Economic Growth*, Development Discussion Paper. Cambridge: Harvard Institute for International Development Available at www.cid.harvard.edu/ciddata/warner_files/natresf5.pdf Accessed on November 1, 2006

Smith, Benjamin (2004) —Oil Wealth and Regime Survival in the Developing World, 1960 -1999. *American Journal of Political Science* 48(2), 232-246

The Economist (1977) Trade Theory and Policy. 26 November

Tsalik, Svetlana (2003) *Caspian Windfalls: Who Will Benefit*. Open Society Press

World Bank (2005) Republic of Kazakhstan Country Economic Memorandum Getting Competitive, Staying Competitive: The Challenge of Managing Kazakhstan’s Oil Boom. June 2005 Report No. 30852-KZ Poverty Reduction and Economic Management Unit Europe and Central Asia Region.

Эткинд, Александр (2019) *Природа зла. Сырьё и государство*. Москва: Новое Литературное Обозрение