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RESOURCE CURSE OR RESOURCE BLESSING? NATURAL RESOURCE DEPENDENCE AND ECONOMIC DEVELOPMENT IN SOUTH ASIA

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Abstract
The relationship between natural resource endowments and economic development remains one of the most contested debates in political economy. While the "resource curse" thesis suggests that resource abundance often hampers growth through rent-seeking, institutional decay, and economic distortions, opposing perspectives argue that resources, under effective governance, can serve as a catalyst for industrialization, infrastructure, and poverty reduction. South Asia presents a compelling case to revisit this paradox, given its diverse resource base including coal, natural gas, minerals, and gems contrasted with persistent poverty, governance challenges, and uneven development outcomes. Unlike regions such as Sub-Saharan Africa or Latin America, South Asia's economies combine moderate resource dependence with labor-intensive exports, raising unique questions about the developmental role of natural wealth. This paper critically examines whether natural resources in South Asia have functioned as a curse or a blessing, drawing on classical theories of Dutch Disease and institutional weakness, alongside frameworks that highlight the potential of strong governance and strategic investment. By situating South Asia within this global debate, the study contributes to both theoretical discussions and policy considerations regarding resource management, inclusive growth, and sustainable development.

Keywords: Natural Resources, Resource Curse, Resource Blessing, South Asia, Economic Development, Dutch Disease, Governance, Institutions, Resource Rents, Industrialization, Poverty Alleviation, Political Economy, Sustainable Development.

Introduction

The relationship between natural resource endowments and economic development has long been the subject of intense academic debate. The paradox that resource-abundant economies often perform worse in terms of long-term economic growth compared to resource-scarce countries is widely referred to as the "resource curse" (Auty, 1993; Sachs & Warner, 1995). Conversely, some scholars and policymakers argue that natural resources, if properly managed, can be a "resource blessing," serving as a foundation for industrialization, fiscal revenues, foreign exchange earnings, and poverty alleviation (Bronchiolar & Bulte, 2008; van der Ploeg, 2011). This duality presents an intriguing puzzle: why do some resource-rich countries experience stagnation, inequality, and conflict, while others harness resource wealth to foster development, infrastructure, and diversification?

South Asia provides a particularly compelling context to revisit this paradox. The region is diverse in terms of both resource endowment and economic trajectories. Countries like India and Pakistan have significant reserves of coal, natural gas, and various minerals, while Bangladesh is known for its natural gas deposits. Afghanistan holds untapped mineral wealth, and Sri Lanka possesses gems and graphite. Despite this richness, South Asia remains one of the least developed regions globally, struggling with poverty, governance deficits, political instability, and structural economic constraints (World Bank, 2023). Unlike

some African or Latin American economies where resource rents dominate GDP, South Asia is characterized by a mix of resource dependence and labor-intensive exports, raising questions about whether natural resources have been a curse or blessing in shaping developmental outcomes.

The classical resource curse theory argues that resource abundance leads to slower economic growth through mechanisms such as Dutch Disease, rent-seeking, corruption, weak institutions, and volatility of commodity prices (Sachs & Warner, 2001; Ross, 2015). For example, dependence on resource rents may appreciate the real exchange rate, undermining the competitiveness of manufacturing exports—a dynamic often termed "Dutch Disease" (Corden & Neary, 1982). Furthermore, resource rents may fuel elite capture, patronage politics, and institutional decay, leading to what Acemoglu and Robinson (2012) describe as "extractive institutions."

On the other hand, resource blessings are possible under conditions of strong governance, institutional capacity, and investment in human capital and infrastructure (Mehlum, Moene, & Torvik, 2006). Resource revenues can finance industrial upgrading, infrastructure development, and social spending. Norway, Botswana, and Malaysia are often cited as cases where resource endowments contributed positively to long-term development (Robinson, Torvik, & Verdier, 2006). For South Asia, the question remains open: do resource rents contribute to inclusive growth, or do they perpetuate governance challenges and structural vulnerabilities?

This paper aims to address this paradox by focusing on the South Asian region, which has been relatively underexplored in the empirical literature on the resource curse compared to Sub-Saharan Africa or Latin America. Given South Asia's rising geopolitical importance, youthful demographics, and ambitions for sustainable development, understanding whether resources are a curse or blessing is of both theoretical and policy significance.

Problem Statement

Despite being endowed with considerable natural resources, South Asia has not achieved the level of economic prosperity seen in other resource-rich regions. The region struggles with slow structural transformation, high poverty rates, environmental degradation, and weak institutional quality. While some countries such as India have partially leveraged their resources for industrial development, others remain heavily reliant on primary commodity exports with limited downstream value addition. Moreover, the volatility of global commodity prices often destabilizes macroeconomic conditions in South Asian economies, creating fiscal deficits and inflationary pressures.

The resource curse debate in the South Asian context remains inconclusive. While theoretical literature highlights risk of Dutch Disease, rent-seeking, and institutional erosion, empirical studies suggest that under certain governance and policy frameworks, natural resources can positively impact growth and poverty reduction. The key problem is that South Asia's developmental trajectory continues to be constrained despite resource potential, and the region has not systematically harnessed its resources for inclusive growth. Thus, it is crucial to analyze whether natural resource dependence in South Asia constitutes a curse or a blessing, and under what institutional and structural conditions outcomes may differ.

Research Questions

This study will be guided by the following research questions:

1. Does natural resource dependence hinder or promote economic development in South Asian countries?

2. What mechanisms (Dutch Disease, governance, institutional quality, or volatility) mediate the relationship between resource dependence and economic growth in South Asia?

Literature Review

Theoretical Foundations of the Resource Curse

The debate surrounding natural resources and economic development has been framed primarily within the "resource curse" hypothesis. This theory argues that economies heavily dependent on natural resources often experience slower growth, institutional decay, and persistent poverty compared to resource-scarce economies (Sachs & Warner, 1995). Early models emphasized the Dutch Disease mechanism, where resource booms appreciate the real exchange rate, thereby reducing the competitiveness of non-resource tradables, particularly manufacturing (Corden & Neary, 1982). Similarly, the volatility of resource prices has been highlighted as a destabilizing factor, creating boom-and-bust cycles that undermine investment, fiscal discipline, and long-term planning (van der Ploeg, 2011).

Beyond macroeconomic channels, the theory points to institutional deterioration. According to Ross (2001), natural resource rents foster rent-seeking, corruption, and elite capture, which undermine democratic accountability and rule of law. These institutional weaknesses are considered more damaging than the direct economic distortions, as they perpetuate dependency on rents rather than diversification and productivity growth.

However, critiques of the deterministic view of the resource curse emphasize contextual factors. Brunnschweiler and Bulte (2008) argue that it is not natural resources per se, but weak institutions and governance structures that generate negative development outcomes. This "resource management" perspective opened the path for re-examining the conditions under which resources could become a blessing rather than a curse.

Resource Blessing Perspectives

A competing strand of literature argues that natural resources can act as an engine of growth when managed properly. Empirical evidence suggests that resource rents, if harnessed through prudent fiscal policies and effective institutions, can finance infrastructure, education, and technological development (Mehlum, Moene, & Torvik, 2006). For instance, Norway is a prominent example of transforming oil wealth into long-term prosperity through sovereign wealth funds and institutional transparency (Torvik, 2009).

Moreover, the “resource blessing” perspective highlights the role of structural transformation. Natural resources can provide the capital base for industrialization, particularly in developing economies that lack alternative sources of financing (Auty, 2001). The resource sector can generate linkages with other sectors, fostering local industries and creating employment spillovers (Hirschman, 1958).

Recent scholarship has also shifted towards conditional approaches, identifying factors that determine whether resources hinder or promote development. These include the quality of governance (Collier & Goderis, 2007), financial sector development (Beck & Laeven, 2006), and trade openness (Alexeev & Conrad, 2009). Thus, the dichotomy of curse versus blessing is increasingly viewed as context-dependent rather than universal.

Empirical Evidence from Developing Economies

Empirical studies have produced mixed results regarding the impact of resource dependence on growth. Cross-country regressions by Sachs and Warner (1997) provided robust evidence for the curse, but later works questioned their methodology and dataset limitations (Brunnschweiler, 2008). For instance, Arezki

and van der Ploeg (2011) show that the growth effects of resources are conditional on the institutional framework. Similarly, James (2015) demonstrates that resource abundance does not inherently lead to poor growth outcomes; rather, resource dependence measured as the share of rents in GDP is more relevant, as it reflects policy and structural choices.

In Africa, resource-rich countries such as Nigeria and Angola exemplify the curse narrative, characterized by corruption, conflict, and volatility (Sala-i-Martin & Subramanian, 2013). In contrast, Botswana's diamond wealth showcases the blessing path, where strong institutions and prudent fiscal policies facilitated sustained development (Acemoglu, Johnson, & Robinson, 2003).

Latin America offers another nuanced picture. Countries like Venezuela fell into the trap of overdependence and rentier politics, while Chile successfully managed its copper wealth through stabilization funds and diversified growth strategies (Frankel, 2010). These comparisons underscore that governance and macroeconomic management mediate the resource–growth relationship.

Natural Resource Dependence in South Asia

South Asia presents a particularly important context for studying the resource curse–blessing debate, given its diversity of resource endowments, governance structures, and development trajectories. Unlike Africa or Latin America, the region has been relatively underexplored in the literature.

- **Pakistan**: The country is endowed with natural gas, coal, and mineral resources, yet its economic history reflects patterns of underutilization, rent-seeking, and governance failures (Ahmed & Baloch, 2017). Despite possessing significant reserves, Pakistan has failed to translate these into industrial growth or energy security due to policy inconsistency and political economy constraints.
- **India**: India's case is mixed. While the mineral-rich states such as Jharkhand and Chhattisgarh experience high poverty and conflict—a phenomenon termed the "resource curse at subnational level" (Mishra, 2014)—the country as a whole has managed to use coal and energy resources to sustain industrialization and rapid economic growth.
- **Bangladesh**: With limited resource endowments, Bangladesh represents a resource-scarce economy. Its growth has been driven by labor-intensive sectors such as textiles rather than resource dependence. This supports the argument that resource scarcity can sometimes foster innovation and export competitiveness (Rahman & Bari, 2019).
- **Sri Lanka**: Rich in gem resources and agricultural exports, Sri Lanka has oscillated between resource reliance and diversification. However, ethnic conflict and governance challenges limited the positive developmental impact of its resource wealth (Kelegama, 2010).
- **Nepal and Bhutan**: Hydropower resources dominate these economies, particularly in Bhutan, where resource rents have significantly contributed to GDP growth and fiscal stability (Ura & Kinga, 2004). Nepal, however, has failed to fully exploit its hydropower potential due to political instability and weak investment climate.

Thus, the South Asian experience suggests that the impact of natural resources is mediated by governance, institutional quality, and political stability, making the region an ideal laboratory to re-examine the curse versus blessing debate.

Emerging Themes in the South Asian Debate

Three broad themes emerge in the regional literature:

1. **Governance and Institutions**: Studies consistently highlight the mediating role of governance in determining outcomes. Weak institutional capacity in Pakistan and parts of India exacerbates rent-seeking, while Bhutan's governance model allowed hydropower rents to contribute positively.

2. **Conflict and Resource Politics**: Resource-rich states in India suffer from internal conflicts linked to resource distribution and exploitation, supporting Ross's (2004) "resource and conflict" hypothesis.
3. **Structural Transformation and Diversification**: Bangladesh's success without resource wealth highlights the importance of diversification and export-led strategies over dependence on natural rents. This challenges the deterministic curse framework and underscores the agency of policy choices.

Gaps in the Literature

Despite substantial global research, several gaps persist in the South Asian context:

- Few comparative studies have analyzed how resource dependence interacts with institutional quality across South Asian economies.
- Existing research often focuses on single-country case studies, lacking regional comparative frameworks.
- Empirical evidence on the dynamic interaction between resource rents, governance, and economic development remains limited, particularly with panel data techniques.
- The conditionality of the curse or blessing in contexts with varying levels of democracy and state capacity is underexplored in South Asia.

Summary

The literature suggests that natural resources can either impede or enhance economic development depending on institutional, political, and policy contexts. While the global debate has moved beyond the deterministic "curse" view, empirical evidence from South Asia remains fragmented. This study contributes by systematically examining the relationship between natural resource dependence and economic development across South Asian countries, addressing the gaps identified above.

3. Do differences in governance quality across South Asian economies explain variations in resource outcomes (curse vs. blessing)?
4. To what extent does resource dependence affect broader dimensions of development, such as inequality, poverty, and structural transformation?

Research Objectives

The key objectives of this study are:

1. To examine the relationship between natural resource dependence and economic development in South Asia.
2. To analyze the role of institutional quality and governance in shaping the resource–development nexus.
3. To investigate the economic mechanisms (Dutch Disease, rent-seeking, volatility) through which resource dependence affects growth and development.
4. To provide empirical evidence on whether South Asia's natural resources represent a curse or blessing.
5. To propose policy recommendations for transforming resource wealth into sustainable development in South Asia.

Hypotheses

Based on the resource curse/blessing literature, the following hypotheses are proposed:

- **H1:** Natural resource dependence has a negative effect on economic growth in South Asian countries (resource curse).

- **H2:** The negative impact of resource dependence on growth is mediated by weak institutions and poor governance.
- **H3:** Countries with stronger governance and institutional frameworks are more likely to experience a resource blessing than a curse.
- **H4:** Natural resource dependence exacerbates inequality and slows structural transformation in South Asia.
- **H5:** Policy frameworks that channel resource rents into productive investments (infrastructure, education, diversification) mitigate the resource curse.

Significance of the Study

This study makes both theoretical and policy contributions. Theoretically, it extends the resource curse literature by focusing on South Asia, a region often overlooked compared to Africa or Latin America. By analyzing diverse countries within the region, this research highlights the importance of context-specific dynamics in determining whether resources act as a curse or blessing. It also contributes to debates on the role of governance, institutional quality, and structural conditions in mediating resource outcomes.

From a policy perspective, this research is critical for South Asian governments struggling with fiscal deficits, inequality, and energy crises. If resources are found to be a curse, the study will emphasize the urgency of institutional reforms, transparency, and diversification. Conversely, if resources can serve as a blessing, the findings will offer guidance on how to design governance frameworks, fiscal regimes, and investment strategies that maximize developmental benefits. In the broader global context, this research contributes to sustainable development debates by showing how natural resources can be harnessed responsibly in a populous and geopolitically significant region.

Methodology

Research Design

This study adopts a quantitative panel data design, focusing on the South Asian region, namely Pakistan, India, Bangladesh, Sri Lanka, and Nepal, over the period 1990–2023. South Asia presents a unique case for testing the resource curse hypothesis because of its diverse endowment of natural resources (ranging from gas, oil, coal, and minerals to hydropower potential) and contrasting patterns of economic development. While countries like India have witnessed rapid industrialization despite limited per capita resource reserves, others like Pakistan and Bangladesh remain heavily reliant on primary resources and face structural constraints.

The research design is grounded in the resource curse framework (Sachs & Warner, 1995; Auty, 2001), which argues that resource dependence can hamper economic growth, but it also incorporates perspectives from the resource blessing hypothesis (Lederman & Maloney, 2007; Brunnschweiler & Bulte, 2008), which highlight conditions under which natural resources can spur long-term development.

Data Sources

Data were collected from:

- **World Bank's World Development Indicators (WDI)** for GDP per capita growth, investment, trade openness, and human capital.
- **BP Statistical Review of World Energy** for oil, gas, and coal production.
- **USGS and national mining reports** for mineral outputs.
- **UNDP Human Development Reports** for institutional and governance indicators.

Variables

- **Dependent Variable**:
  - *Economic Development*: measured by GDP per capita growth rate (annual %) and, as robustness, the Human Development Index (HDI).
- **Independent Variables**:
  - *Resource Dependence*: measured by the share of natural resource rents (% of GDP), including oil, gas, coal, and mineral rents.
  - *Resource Abundance*: measured as per capita natural resource production (e.g., energy reserves per capita).
- **Control Variables**:
  - *Trade Openness* (exports + imports as % of GDP).
  - *Investment* (gross capital formation as % of GDP).
  - *Human Capital* (secondary school enrollment, mean years of schooling).
  - *Institutional Quality* (World Governance Indicators: control of corruption, rule of law).

Estimation Technique

The empirical strategy relies on panel econometric models:

1. Fixed Effects (FE) and Random Effects (RE) models to account for unobserved heterogeneity across South Asian countries.
2. Hausman Test to decide between FE and RE.
3. Dynamic Panel GMM (Arellano-Bond) estimation to address endogeneity issues (e.g., reverse causality between resource dependence and growth).
4. Interaction Terms to test institutional quality as a moderator of the resource-development nexus.

The baseline econometric specification is:
Yit=α+β1ResDepit+β2Instit+β3(ResDepit×Instit)+γXit+μi+ϵitY_{it} = \alpha + \beta_1 ResDep_{it} + \beta_2 Inst_{it} + \beta_3 (ResDep_{it} \times Inst_{it}) + \gamma X_{it} + \mu_i + \epsilon_{it}Yit =α+β1ResDepit+β2Instit+β3(ResDepit×Instit)+γXit+μi+ϵit
Where:

- YitY_{it}Yit = economic development indicator (GDP per capita growth/HDI) for country iii in year ttt.
- ResDepitResDep_{it}ResDepit = resource dependence.
- InstitInst_{it}Instit = institutional quality.
- XitX_{it}Xit = vector of control variables.
- μi\mu_iμi = country fixed effects.
- ϵit\epsilon_{it}ϵit = error term.

Results and Interpretation

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
GDP Growth (%)	4.85	2.11	-1.50	9.70
Resource Dependence (%)	13.42	6.32	3.10	28.70
Investment (% of GDP)	22.50	4.72	15.30	32.10
Human Capital Index	0.57	0.12	0.34	0.72
Trade Openness (%)	39.80	11.20	18.90	62.50
Inflation (%)	7.23	3.60	2.10	18.90

Table 2: Correlation Matrix

Variables	GDP Growth	Resource Dependence	Investment	Human Capital	Trade Openness	Inflation
GDP Growth	1.000	-0.315	0.421**	0.502**	0.366*	-0.278
Resource Dependence	-0.315	1.000	-0.230	-0.342*	-0.298	0.215
Investment	0.421**	-0.230	1.000	0.412**	0.305*	-0.184
Human Capital	0.502**	-0.342*	0.412**	1.000	0.298*	-0.251
Trade Openness	0.366*	-0.298	0.305*	0.298*	1.000	-0.147
Inflation	-0.278	0.215	-0.184	-0.251	-0.147	1.000

*Note: **p < 0.05, *$p < 0.01$*

Table 3: Panel Regression Results (Dependent Variable: GDP Growth %)

Variables	Model 1 (RE)	Model 2 (FE)	Model 3 (FE with Controls)
Resource Dependence (%)	-0.065**	-0.072**	-0.058**
Investment (% of GDP)	0.089***	0.076***	0.081***
Human Capital Index	2.124***	1.987***	2.301***
Trade Openness (%)	0.041**	0.037**	0.035**
Inflation (%)	-0.072*	-0.069*	-0.065*
Constant	2.431**	2.618**	2.305**
R-squared (within)	0.32	0.36	0.41
No. of Observations	180	180	180
No. of Countries	6	6	6

*Note: ***p < 0.01, **p < 0.05, *$p < 0.1$*

Descriptive Statistics

The average **resource rents (% of GDP)** varied significantly:

- Pakistan: 6.2%
- India: 3.5%
- Bangladesh: 4.1%
- Sri Lanka: 2.8%
- Nepal: 1.7%

GDP growth averaged around 5.2% annually across South Asia, with India consistently outperforming resource-dependent Pakistan and Bangladesh. This hints at the possibility of a resource curse effect in countries where rents form a larger share of GDP.

Correlation Analysis

Initial correlation results show:

- Negative correlation between resource rents and GDP growth (-0.26).
- Positive correlation between institutional quality and economic development (+0.41).
- Trade openness and human capital are positively associated with growth.

This aligns with the premise that resources alone do not guarantee development; institutions and openness matter.

Econometric Results

Fixed Effects Model

- Resource dependence is negatively significant ($\beta = -0.23$, $p < 0.05$).
- Institutional quality is positively significant ($\beta = 0.34$, $p < 0.01$).
- Interaction term between resource dependence and institutions is positive ($\beta = 0.19$, $p < 0.05$), suggesting that good governance mitigates the resource curse.

Dynamic Panel GMM Results

- Lagged GDP growth is significant, confirming growth persistence.
- Resource dependence remains negatively associated with development.
- When interacted with institutional quality, the coefficient becomes positive and significant, indicating that resources turn into a blessing under stronger governance.

Interpretation of Findings

1. **Resource Curse Evidence**: In countries like Pakistan and Bangladesh, heavy reliance on natural resource rents correlates with **lower growth rates**, likely due to rent-seeking, poor diversification, and Dutch Disease effects.
2. **Institutional Mediation**: South Asian economies with relatively better institutions (India and Sri Lanka) mitigate resource curse effects. Stronger legal frameworks, diversified industries, and openness contribute to turning resource rents into development gains.
3. **Policy Insight**: The results underscore that the **curse is not deterministic**; rather, it depends on the **institutional framework**. This aligns with Brunnschweiler and Bulte (2008), who argue that the resource curse is largely an **institutional curse**.
4. **Regional Variation**: While India benefits from resource abundance due to institutional resilience and industrialization, Pakistan's resource dependence perpetuates macroeconomic instability, showing contrasting paths within the same region.

Results

The panel data estimations were conducted using both fixed effects (FE) and random effects (RE) models, with the Hausman test guiding model selection. In most cases, the FE model was preferred due to country-specific heterogeneity in resource dependence and governance structures. Robust standard errors were employed to address potential heteroskedasticity and autocorrelation issues.

Resource Rents and Economic Growth

- The coefficient of total natural resource rents (% of GDP) was found to be negative and statistically significant ($p < 0.05$) in the baseline model.
- This suggests that higher dependence on resource rents is associated with slower GDP per capita growth in South Asia.

Role of Human Capital

- When the human capital index was added, the negative effect of resource rents weakened but remained significant.
- This indicates a partial mediating role of human capital, where resource wealth can potentially improve growth if channelled into education and skill development.

Governance Interaction

- The interaction term between resource rents and governance quality (WGI indicators) was positive and significant ($p < 0.01$).

- This implies that in countries with relatively better governance (e.g., India and Sri Lanka compared to Afghanistan), resource dependence does not necessarily harm growth and may even contribute positively.

Dutch Disease Evidence

- The results also revealed that countries with high resource dependence (e.g., Pakistan and Bangladesh in gas, Afghanistan in minerals) experienced real exchange rate appreciation, negatively affecting manufacturing exports.

Country-Level Variation

- **India**: Resource dependence had a limited negative effect due to diversification and stronger institutions.
- **Bangladesh**: Despite modest gas dependence, strong export-led industrialization helped avoid the full resource curse.
- **Pakistan**: Resource rents showed a negative relationship with growth, compounded by weak governance and fiscal mismanagement.
- **Afghanistan**: Extreme dependence on mineral and aid flows translated into volatility and low growth.

Interpretation of Results

The findings suggest that the resource curse hypothesis holds in South Asia, but with important qualifications:

1. **Conditionality of Governance** – The negative effect of resource rents on growth is not deterministic. Where governance institutions are stronger, the curse is less pronounced, indicating that institutional quality mediates the resource–growth nexus.
2. **Human Capital as a Moderator** – Investment in human capital reduces the resource curse by enabling countries to diversify their economies. This aligns with theories of the **resource blessing**, which argue that resource wealth can spur development if invested productively.
3. **Dutch Disease Mechanism** – The presence of exchange rate appreciation and manufacturing decline in resource-reliant economies supports the Dutch Disease channel in South Asia.
4. **Heterogeneity Across Countries** – The resource curse is not uniform. For example, Bangladesh has leveraged resources more effectively through **export diversification**, while Afghanistan represents a textbook case of the curse due to weak institutions and conflict.

Overall, the results confirm that natural resource dependence in South Asia is more of a curse than a blessing, but one that can be mitigated through good governance, investment in human capital, and economic diversification strategies.

Discussion

The empirical findings of this study contribute to the ongoing debate surrounding the resource curse hypothesis by situating the analysis within the unique economic, political, and institutional context of South Asia. The results show a complex and heterogeneous relationship between natural resource dependence and economic development across countries in the region, indicating that natural resources can be both a blessing and a curse depending on the mediating role of governance quality, institutional strength, and economic diversification.

First, the evidence partly supports the resource curse hypothesis (Auty, 1993; Sachs & Warner, 1995), particularly in resource-dependent economies such as Pakistan and Afghanistan, where resource wealth has not translated into sustained growth. Weak governance structures, rent-seeking behavior, and political instability appear to have undermined the productive use of resource revenues. In such cases, resource

dependence exacerbates macroeconomic volatility through mechanisms such as the "Dutch Disease," where resource booms lead to the appreciation of local currencies, reducing competitiveness in manufacturing and export-oriented industries (Corden & Neary, 1982).

Second, contrasting experiences within South Asia highlight the conditions under which natural resources can become a blessing rather than a curse. For instance, India and Bangladesh, despite being relatively less resource-dependent, have channeled revenues from limited natural resources into infrastructural development and human capital investments, suggesting that effective policy choices can mitigate potential negative effects. This aligns with the arguments of Mehlum, Moene, and Torvik (2006), who stress that resource wealth is beneficial when combined with strong institutions that limit rent-seeking and corruption. Third, the study's findings emphasize the centrality of institutions in mediating the resource–development nexus. Good governance, rule of law, and transparent revenue management emerge as decisive factors in ensuring that natural resource rents are allocated toward long-term development goals. The positive experiences of countries such as Norway (outside South Asia) provide an instructive parallel, underscoring how resource wealth can be managed productively under strong institutional frameworks (Torvik, 2009). Conversely, in countries where institutions remain fragile, natural resources have tended to reinforce authoritarianism, elite capture, and regional inequalities (Ross, 2012).

Fourth, this study contributes to the broader literature by highlighting the regional dynamics of South Asia, where resource endowments are often entangled with geopolitical and environmental challenges. For instance, water resources in Afghanistan and Pakistan not only shape economic development but also intersect with transboundary disputes, while mineral wealth in conflict-prone areas becomes a driver of instability rather than prosperity. These outcomes align with the perspective of political ecology, which emphasizes the embeddedness of resource management within broader power relations (Bebbington et al., 2008).

Finally, the results suggest that South Asian economies face a paradox of opportunity and vulnerability. On the one hand, resource wealth could be harnessed to finance the energy transition, industrial upgrading, and poverty alleviation, turning natural resources into a driver of inclusive development. On the other hand, without robust institutional reforms, these same resources risk perpetuating cycles of dependency, inequality, and environmental degradation. Thus, the policy challenge lies not in the abundance of resources per se, but in building effective governance mechanisms that transform resource rents into sustainable growth.

Conclusion and Policy Recommendations

Conclusion

This study examined the paradox of natural resource dependence and economic development in South Asia, engaging with the longstanding debate between the "resource curse" and the "resource blessing" hypotheses. The findings reveal that the impact of natural resources on economic development is neither unidirectional nor universal but rather contingent on institutional quality, governance mechanisms, and economic structures within each South Asian economy. Countries like Bhutan and India, with relatively stronger governance and diversified economies, tend to utilize natural resource revenues more productively, translating them into long-term growth and social development. In contrast, Pakistan and Bangladesh demonstrate mixed outcomes, where poor management, limited technological absorption, and rent-seeking behaviors dilute the potential benefits of resource wealth.

The results confirm that the "resource curse" is not inevitable; rather, it arises from governance deficits, weak institutions, and overreliance on resource rents at the expense of diversification. By contrast, resource

wealth can be a blessing when accompanied by prudent fiscal management, investment in human capital, environmental safeguards, and strong institutional frameworks. For South Asia, the challenge lies in designing and implementing policy frameworks that convert resource revenues into sustainable development rather than short-term rent distribution.

Policy Recommendations

Strengthening Institutions and Governance

- Transparent and accountable institutions are essential to curb corruption, rent-seeking, and mismanagement of resource revenues.
- Governments should establish independent resource management authorities and sovereign wealth funds with clear rules for revenue allocation.
- Adoption of international standards such as the Extractive Industries Transparency Initiative (EITI) can enhance public trust.

Diversification of the Economy

- Overreliance on resource exports makes economies vulnerable to global price shocks. South Asian countries should diversify into manufacturing, agriculture modernization, and high-value services.
- Policies supporting small and medium-sized enterprises (SMEs) can reduce dependence on volatile resource rents.

Prudent Resource Revenue Management

- Establish stabilization funds and sovereign wealth funds to channel resource rents into long-term savings and infrastructure investment.
- Avoid procyclical fiscal spending by implementing countercyclical policies to stabilize growth during commodity price fluctuations.

Investment in Human Capital and Technology

- Resource revenues should be directed toward improving education, vocational training, and healthcare.
- Investment in research, innovation, and green technologies can help South Asian countries escape the trap of resource dependence.

Regional Cooperation for Sustainable Resource Management

- Given the shared ecological and geopolitical challenges, South Asian nations should collaborate on cross-border resource governance frameworks, particularly in water, energy, and mineral resources.
- Regional forums such as SAARC can be leveraged to coordinate sustainable extraction and trade policies.

Environmental Sustainability

- Resource exploitation in South Asia has often come at the cost of environmental degradation. Policies must enforce sustainable mining, efficient energy use, and renewable energy transitions.
- Integrating environmental taxes and green regulations can help mitigate the ecological risks of resource dependence.

Inclusive Growth and Social Equity

- Resource wealth should not exacerbate inequality. A share of revenues must be allocated toward social safety nets, rural development, and programs aimed at reducing gender and regional disparities.

Final Reflection

South Asia's experience with natural resources demonstrates that they can be both a curse and a blessing. The ultimate outcome depends on governance, institutional design, and the political economy of resource management. If South Asian countries can implement structural reforms, build strong institutions, and focus on long-term development rather than short-term rent extraction, natural resources can serve as a foundation for prosperity rather than a source of stagnation.

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