

# Industrialization and the Resource Curse

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## Abstract

This paper examines the relationship between resource endowments and industrialization. Natural resources are extracted and transformed to resource goods, which is used both as final goods for consumption and as intermediate goods in the manufacturing sector. When trade costs are high, the country with more valuable natural resources has a more-than-proportionate share of firms and enjoys a higher welfare than the other country. However, when trade costs decrease, firms begin to move out of the country, resulting in a resource curse. Further, the resource curse becomes more severe if resources are only used in consumption but not in manufacturing. The model also explains why economies poor in resources have adopted almost completely free trade policies in recent decades and become successful in developing their manufacturing industries.

*Keywords:* Natural Resources, Industrialization, Transport costs

*JEL classification:* F12, F15, Q34, R12

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