Does Acquisition of Mines Work for Resource-Importing Countries?*

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Abstract

Assuming a simple two-period model, this paper examines the effect of the acquisition of mines/resource by a final good producer (home firm), which is located in a resource-importing country, on the resource prices in both the first (the present) and the second (the future) periods. We also examine the support by the government to encourage the investment in the acquisition of mines/resource by the home firm. We find that an increase in the mines owned by the home firm can increase the resource price in the first period or that in the second period. This implies that the total resource consumption in the first or second period may decrease. Strategic behavior of a resource exploiting firm, which is located in a resource-exporting country, generates these results. Whether or not the resource price increases in either period depends on the demand structure for final good and the supply condition of resource by the home firm. Moreover, we consider the profit and welfare effects. We demonstrate that the acquisition of new mines by the home firm and the support by the government may work against welfare of the resource-importing country.

Keywords: Acquisition of mines, resource exploitation, governments' support.

JEL Code: F12, F18, Q31, Q34.

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