

Does capital mobility lead to a resource curse or blessing?: how, when and for whom?*

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Abstract

This paper investigates which of the two countries, resource-rich and resource-poor countries, gains from capital market integration and capital tax competition. We develop an analytically solvable framework that involves vertical linkages via the resource-based inputs and international fiscal linkages between resource-rich and resource-poor countries. Our analysis shows that capital market integration causes capital flows from the resource-poor country to the resource-rich one, which improves the production efficiency and the global welfare. However, such gains accrue only to the resource-poor country and capital mobility even hurts the resource-rich one. In reaction to capital flows, governments in both countries have an incentive to tax capital. Moreover, the resource-rich country levies a higher tax rate than does the resource-poor one, which makes the former winner but the latter loser.

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Comments are welcome.**

Keywords: capital market integration, natural resource, resource curse, tax competition

JEL Classification: F21; H20; H77; Q00

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