Chapter 6 How Are Innovation, Growth, and HCIF Affected by Natural Resources?

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ABSTRACT

This chapter demystifies in detail the transmission mechanisms of how the natural resource industry (NRI) harms the growth and innovation in human capital-intensive firms (HCIF). Two important phenomena were studied qualitatively: rent seeking (RS) and Dutch disease (DD) which result from the abundance of natural resources (NR). RS pushes down the return of production and DD results in uncompetitive production. The empirical results for a cross-section of 81 countries show a significant evidence that with recent data, oil rent hinders human capital as a proxy for innovation. Meanwhile, the indicators of resource governance show a significant and positive impact on human capital accumulation. A growing amount of literature focuses on growth and human capital, while this chapter emphasizes HCIF and innovation, elaborating the transmission mechanisms of underperforming economic growth through the hindrance of innovation in the firms and awkwardness of HC.

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INTRODUCTION

Although a growing body of literature studies the HCIF boundary and governance, few try to focus on these firms when the abundance of NRs is involved in the economy. This chapter tries to highlight this gap, elaborating on the relationships between the two perspectives. Natural resources are said to be detrimental to development if there are no benefits from well-established institutions and good governance (Blanco, 2012; Kaufmann, Kraay, & Mastruzzi, 2009; Kim, 2017). This well-known phenomenon is called the *resource curse* and has been the focus of a growing number of researchers since the early 20th century. This theory states that countries with an abundance of NRs or a dependence on them show little economic growth compared to their counterparts with scarce natural resources. On the contrary, a few researchers criticize the destructive effects of resources on human capital accumulation. (Shao & Yang, 2014; Weber, 2014; Stijns, 2006; Davis, 1995; Kim & Lin, 2017). Moreover, the main body of literature in this field explores the link between NRA and economic growth, whereas a few studies show the effect of NRA on growth through human capital (HC) and innovation (Mousavi, Ben Youssef, & Nouri, 2017).

Economic growth is dependent on several factors including capital stock. Capital is divided into physical and human capital and the latter is considered of the utmost importance by Schultz (as cited in Ross, 2001). As a labor force is likely to work more efficiently with better physical capital— more efficient machinery, better tools, and raw material—it is analogously plausible to do a better job if the labor force is also healthy and has superior knowledge and skills—assuming the same production input consumption.

The firms, however, do not provide all the requirements regarding innovation and HC intangible assets within their boundaries. Accordingly, one requirement for a better engagement in production is the education provided by the government (Papyrakis & Gerlagh, 2007; Rosser 2006). Even learning by doing might have positive results if the laborers or employees already have the prerequisite knowledge and skills. States usually invest in human capital accumulation. Accordingly, the countries—in terms of economic growth and evidently, human development— are ranked differently regarding their level of HC development in public and private sectors.

According to the literature, HC reinforces innovation (Badinger & Tondl, 2003; D'Este, Rentocchini, & Vega-Jurado, 2014; Dakhli & Clercq, 2004; Marvel & Lumpkin, 2007). Furthermore, if one looks more precisely at HC and divides it into a macro public-level and micro firm-level, innovation could be considered mostly related to the latter. Although the public provision of HC—like education is essential, however, the innovation dynamics in HCIF plays a more important role in completing the chain of creating innovation.

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