

# Policy Research on the Transformation and Development of Shanxi Province——Based on the Theory of "Resource Curse"

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**Abstract:** Academics refer to the phenomenon of having abundant resources but long-term sluggish economic development as the resource curse, meaning that instead of bringing economic prosperity, abundant resources constrain the development of the local economy. Shanxi is a typical resource-based province, rich in coal resources, but its economic development level is at a low level in the country, which is to a certain extent consistent with the "resource curse" phenomenon. This paper analyses the applicability of the resource curse transmission mechanism in Shanxi Province, identifies the problems in the transformational development of Shanxi Province and puts forward countermeasures and suggestions for the transformational development of Shanxi Province.

**Keywords:** Abundant Natural Resources; Dependence on Resource Industry; Resource Curse; Economic Development

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## Introduction

The "resource curse" is an important proposition popular in the field of political economy, referring to the phenomenon that some areas rich in natural resources have a limiting effect on economic growth. Based on the perspective of the "resource curse" and the research results of scholars at home and abroad, this paper provides an in-depth analysis of the transformational development of Shanxi Province and puts forward corresponding countermeasure suggestions.

## 1. Research Status

Although some scholars insist on the non-existence of the 'resource curse', most believe that the 'resource curse' has become a widespread phenomenon worldwide. The existence of the 'resource curse' has earlier been verified by foreign scholars through an empirical study of a sample of 95 developing countries (Sachs and Warner, 1997). Most domestic scholars also agree that the 'resource curse' phenomenon is valid at the inter-provincial level in China, and have conducted many studies on the existence and transmission mechanisms of the 'resource curse' phenomenon in China. Earlier, some scholars have verified the existence of the 'resource curse' at the provincial level in China through econometric models, and have argued that the expansion of the resource sector has affected economic development through the crowding out of manufacturing and human capital (Xu, 2006). In recent years, there have been numerous analyses of the 'resource curse' theory, and scholars in China have conducted studies at three levels: nationwide, in different regions and in different provinces, putting forward their views from different perspectives such as geographical location, institutional factors, and the dual-track system of property rights and prices. Specific transmission theories of the "resource curse" include the centre-periphery mechanism proposed by the Argentine economist Prebisch, crowding out mechanisms including investment, education, openness, R&D and corruption, the reverse industrialisation transmission mechanism, the worsening terms of trade theory, rent-seeking mechanisms, institutional and political factors. In this paper, a few representative theories will be selected and analysed in the context of the actual situation in Shanxi Province.

## **2. Problems in the transformation and development of Shanxi Province based on the "resource curse" theory**

### **2.1 Strong external dependence of industry**

In the centre-periphery theory, the focus is on whether a region puts itself at an economic disadvantage by needing to exchange low value-added products for high value-added products from other regions. Not only is Shanxi Province at a disadvantage in the national regional planning strategy, but unlike the pioneering development plans of the eastern region, Shanxi plays more of an energy and raw material base role. The proportion of coal transferred out of Shanxi Province and the proportion of electricity transferred in is relatively high, with the proportion of coal transferred out accounting for about 55%-65% of the province's total coal production. The proportion of electricity transferred from outside the province to the total electricity consumption of the whole society in Shanxi province is also not small, about 26%-44%, and is roughly on a year-on-year upward trend, which may indicate that a part of the previous coal exports to the current electricity outward as a conversion. Thus, the resources within Shanxi province do not contribute much to the construction of the province and are broadly in line with the centre-periphery theory of producing low value added products.

### **2.2 Insufficient scientific and educational innovation**

Many scholars argue in the "resource curse" crowding-out effect on innovation that local governments' preference for resource-based industries makes it difficult for entrepreneurs to access government funding and policy support, and that the abundance of natural resources creates profit-eaters that hinder innovation by entrepreneurs and other industries. In the case of Shanxi Province, entrepreneurs and individuals may not receive government support for their science and technology innovation projects in terms of government investment in science and technology; there is also a large gap between Shanxi Province's science and technology output and the national level in terms of patent applications and technology market transactions, and the impact of science and technology innovation on promoting local economic development is not significant.

### **2.3 High incidence of government corruption**

Since the 18th CPC National Congress, there has been a collapse of corruption in Shanxi. This also shows that there is a lack of institutional supervision between the use of resources and the power of leading cadres in Shanxi. General scholarship It is believed that the greater the share of the resource sector's output in the economy, the greater the level of government corruption. In resource-based regions the initial stages of development, local resource enterprises are likely to share part of the infrastructure with the government, which may result in a lack of separation between government and business. This may result in a lack of separation between government and industry. These resource-based industries often form industrial chains with many interests, which provide an environment for government corruption and rent-seeking.

## **3. Policy Paths for the Transformation and Development of Shanxi Province**

### **Based on the "Resource Curse" Theory**

#### **3.1 Increase the added value of industry and upgrade traditional industries**

Shanxi Province should improve the mechanism for promoting industrial transformation and upgrading, and promote the energy supply revolution and consumption revolution. Secondly, Shanxi should break through the traditional industrial development model of developing low value-added products in the energy industry, actively develop and promote new technologies for coal conversion, and promote the green, clean and efficient use and development of the coal industry.

## 3.2 Focus on investment in science and technology

Shanxi Province should promote the construction of science and technology innovation bases, enhance the ability of science and technology innovation to serve the development of transformation, and encourage the creation of national demonstration zones for the transfer and transformation of scientific and technological achievements. Secondly, it should also guide the development of science and technology enterprises and the transformation of scientific and technological achievements by promoting the development of patent protection for teams with scientific and technological innovation results in the form of technology shares and shares in scientific and technological achievements.

## 3.3 Create an excellent government and enterprise environment

In terms of government-enterprise relations, Shanxi should strive to promote the relationship between the government and social capital, lower the threshold of market access and create a clear political environment for the transformation and development of the provincial economy. In addition to this, it should also strengthen the supervision of government departments, effectively combat corruption and crime and put power in the cage of the system.

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