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DUTCH DESEASE IN THE WORLD ECONOMY

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Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive on the export market. It also leads to higher levels of cheap imports and can lead to deindustrialisation as industries apart from resource exploitation are moved to cheaper locations. As an economic phenomenon, Dutch disease has two main effects: a decrease in the price competitiveness for exports of the affected country's manufactured goods and an increase in the quantity of imports. Both result from a higher local currency. In the long run, these factors can contribute to higher unemployment due to manufacturing jobs being moved to lower-cost countries. The end result is non-resource industries are hurt by the increase in wealth generated by the resource-based industries.

The term 'Dutch disease' was introduced to refer to the Netherland's economic problems after the discovery of large natural gas deposits in 1959. In the 1960s, the Netherlands experienced a vast increase in its wealth after discovering large natural gas deposits in the North Sea. Unexpectedly, this ostensibly positive development had serious repercussions on important segments of the country's economy as the Dutch guilder became stronger, making Dutch non-oil exports more expensive and, therefore, less competitive. This syndrome has been witnessed in many countries across the world, including but not limited to resource-rich commodity exporters. Although Dutch disease is generally associated with a natural resource discovery, it can occur from any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment.

Dutch disease starts because oil gas or minerals mean that more and more money is constantly coming into the country. So, the currency strengthens because people are investing money in the oil or gas or whatever and when the stuff comes out of the ground, it's bought-and-paid-for on the international market by people living in richer countries with their strong hard currencies like dollars. In some ways, this is good because people can now afford to buy all kinds of important stuff much more cheaply.

Why does a dramatic increase in wealth have this paradoxically adverse consequence? The answer is found in a classic paper by Corden and Neary (1982) - which divides an economy experiencing an export boom into three sectors: the booming export sector and the lagging export sector, both of which are traded-goods sectors; and the non-traded-goods sector, which essentially supplies domestic residents. The non-traded goods sector might include retail trade, the service industry, and construction. The authors show that when a country catches Dutch disease, the traditional export sector gets crowded out by the other two sectors. The prices for both the natural resource and nonresource tradable sectors are set in the world market, and those in the nontradables sector are set in the domestic economy. The real exchange rate is defined as the price of nontradables relative to the price of tradables. There are generally two types of effects leading to Dutch disease and real exchange rate appreciation – that is a rise in the price nontradables relative to that of tradables.

In conclusion, it is necessary to say that oil and gas sector can definitely contribute significantly to the economic prosperity, boost investment. But it is obligatory for a country to choose a correct policy to prevent a detrimental effect of a discovery of a large natural resource or a rise in the international; price of an exported commodity. All mechanisms of a negative impact of relative redundancy of natural resources on economic growth are either connected with a state or can be controlled by it. So each state must choose the appropriate fiscal, spending and structural, monetary and exchange rate policies in order to avoid the Dutch disease.