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A Watch on the Economy of Resource Rich Countries

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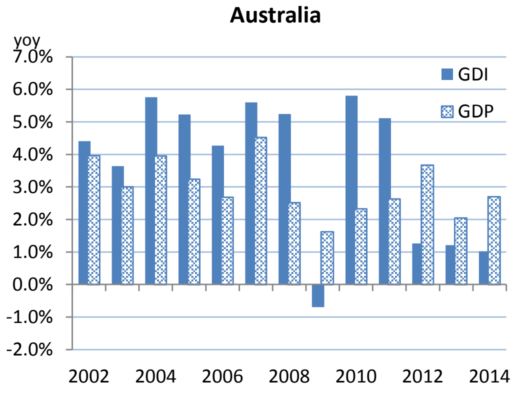
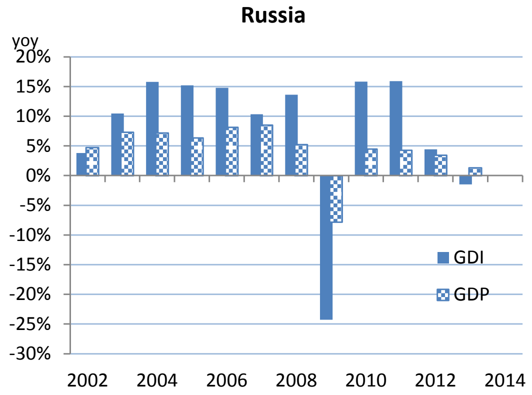
Entering into the 2000s, natural resources prices rose to a historical high and resource rich countries prospered very much. But around 2012, as the Chinese economy's deceleration began to be rumored natural resources prices peaked out. And as the price of crude oil drop drastically in the latter half of last year, many other natural resources also drop as well. As a result, the economies of resource rich countries worsened. But there is need to be careful that by using the normally used real GDP(Gross Domestic Products) growth rate, one may misjudge the magnitude of a how worse an economy is.

The cause of the misjudgment is because the real GDP growth rate does not reflect trade gains or losses. Trade gains and losses represent the in and out flow of real purchasing power or real income from aboard as trade conditions change.[1] Let's say the amount of exports remains the same but the prices drop but half, although export sales or gains drop by half real GDP does not change. This is because the base price of the year remains the same. If you add trade gains or losses to the real GDP, you get real GDI(Gross Domestic Income). This reflects the reality of the economy better.

Let us look at the real numbers. In Australia, exports of iron ores and crops are large. In the 10 years from 2002 to 2011, other than 2009, the year effect by the Lehman shock, the growth of the real GDI exceeded that of the real GDP. During this period Australia's economy was better than what the GDP showed.

[1] Please see http://www.hitachi-hri.com/research/keyword/k44.html for an accurate definition (Japanese only).





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But from 2012 the growth rate of real GDI was below that of the real GDP. In 2014, real GDP grew by 2.7% but GDI only grew by 1.0%.

Russia's case is much more clear. Russia relies much on the exports of energy products like crude oil and natural gas. For Russia after entering the 2000's, the real GDI grew by 15% five times. One can say it was a historical period of high growth.

But in 2012 the real GDI growth rate was 4.4% and in 2013 it drastically dropped to minus 1.5%. Although 2014's numbers are not announced yet, with the decline of the Russian Ruble as well, it is probably drastically minus. 2015 will be as worse as the year 2009. This year will be the year to test one's ability to exactly "diagnose" the economies of the resource rich countries.