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Too much of a good thing!

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This week, we will shift our focus away from China.

The second largest economy received world attention since the beginning of the New Year. Its stock market debacle following the investors' fear of a second devaluation within five months created jitters.

China's economic downturn has impacted mineral exporting countries.

The demand side has been seriously affected since China's decreasing intake of world's mineral resources from 2014. The earlier commodity boom made Australia and other mineral exporting countries to flourish, when not so lucky countries elsewhere had to struggle to get through the world's Great Recession during last seven years.

That commodity boom has ended.

Falling oil price

Another commodity boom also seems to have ended. That was not due to any fall in the demand side. The world's demand for oil would never fall. Ever country aspires to own more automobiles per capita, symbol of household prosperity. The oil price touched rock bottom with US$ 28 a barrel a few days ago.

It was more due to oversupply. The leader of Organization of Petroleum exporting countries (OPEC), Saudi Arabia wants to weaken its rivals' finances.

Fall in crude price is not good for other OPEC members. They want their leader, Saudi Arabia (producing 11 million barrels a day, the second largest next to the non-OPEC member country USA with 14 million barrels) to halt the fall in oil price.

Russia (10 million barrels a day) having a share of 13 percent of production of 10 major oil producers) has been adversely affected. Sanctions against Russia by USA and Europe for its military adventurism in Europe and Middle East have already crippled the Russian economy.

Russian economy can thrive, as economists have estimated, only when oil price is around US$100 dollar a barrel. Russia knows the former Soviet Union's demise was precipitated by falling export revenue much due to collapse in oil price in mid 1980.

It is often predicted a geopolitical earthquake is preceded by falling oil price. Oil price watchers, like astrologers, connect such disasters with price falls.

Venezuela

How about a small country, which produces "too much of a good thing" too!?

Venezuela, which is the largest exporter of oil in South America, is now facing a crisis.

It is a South American country just at the northern tip of the continent bordering with Caribbean Sea and North Atlantic Ocean (area: 912,050 sq.km; population, per capita GDP: US$5,400).

Venezuela produces 4 percent of petroleum crude (2.7 million barrels a day) as against 11 million barrel a day of Saudi Arabia.

It produced too much of it all these years. The going was good: High oil price brought enormous foreign exchange receipts; and also revenue to government through taxes on oil export incomes.

Venezuela depends on oil exports very badly. Around 95 percent of its export earnings are from this single commodity. There has been no effort towards diversification of exports and that proved near fatal. Overdependence on one commodity has led to near ruin.

With falling world oil price since 2014, its earnings have dropped by 62 percent. The government has to ration supplies of foreign exchange to businesses. Strict currency controls are in place since 2014. Once controls are introduced, black markets are automatically developed. The official exchange rate is around 11 Venezuelan bolivars to one US dollar. But in the market, one can get 80 bolivars to the dollar. Many goods are priced based on black market dollar prices.

Venezuela cannot pay for its imports. Shortages have developed. Per capita income has been dwindling.

Its central bank did not publish economic statistics for a year. It finally admitted that the economy contracted by 4.5 percent 2014 and the decline in GDP in 2015 is now 7.1 percent. Shortages have shot up the rate of inflation sky high: 141 percent. As GDP declined, tax revenue has also declined and the budget deficit is now 24 percent of GDP.

"Dutch disease"

The International Monetary Fund has issued dire warnings, as usual to countries, suffering from the so called resource curse, popularly known as "Dutch disease".

The origin of the phrase is the Dutch economic crisis of the1960s. It all started with the discovery of North Sea natural gas. That generated immense wealth to the nation, resulting in people preferring leisure to work. The resultant decrease in supply of labour led to reduced domestic production of non-tradables, such as food and vegetables. Rise in wages also pushed up domestic price level, hurting the competiveness of traditional exports.

Sounds familiar?

The current troubles in PNG economy are attributed to the same Dutch disease.

Readers will recall the humorous quip of Oscar Wilde:

"Moderation is a fatal thing. Nothing succeeds like excess."