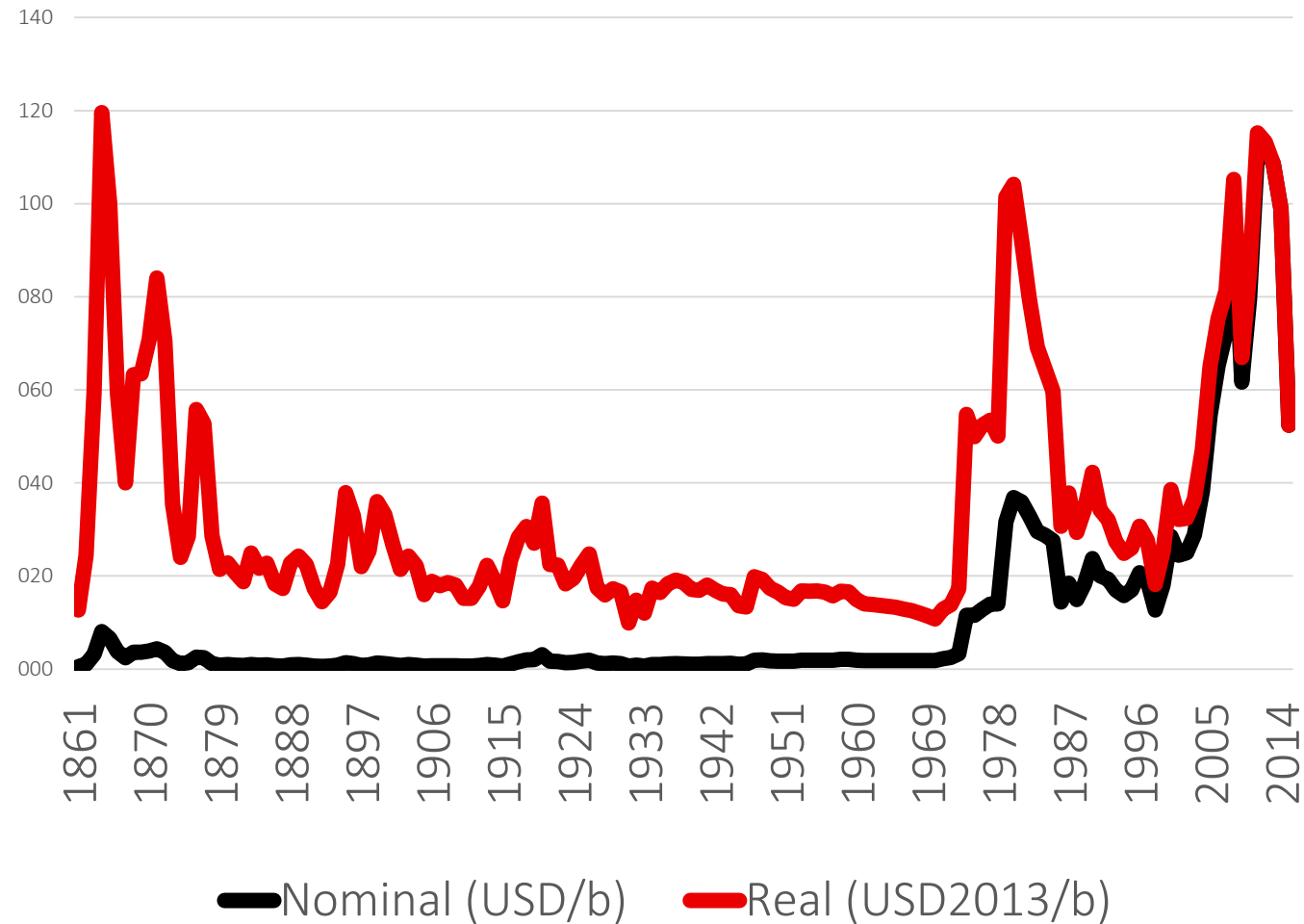


# Coping with oil revenues

Jan Osička

# 1980s: financialization of energy

- Globalization of the oil market
- Oil market's exposure to financial markets
- Oil glut of 1985
- Falling prices reveal macro-economic importance of oil



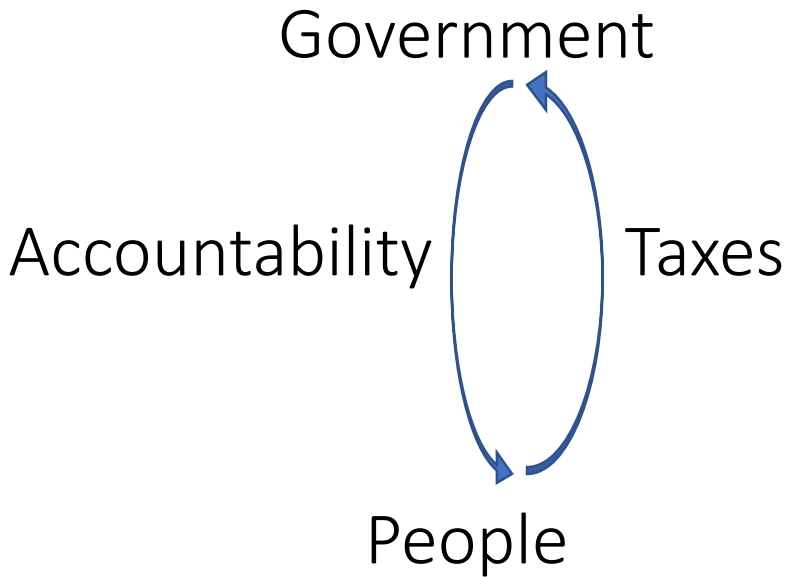
# Lecture outline

- Developing countries, oil and state-building
- Developed countries, oil and changes in economy

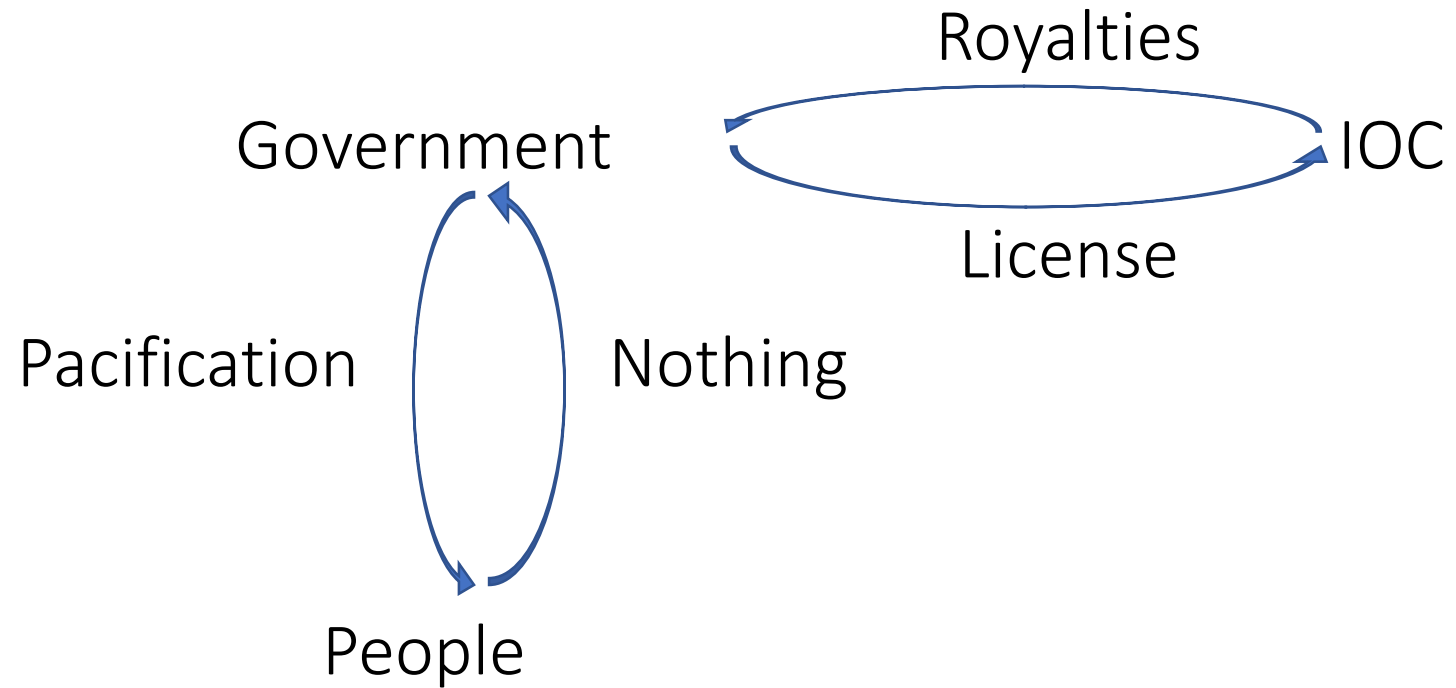
# Developing countries: the resource extractive state concept

- Hossein Mahdavy (1970): *The Pattern and Problems of Economic Development in Rentier States: The Case of Iran*.
- Presumption: Tax extraction and redistribution is the core of the Government – people relationship.

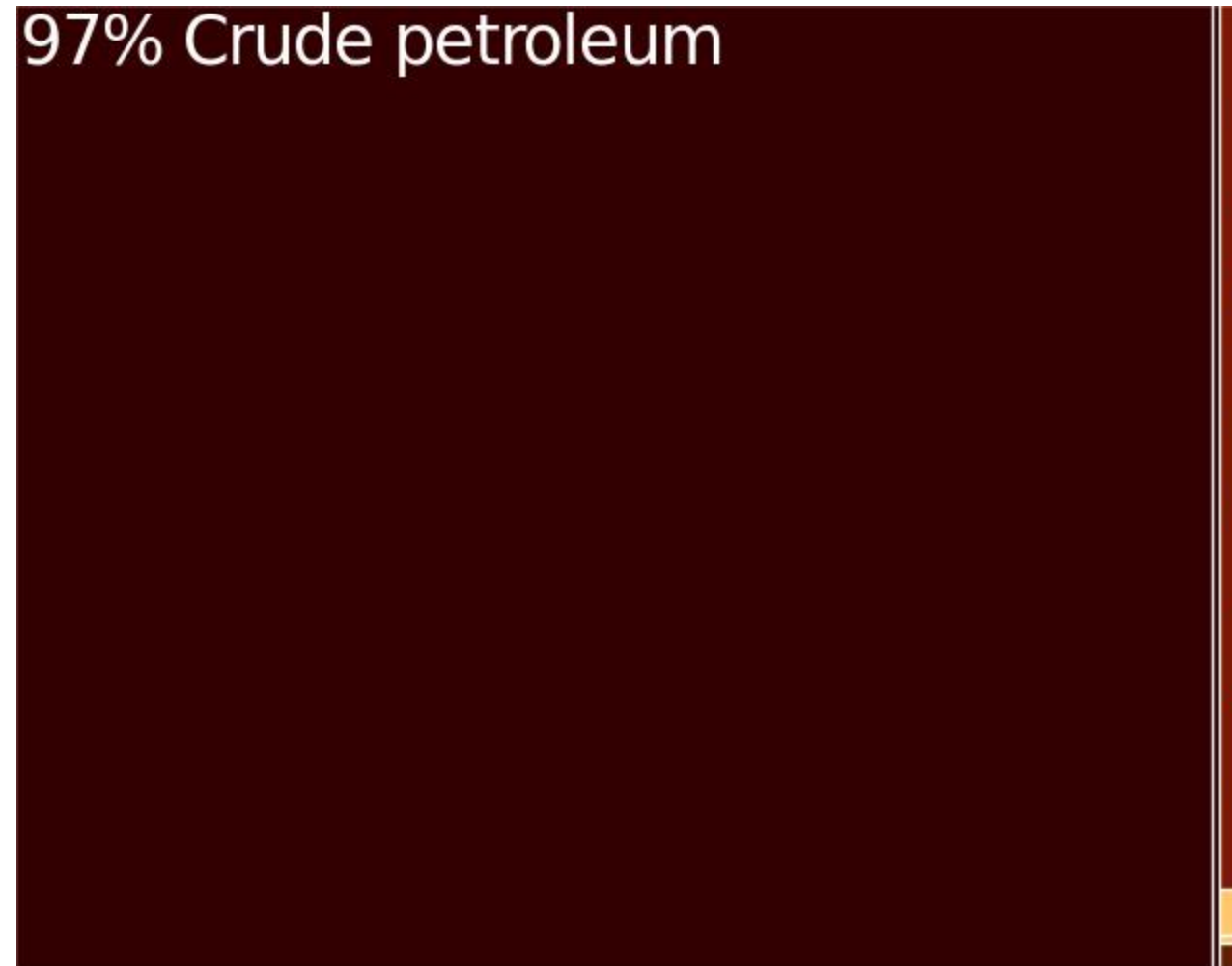
# The backbone of modern state building...



...altered by oil-revenues



# Export structure, the case of Angola



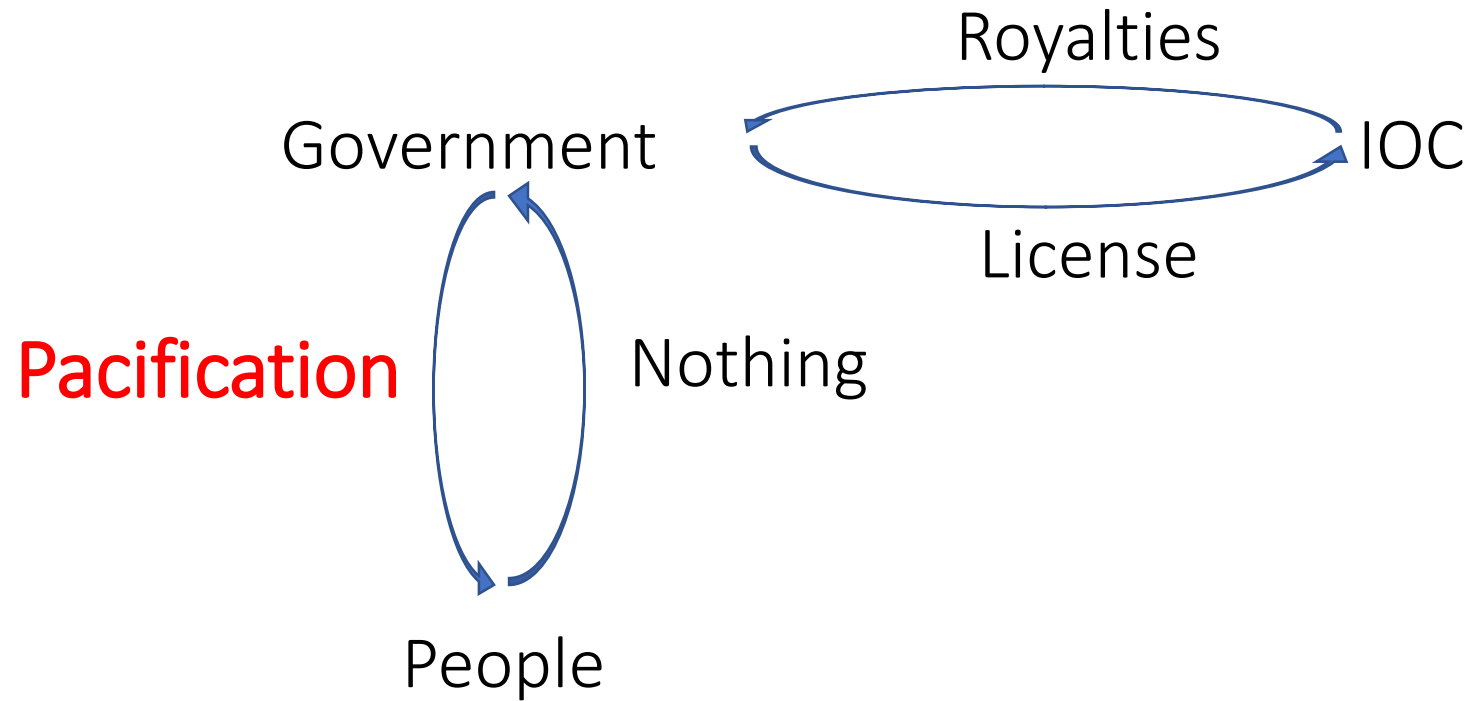
"Tree map export 2009 Angola" by R Hausmann, Cesar Hidalgo, et. al. - Electronic Complexity Observatory, MIT Media Lab and the Center for International Development at Harvard University.

# Oil and gas exports as a share of government income

• South Sudan	98%	• Iran	50%
• Iraq	97%	• Trinidad & Tobago	44%
• Eastern Timor	94%	• Kazakhstan	39%
• Bahrain	91%	• Mexico	33%
• Libya	91%	• Russia	28%
• Alaska	90%	• Camerun	25%
• Saudi Arabia	90%	• Egypt	10%
• Kuwait	83%		
• Angola	79%		
• Azerbaijan	74%		
• Algeria	70%		
• Nigeria	70%		
• Gabon	64%		
• Qatar	53%		



# Pacification: the „stick“ and „carrot“ way



# The „stick“ pacification

- Government policies centered around its physical survival
- The legitimacy is derived from arms expenses (defence against internal and external enemies)
- Revaluated currency
- Oil revenue distributed within the governing strata only (cronyism)
- Domestic problems ignored or delegated to the international community
- Benefits for the population practically non-existent

# External enemy, the case of Chad

- 4/75 president Tombalbaye (1960-1975) calls for national disobedience, fearing a coup
- 4/75 president Tombalbaye is killed in a coup supported by France (in reaction to the U.S. oil companies finding oil in the country)
- President Habré (1982-1990) supports the U.S. companies in exchange for protection from the U.S.
- President Déby (since 1990) – former close collaborator of president Habré, supported by France he removes Habré from the office and awards oil exploration/production licenses to French companies.

# Domestic problems and benefits for the population

## Angola

- Oil production 2000-2004: 0.75 mbd => 1.2 mbd
- Approx. 1 billion USD/year diverted from the government budget (according to Global Witness)
- Humanitarian crisis 2000-2004 at the end of the civil war (1975-2002): millions of people survived only due to the international aid (World Food Program)

## Nigeria

- Oil revenues 1984-2009: 300 mld. USD
- Average income in 2009: 1 USD/day
- In real terms: average income in 2003 was lower than in 1960

# The „carrot“ pacification

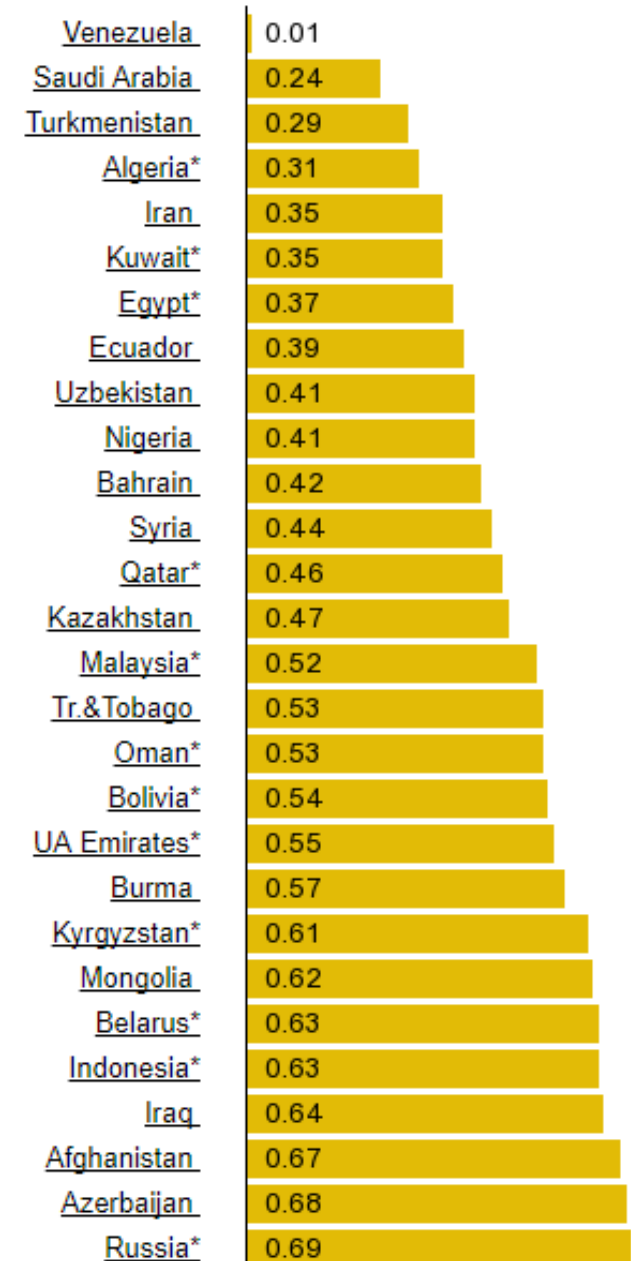
- Typical for consolidated regimes
- Main threat stemming from cross-generation cohesion (the young need to accept the regime)
- Maximum benefits for the population

# Benefits for the population

- Free
  - Education
  - Healthcare
  - Accommodation
- Heavily subsidized
  - Energy
  - Gasoline
- Retirement
  - 80% of salary after 20 years in public sector
- Taxes
  - Non-existent

Division of labor according to citizenship:

- UAE
  - 0% of foreigners in the public administration
  - 0.04% of the UAE citizens in the private sector
- Average salary in Bahrain 2008:
  - Citizens: 15,000 USD/y
  - Foreigners: 5,000 USD/y

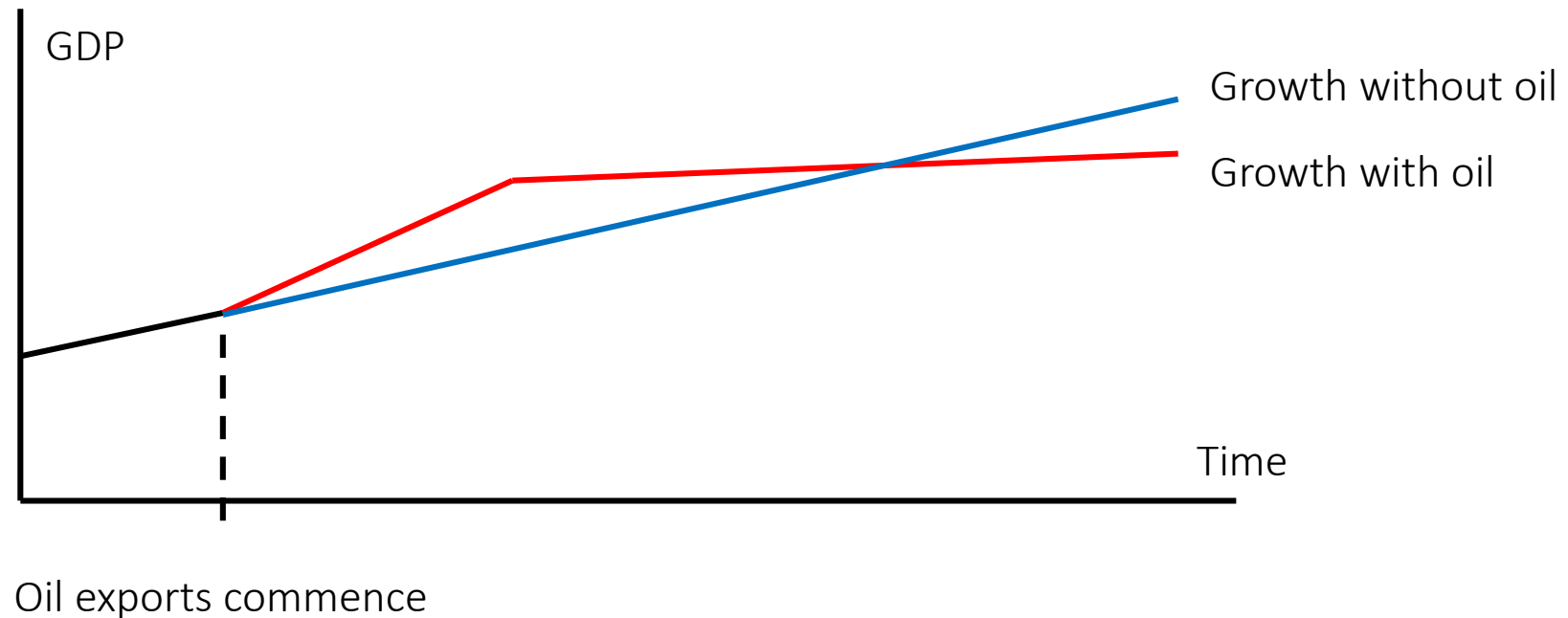


Developed countries: Dutch disease

# Developed countries: Dutch disease

The Netherlands after vast natural gas exploitation in the 1960s.

Key point: resource development can actually hinder economic growth/development

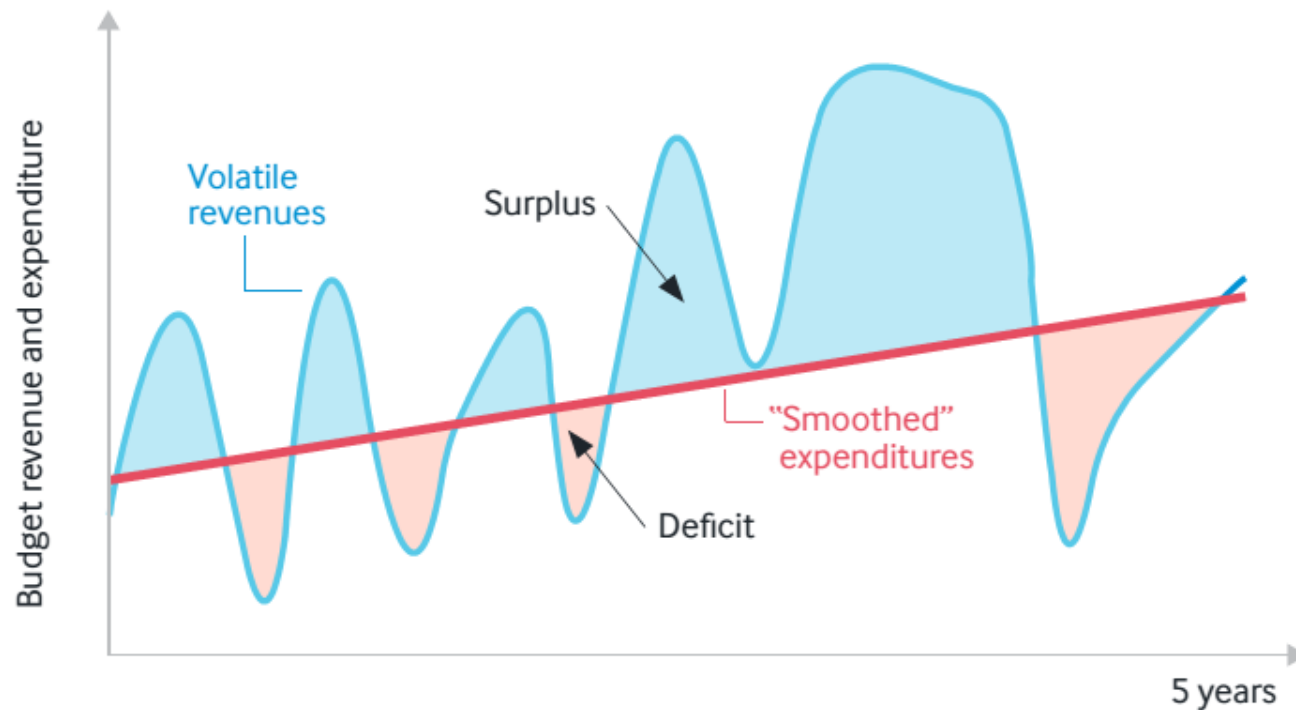




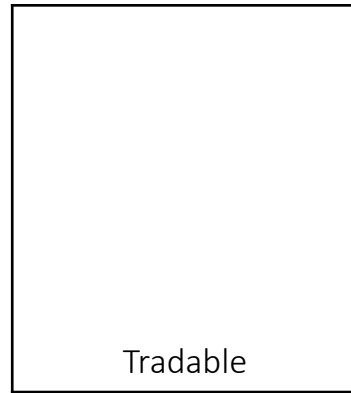
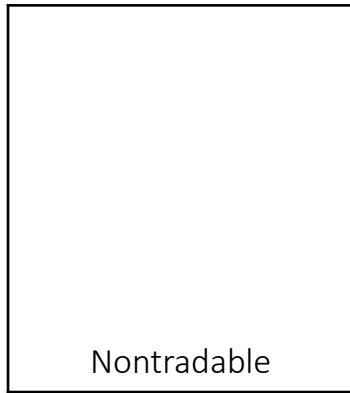
# Dutch disease

The Netherlands after vast natural gas exploitation in the 1960s.

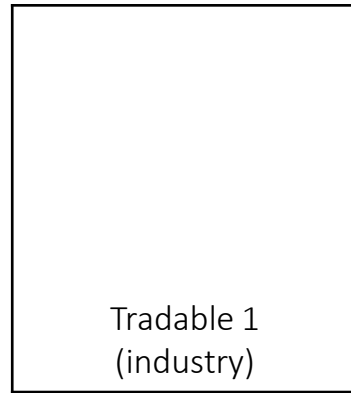
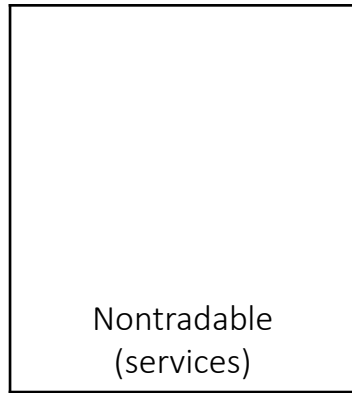
Key point: resource development can actually hinder economic growth/development



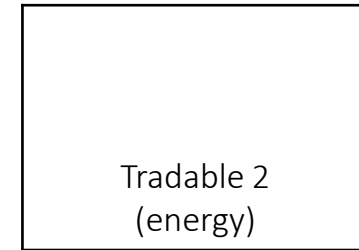
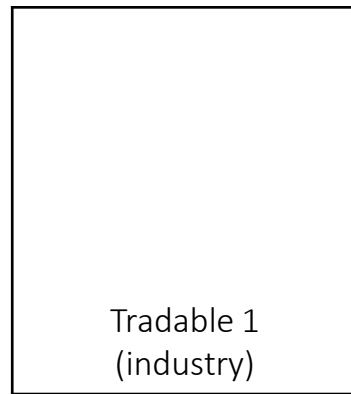
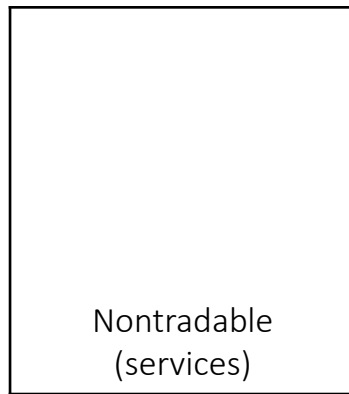
# Dutch disease



# Dutch disease

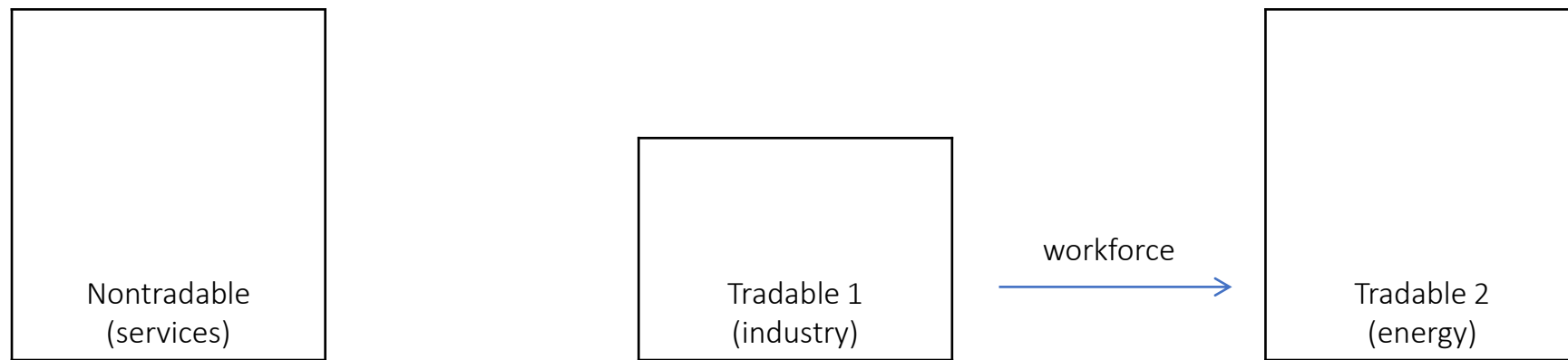


# Dutch disease



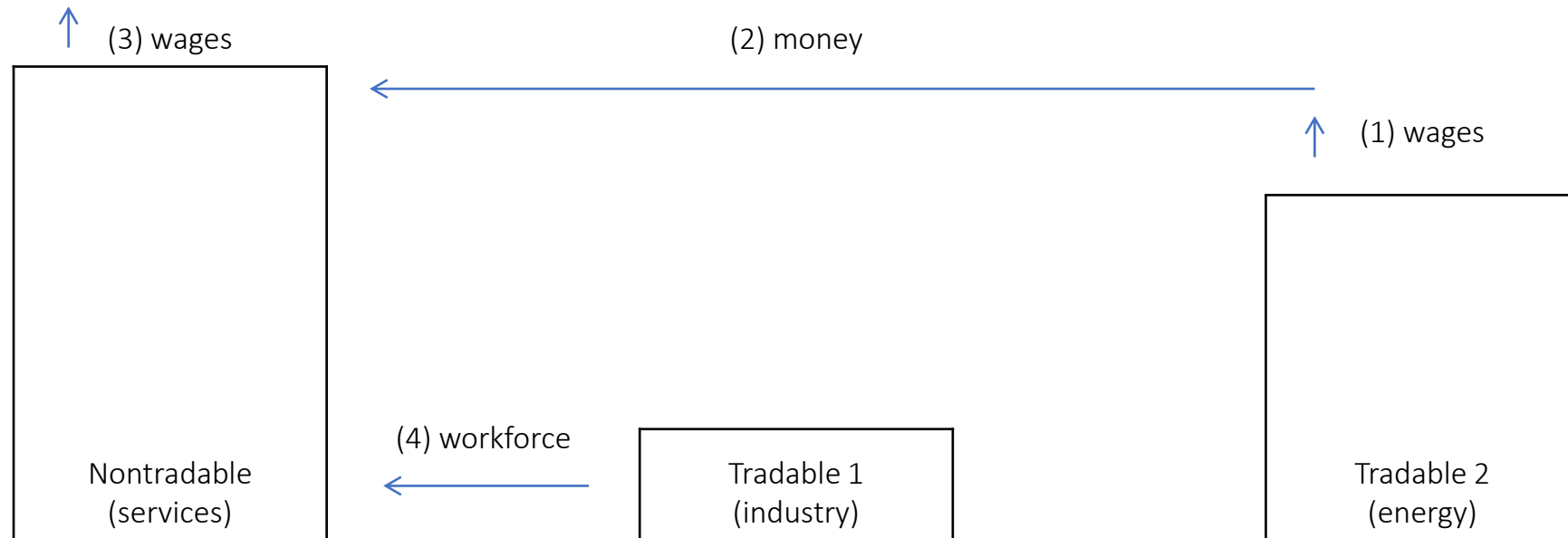
New expanding tradable sector emerges

# Dutch disease



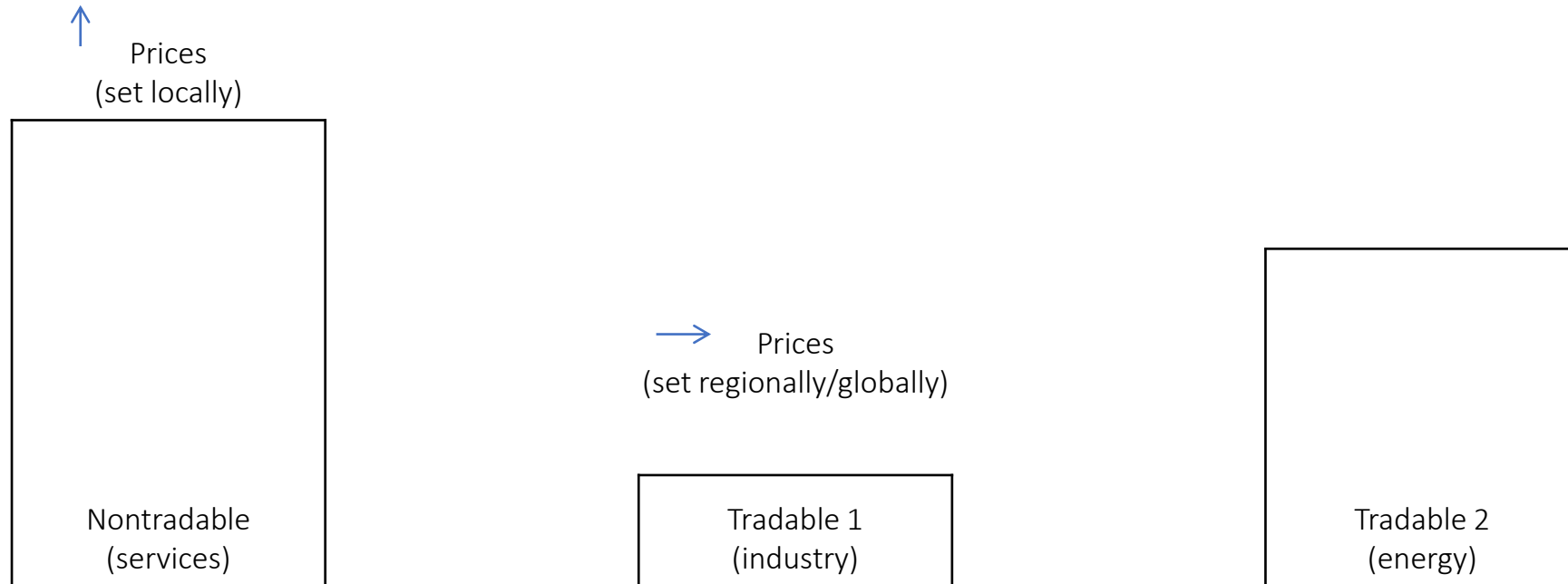
Direct deindustrialization: workforce movement

# Dutch disease



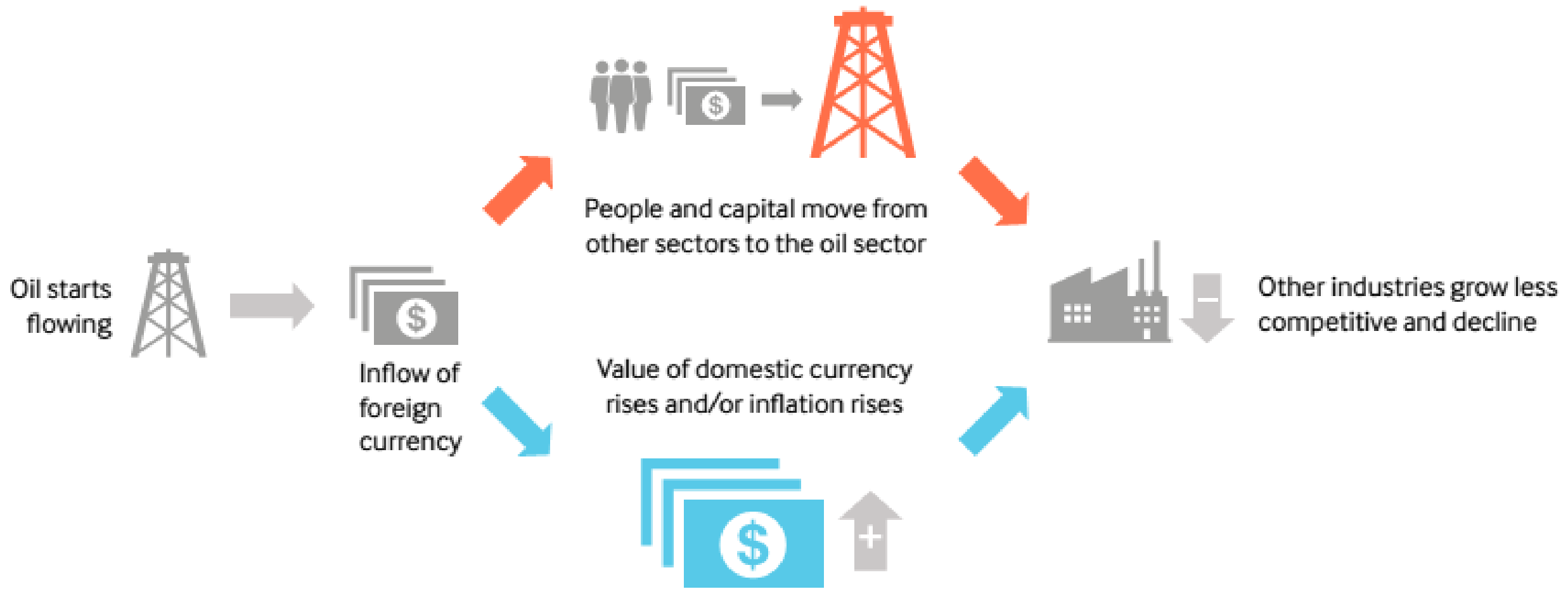
Indirect deindustrialization 1: workforce movement

# Dutch disease



Indirect deindustrialization 2: price difference induces currency appreciation that hinders tradable goods exports

# Dutch disease: summary





# Dutch disease: some statistics

Gylfason, T. (2001): 162 countries, 1965-1998:

+ 3% of export in the expanding sector => - 1% of total export

+ 5% workforce in the expanding sector => - 1% of foreign direct investment

# Dutch disease: some statistics

Mehrara, M (2008): 13 oil exporters, 1965-2005:

Growth in oil revenues:

- smaller than 18% per year: + 10% in oil revenues => + 1,3% other GDP
- larger than 18% per year: + 10% in oil revenues => - 2.1 % other GDP

## Growth in „other“ export, 1980-2000

East Asia and Pacific	212%
Botswana	139%
Chile	99%
Iran	46%
Norway	15%
Camerun	0%
Venezuela	-8%
Algeria	-17%
Nigeria	-24%
Kongo	-52%

Stevens, Dietsch (2008): Resource curse: An analysis of causes, experiences and possible ways forward.

# Findings

In developing countries, oil revenues can amplify existing conflicts, destabilize societies and prevent state-building and institutions-building from taking place. Alternatively, it can conserve societies in economically underdeveloped, yet welfare abundant state of being.

In developed (industrialized) countries, oil revenues can compromise the added value-producing industries and alter the economic development of a country.

Oil is good, when:

- Strong institutions exist before it is developed
- Oil revenues come gradually
- Oil revenues are managed thoughtfully