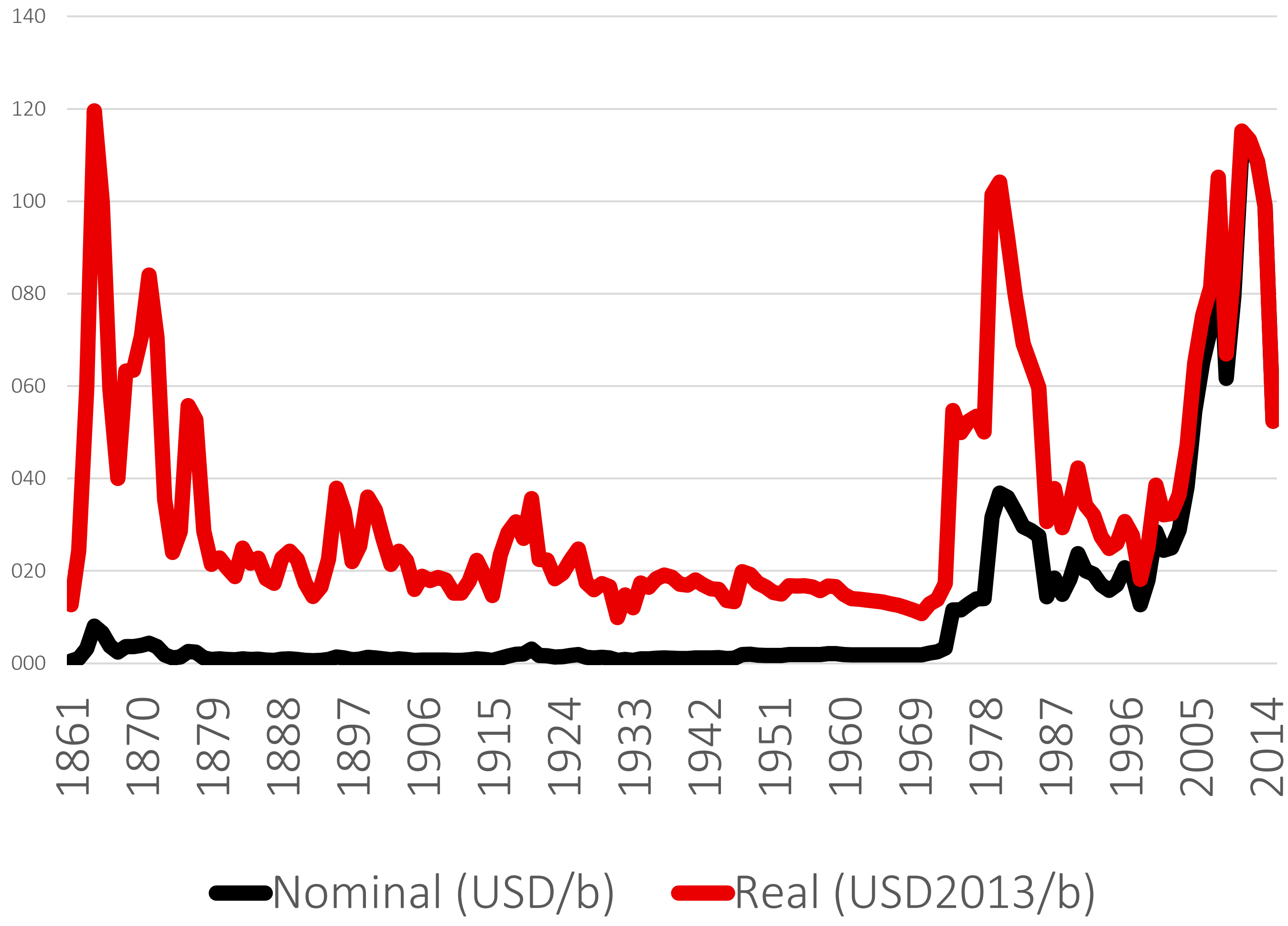
Coping with oil revenues

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



Developed countries: Dutch disease

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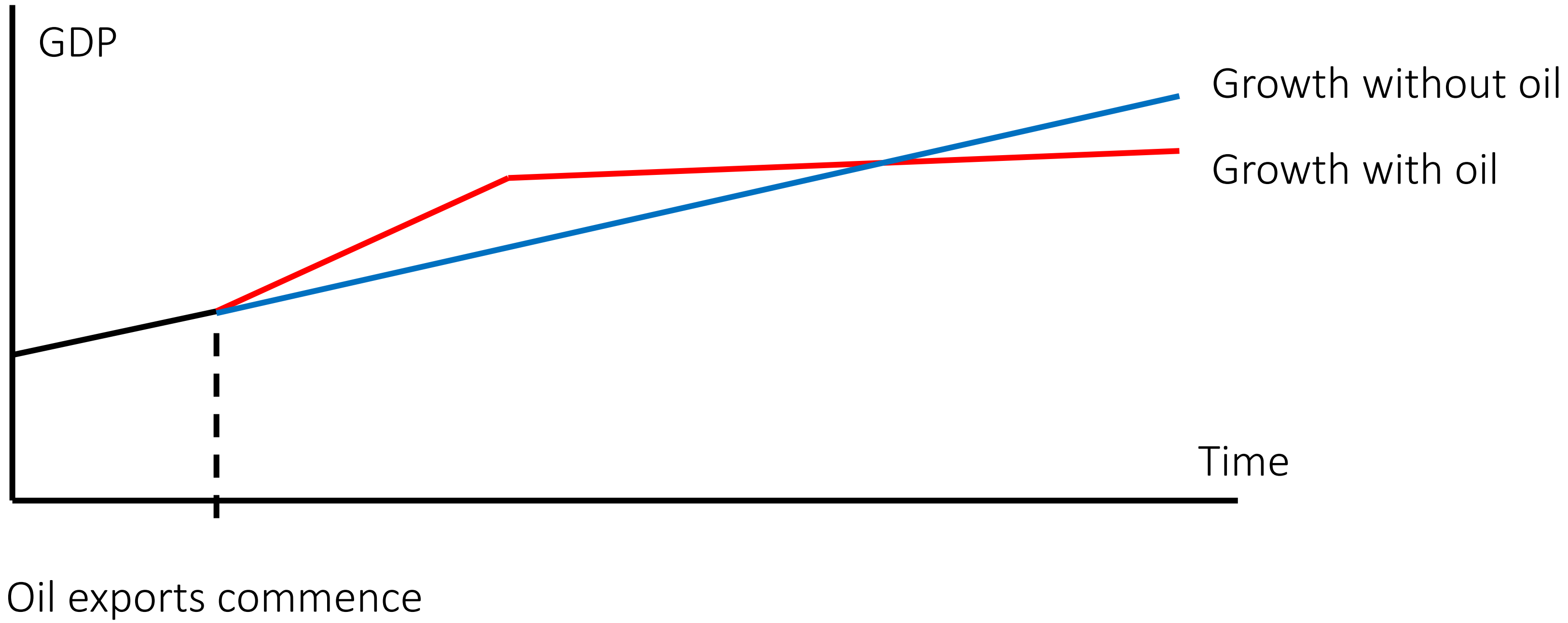
The Netherlands after vast natural gas exploitation in the 1960s.

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



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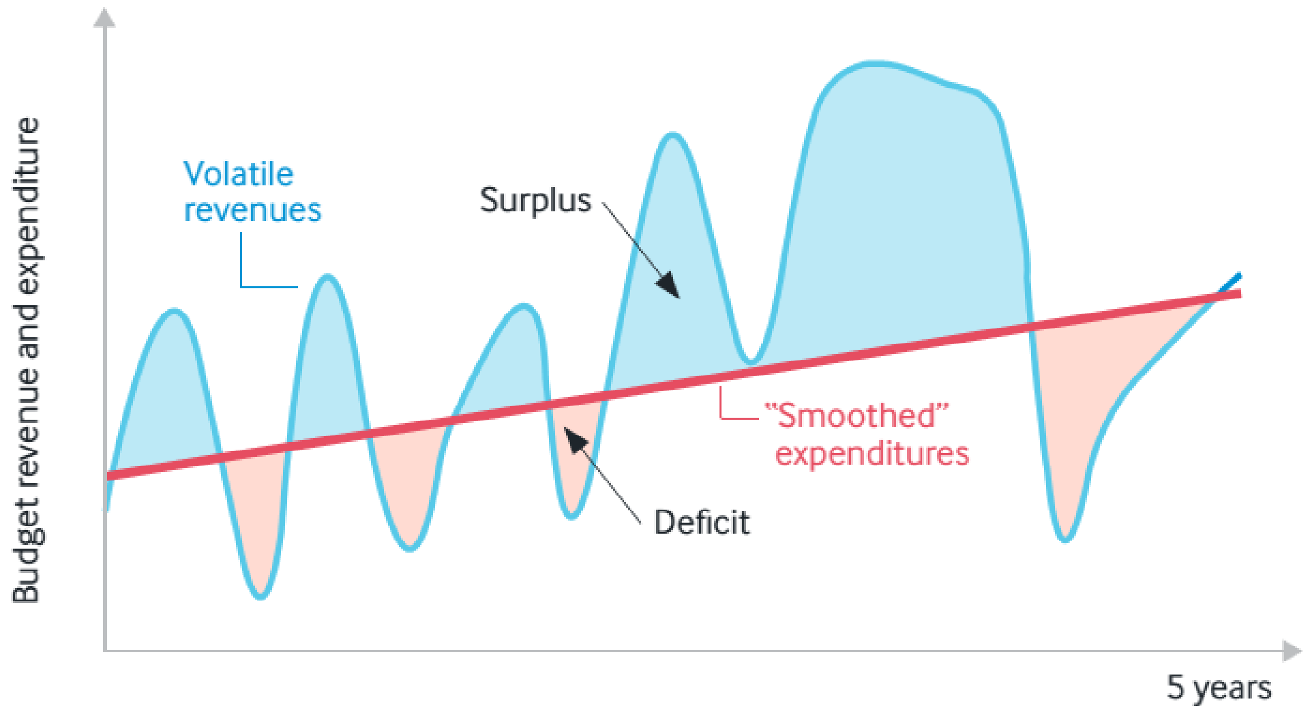
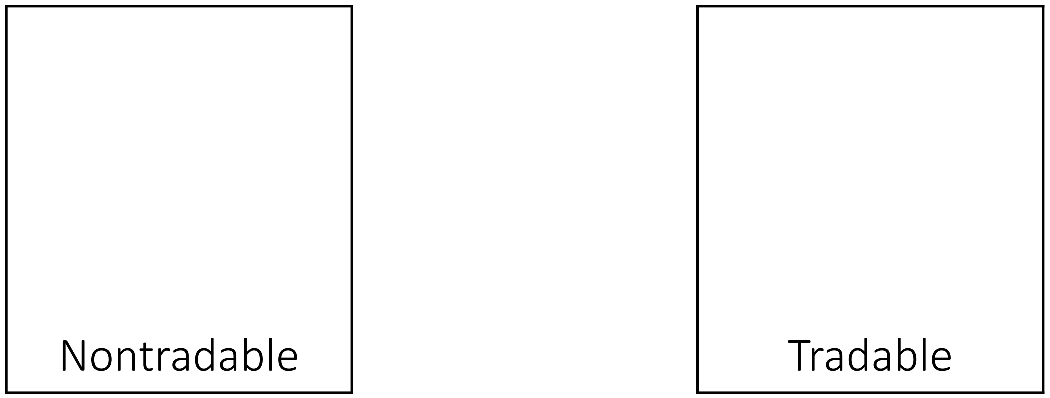


Dutch disease

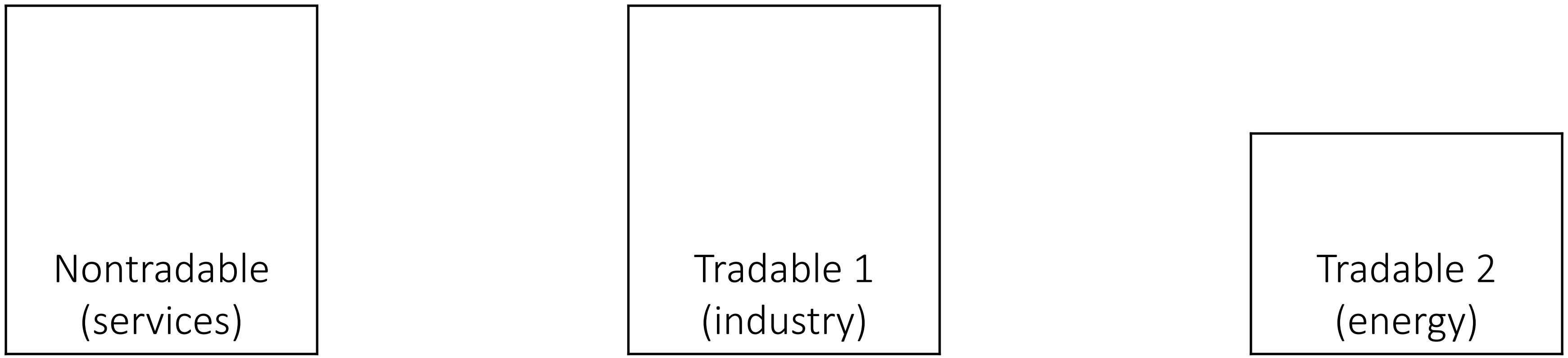


Dutch disease

Nontradable
(services)

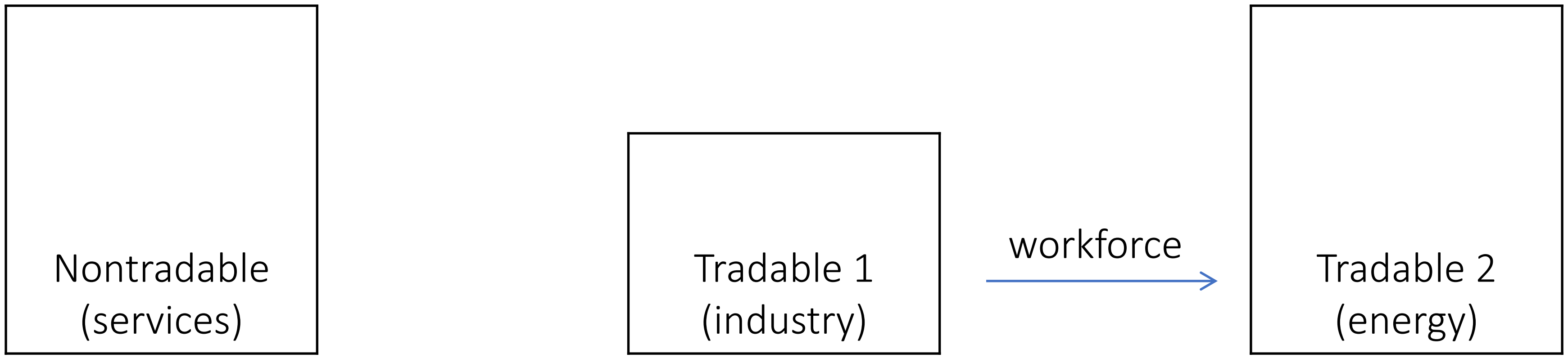
Tradable 1
(industry)

Dutch disease



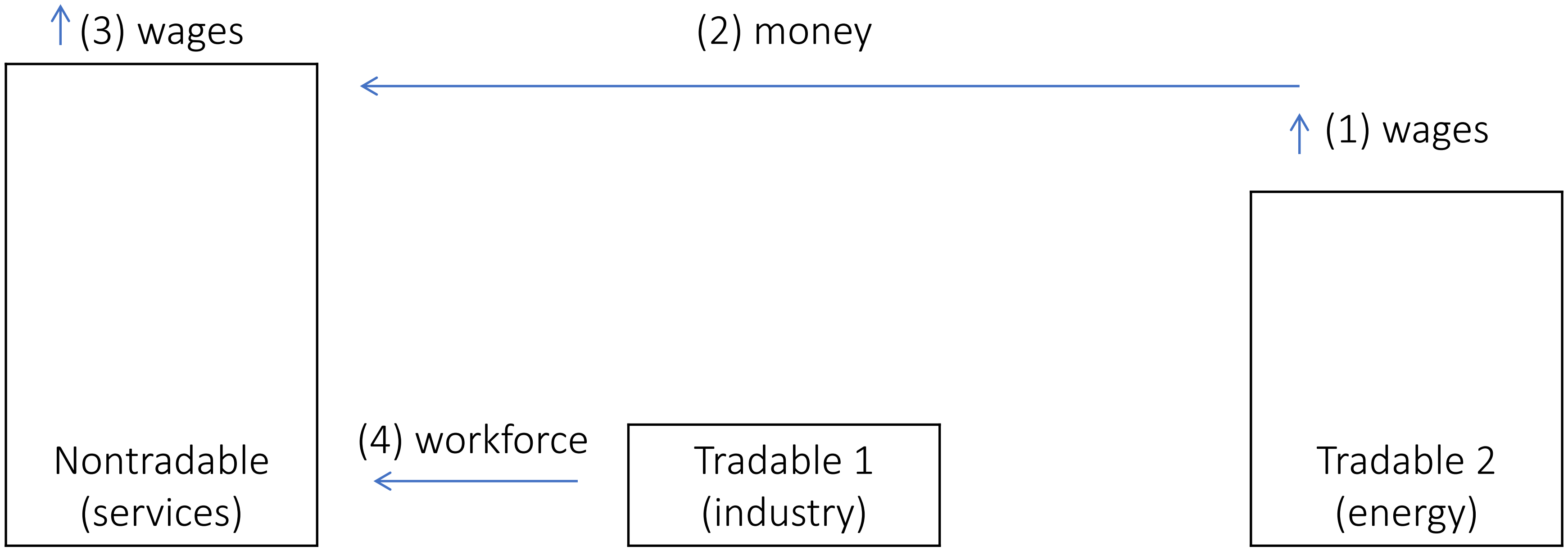
New expanding tradable sector emerges

Dutch disease



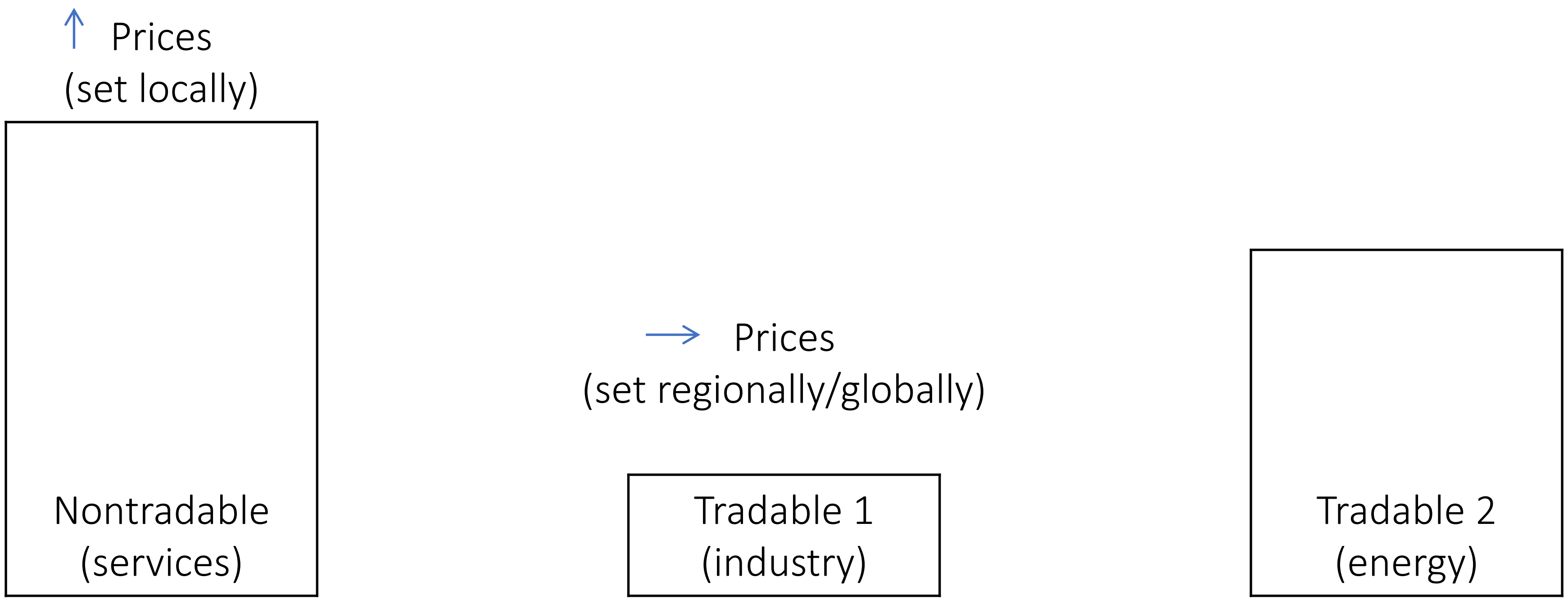
Direct deindustrialization: workforce movement

Dutch disease



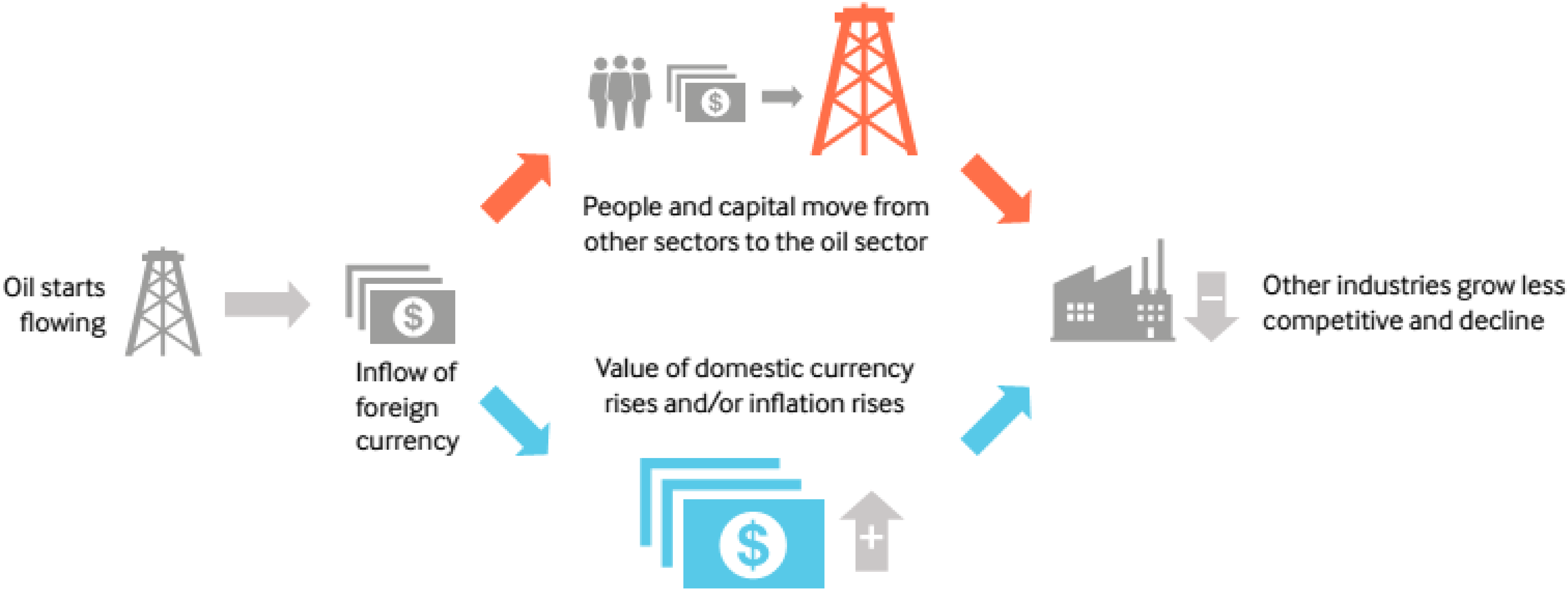
Indirect deindustrialization 1: workforce movement

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.

Living with oil rent: the challenges faced by developing countries

Oil rent challenges in unstable countries

- 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 bn USD
- Average income in 2009: 1 USD/day
- In real terms: average income in 2003 was lower than in 1960

Oil rent challenges in consolidated countries

- Main threat stemming from cross-generation cohesion (the young need to accept the regime)

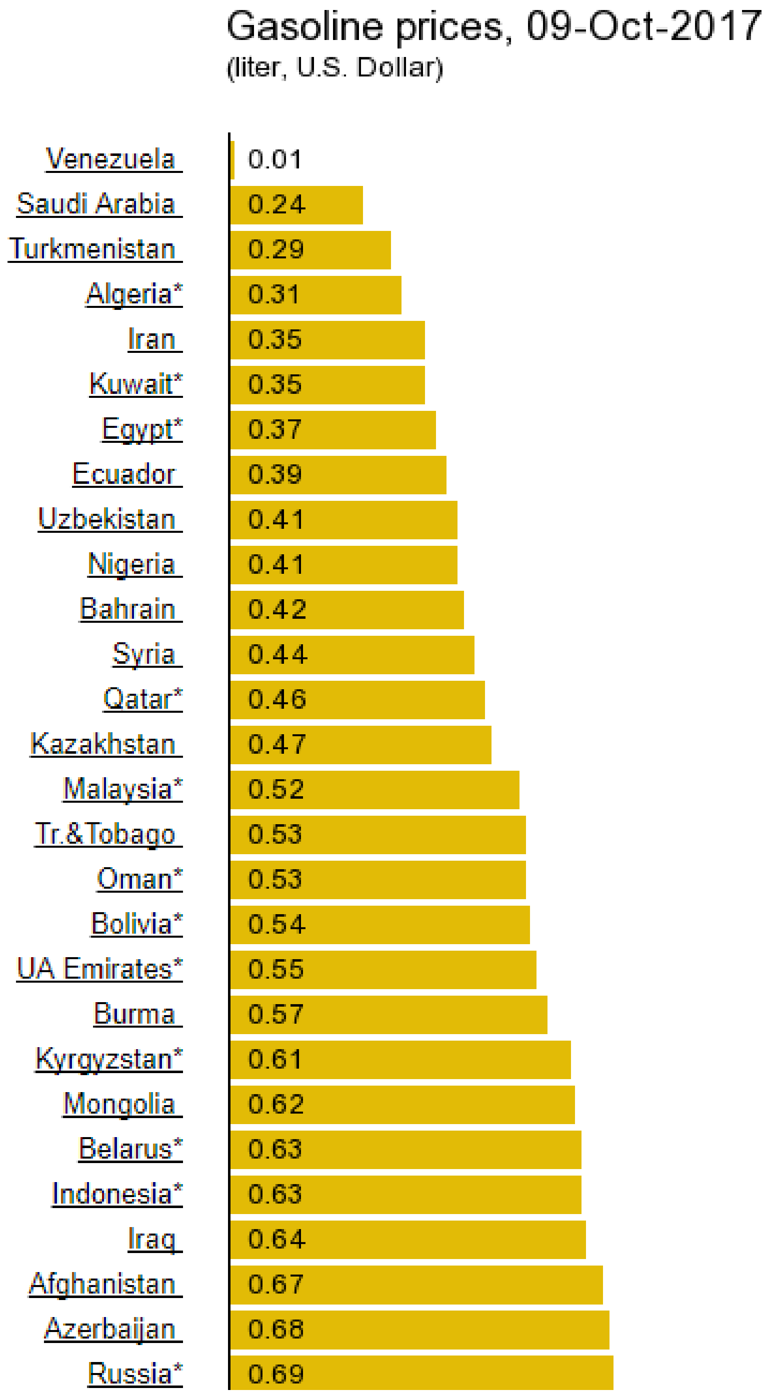
- Delivering maximum benefits for the population in a financially sustainable manner

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 sallary in Bahrain 2008:
  - Citizens: 15,000 USD/y
  - Foreigners: 5,000 USD/y

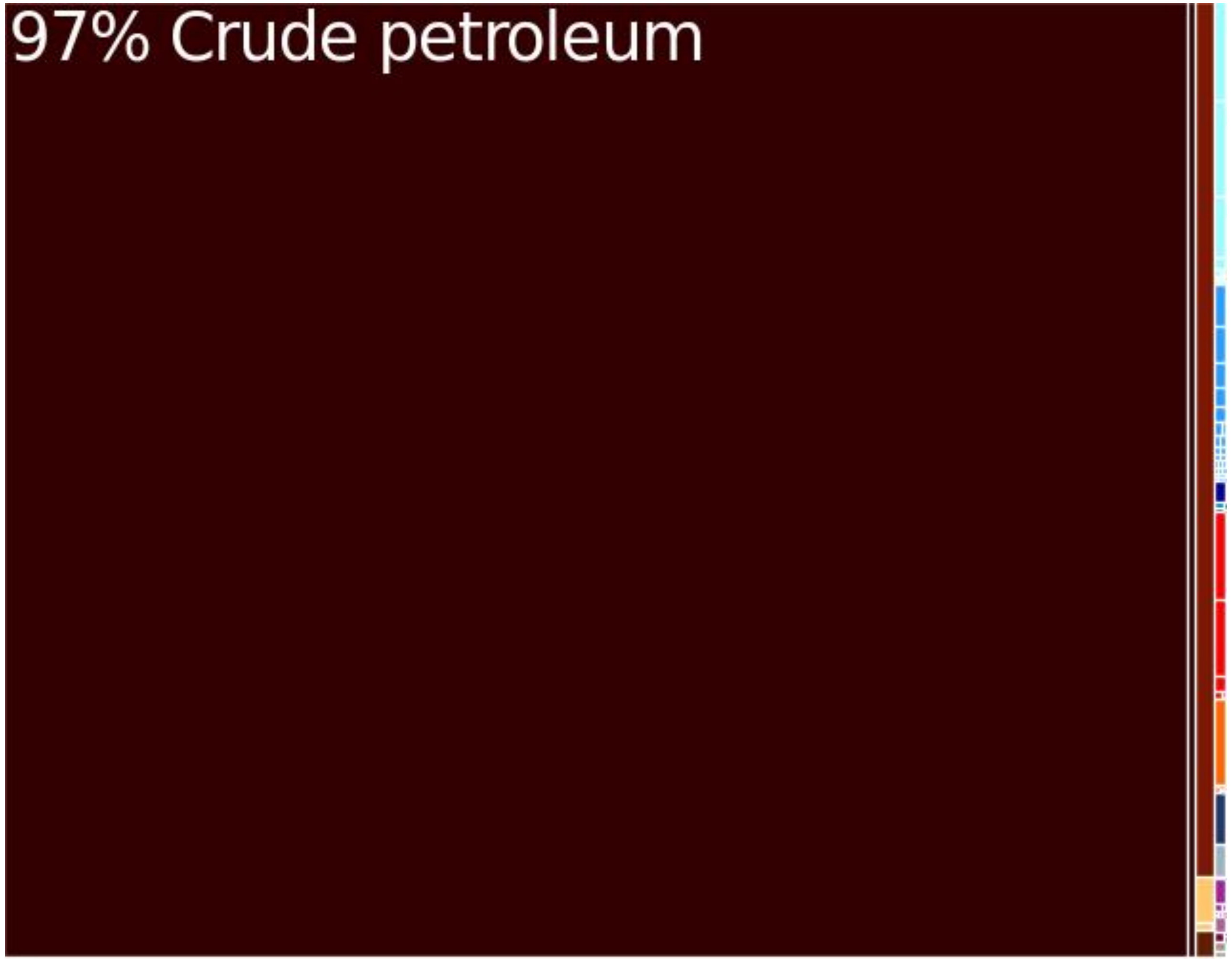


Developing countries: the resource extractive state concept

- 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.

Export structure, the case of Angola



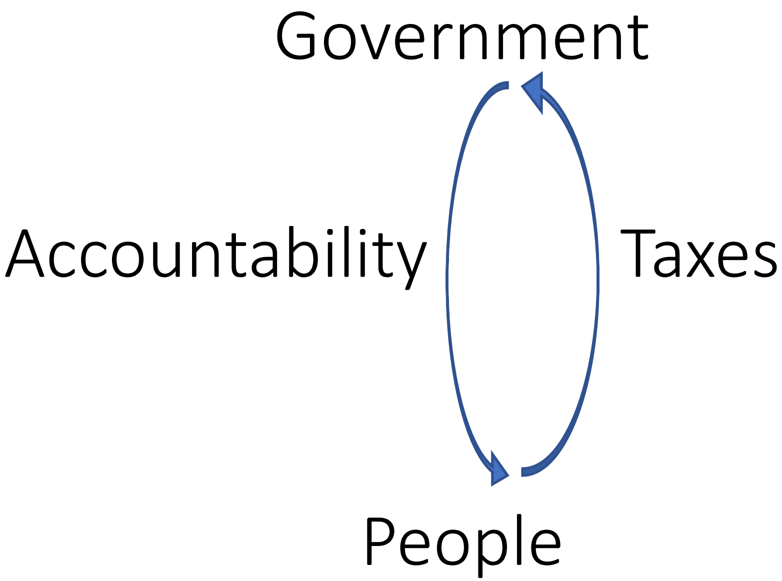
"Tree map export 2009 Angola" by R Haussmann, Cesar Hidalgo, et. al. - Electronic Complexity Observatory, MIT Media Lab and the Center for International Development at Harvard University.

Oil and gas exports as a share of government income

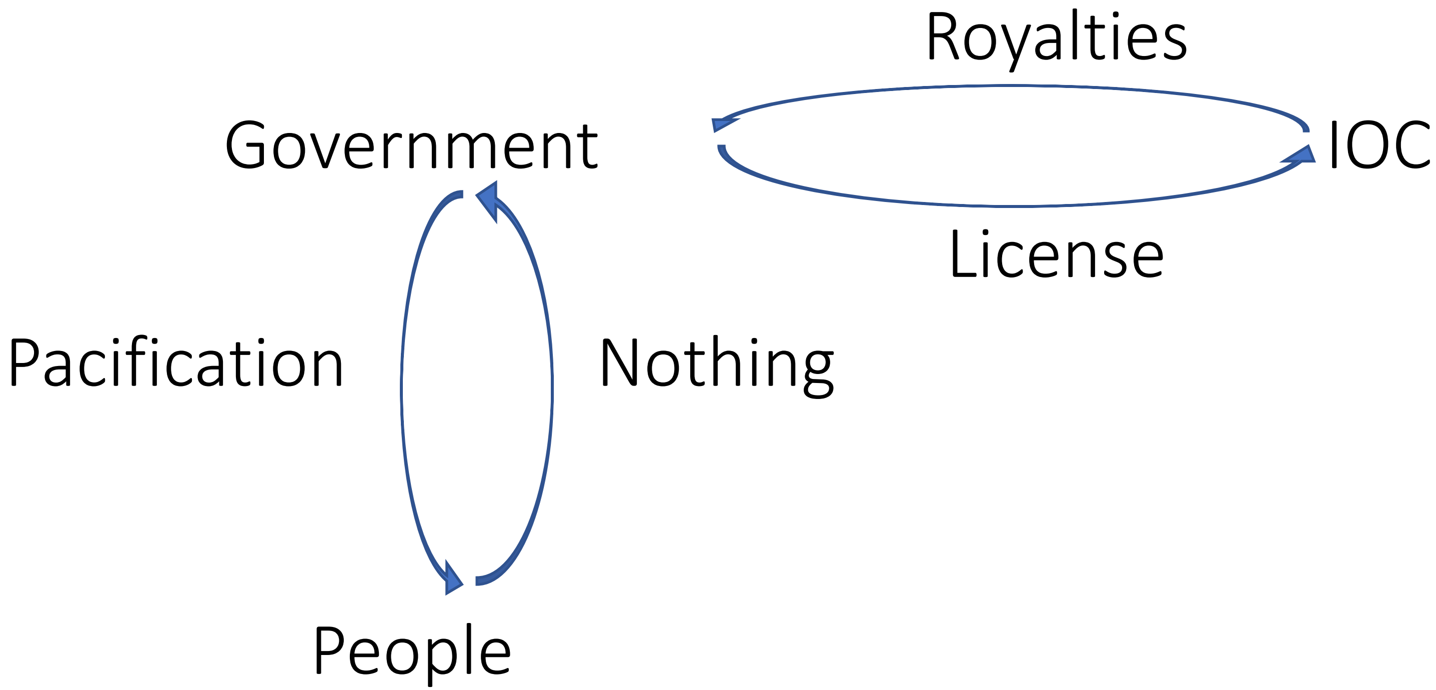
South Sudan	98%
Iraq	97%
Eastern Timor	94%
Bahrain	91%
Libya	91%
Alaska	90%
Saudi Arabia	90%
Kuwait	83%
Angola	79%
Azerbaijan	74%
Algeria	70%
Nigeria	70%
Gabon	64%
Qatar	53%
Iran	50%
Trinidad & Tobago	44%
Kazakhstan	39%
Mexico	33%
Russia	28%
Camerun	25%
Egypt	10%

www.resourcegovernance.org

The backbone of modern state building…



…altered by oil-revenues



Findings

In developing countries, oil revenues can amplify existing conflicts, destabilize societes 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

What can you do?