The political economy of resource discoveries

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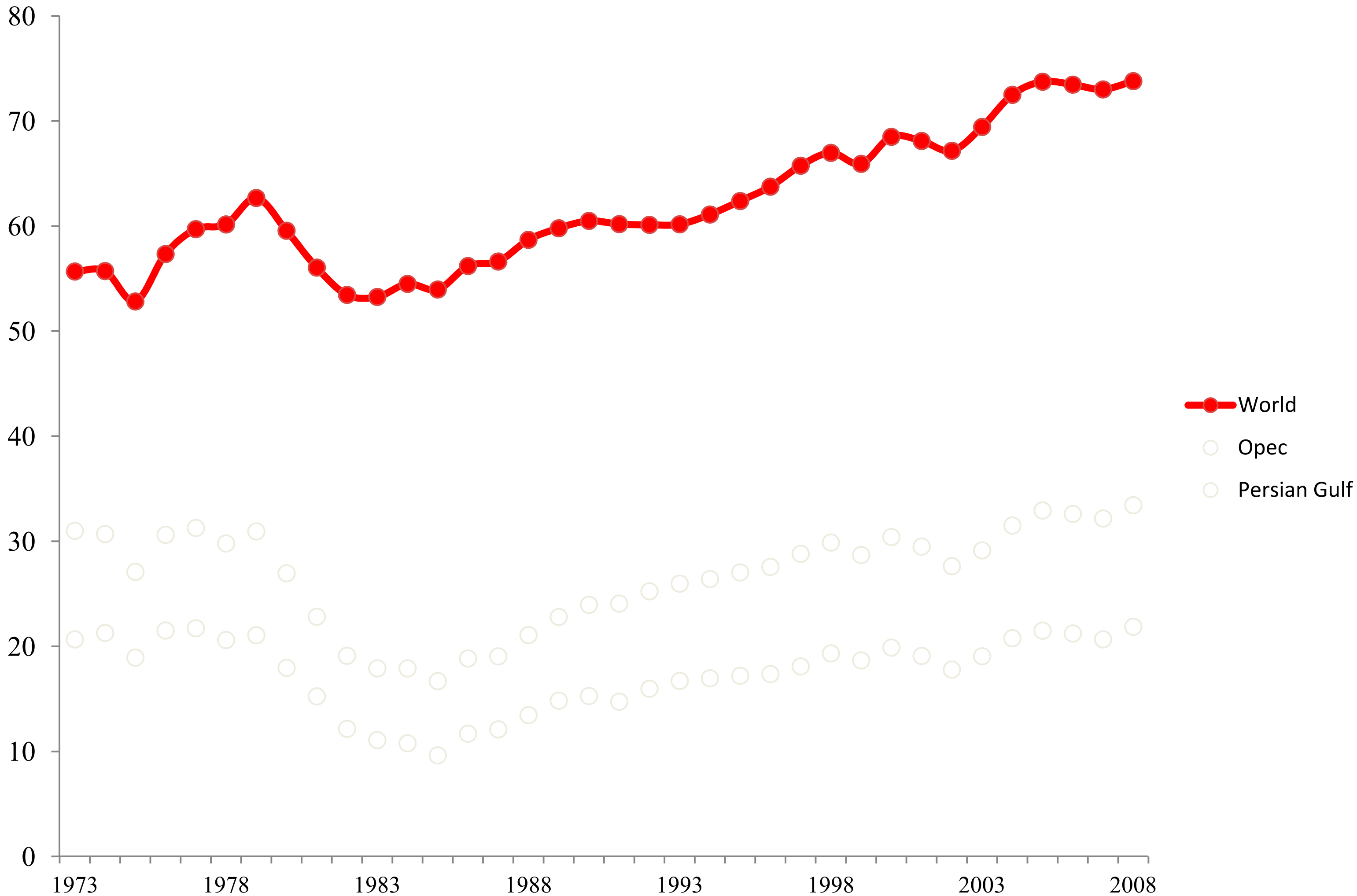
Overview

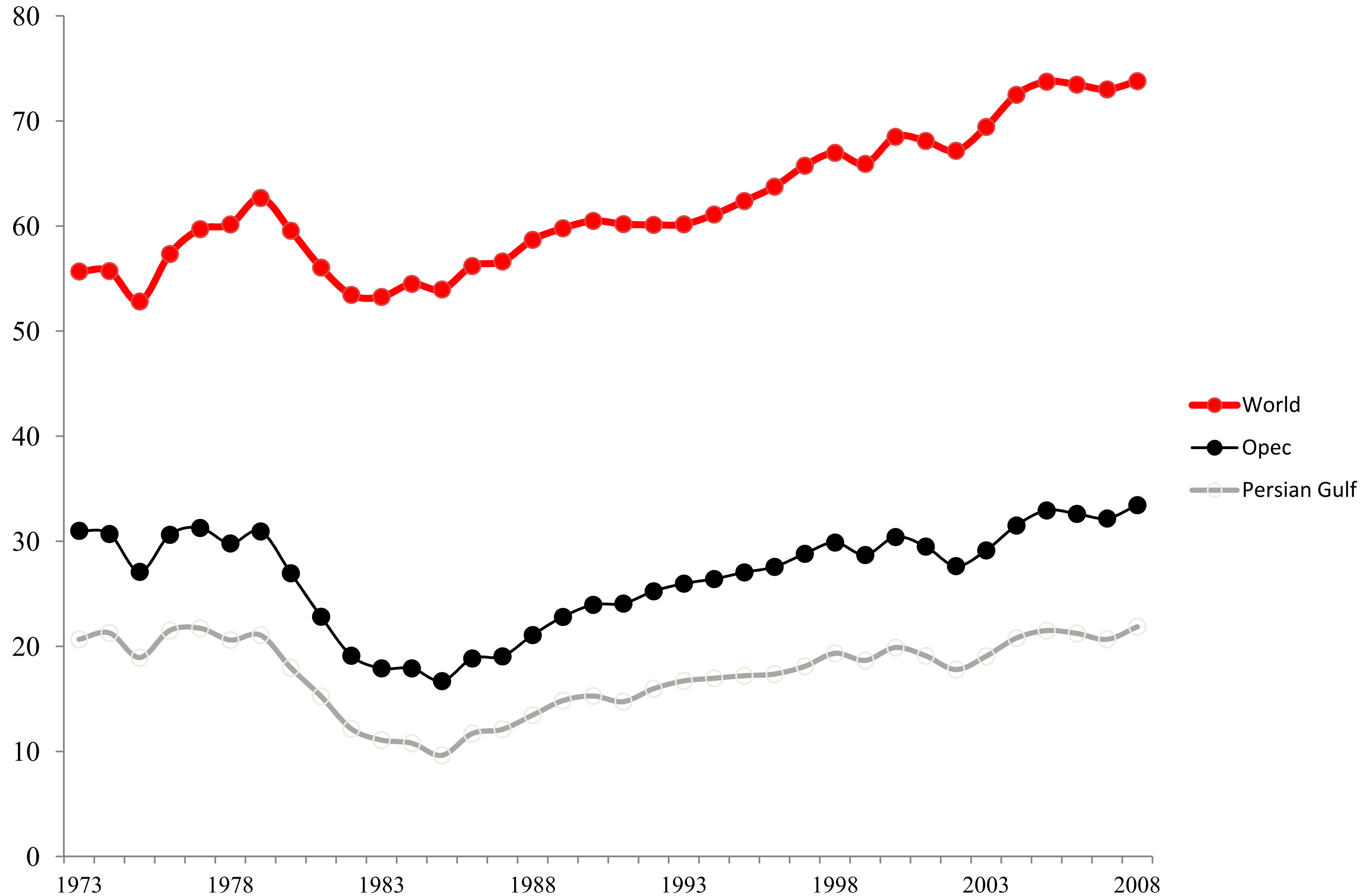
1. Oil and mineral production is spreading to more low-income countries;
2. This typically leads to a *political* resource curse;
3. Much can be done to prevent this.

The spread of oil and gas production

Rising *global* demand



OPEC production lagging



New oil & gas producers?

Includes both recent & likely new producers

- **Latin America:**
  - Guyana
  - Cuba
- **Southeast Asia:**
  - Cambodia
  - East Timor
- **Africa:**
  - Ghana
  - Guinea
  - Guinea-Bissau
  - Kenya
  - Liberia
  - Mali
  - Mauritania
  - Mozambique
  - Sao Tome
  - Senegal
  - Sierra Leone
  - Tanzania
  - Togo
  - Uganda

Oil Producers 1975

Oil Producers 1985

Oil Producers 1995

Oil Producers 2005

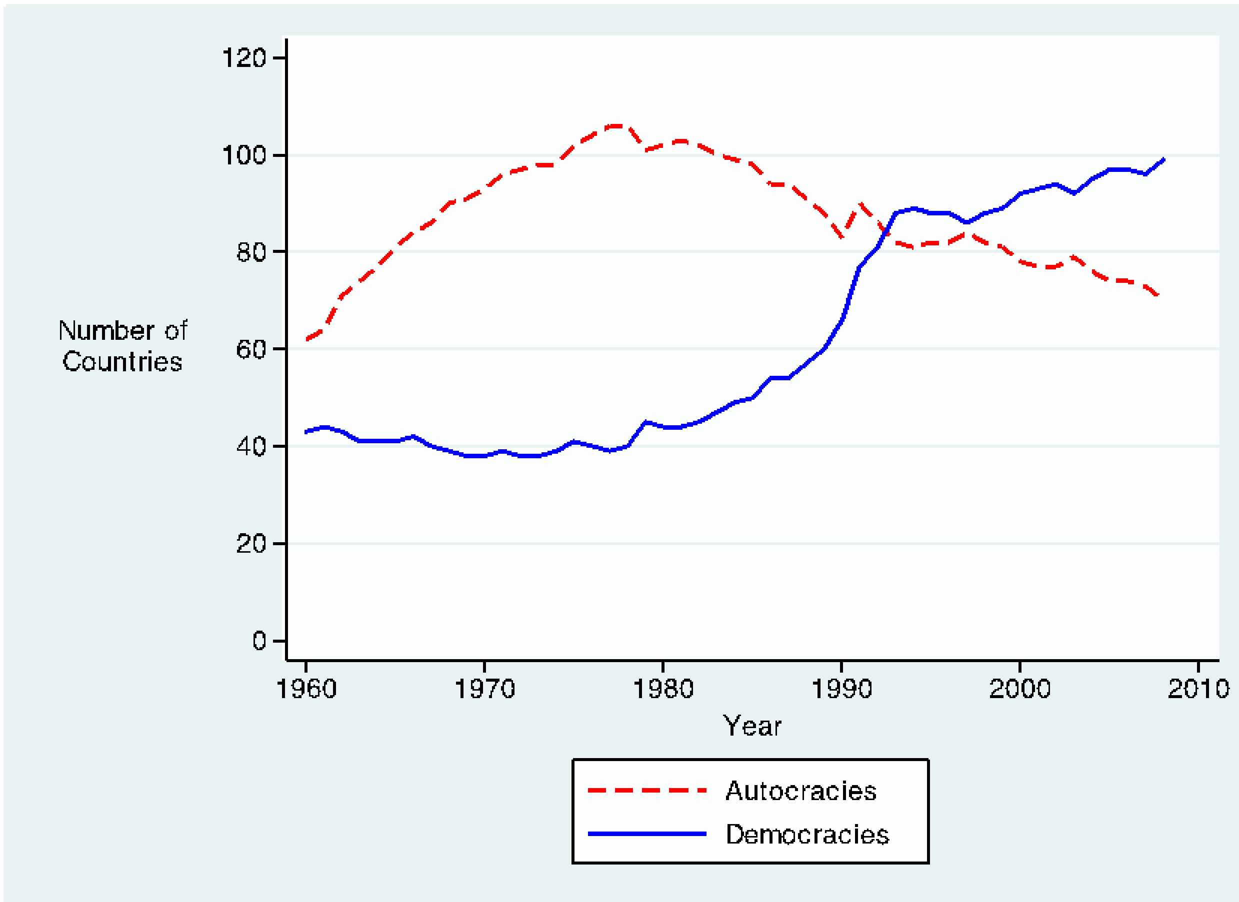
Oil Producers 2015

Danger of a *political* resource curse

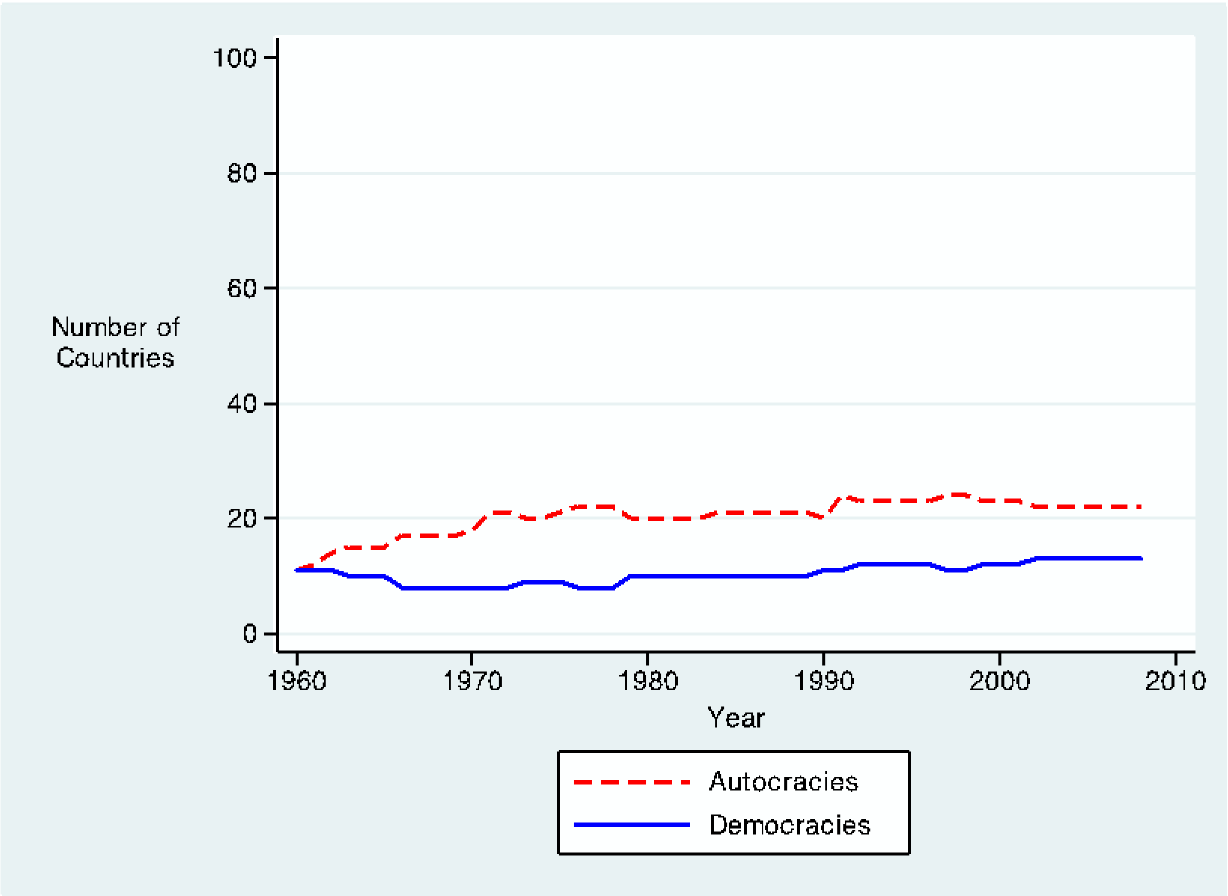
The *Political* Resource Curse

- Reduces government accountability

The rest of the world has democratized

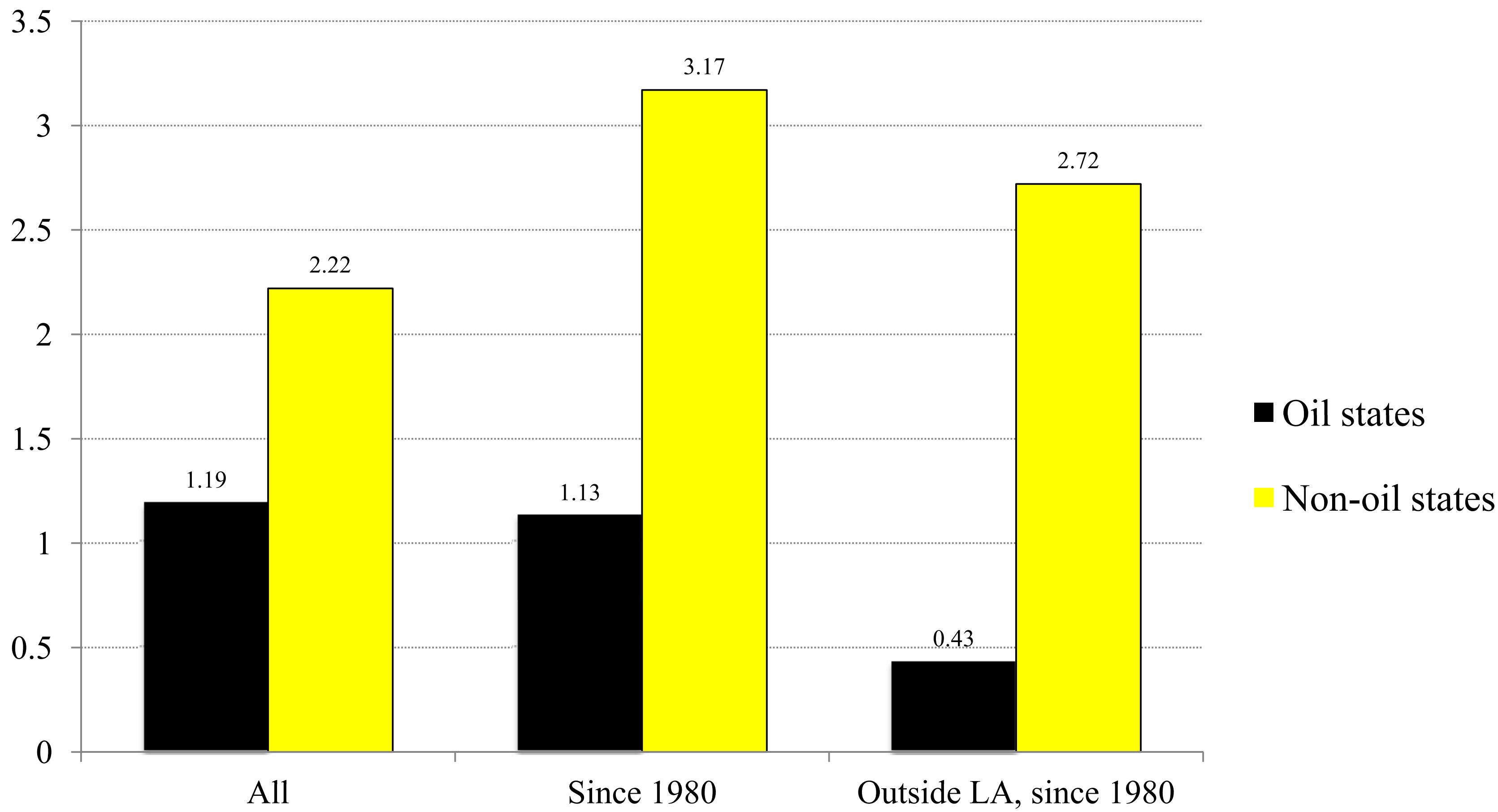


But the oil producers have not



Transitions to Democracy

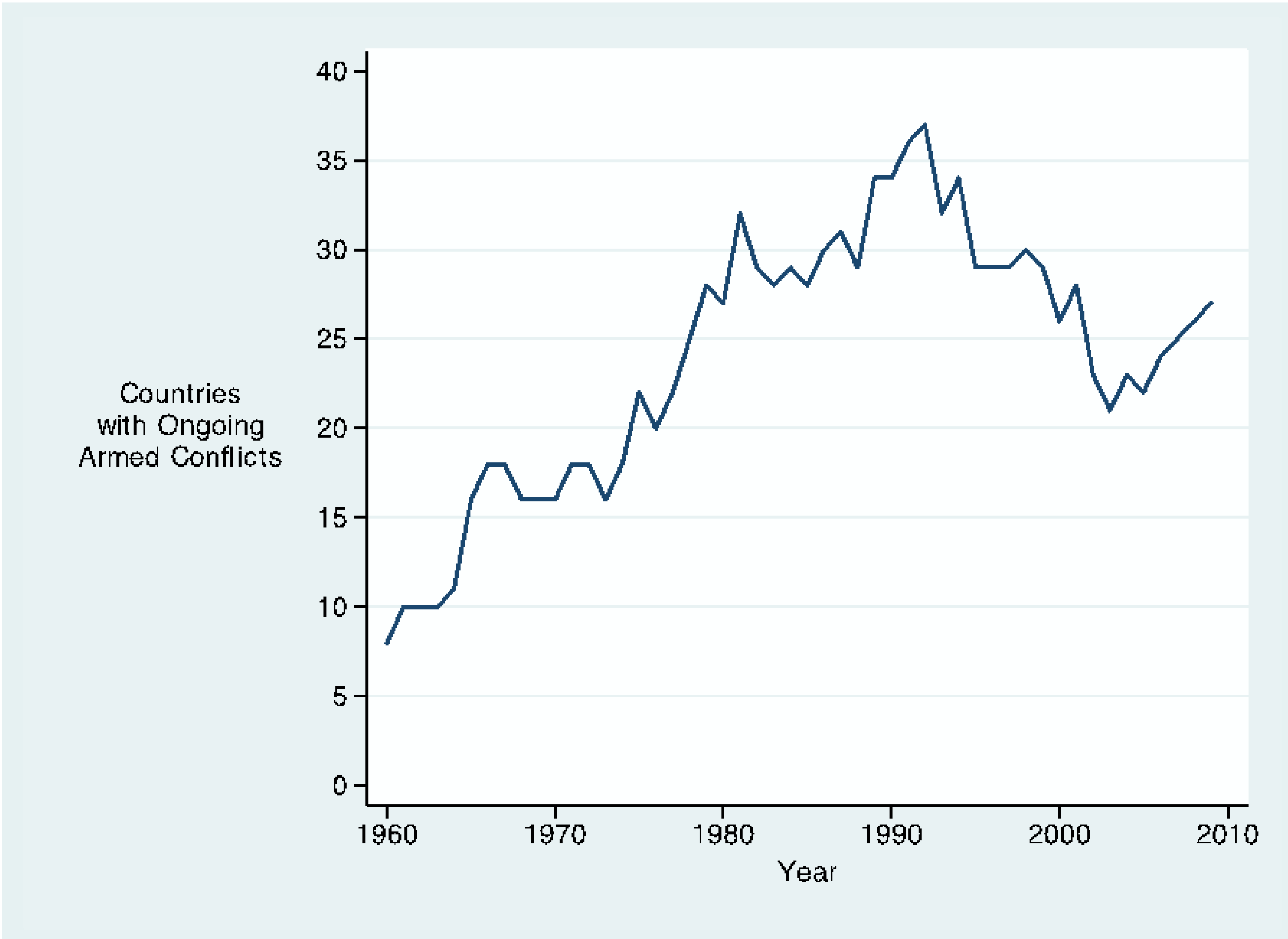
annual rate



The *Political* Resource Curse

- Reduces government accountability
- Heightened risk of civil war

The rest of the world has become more peaceful



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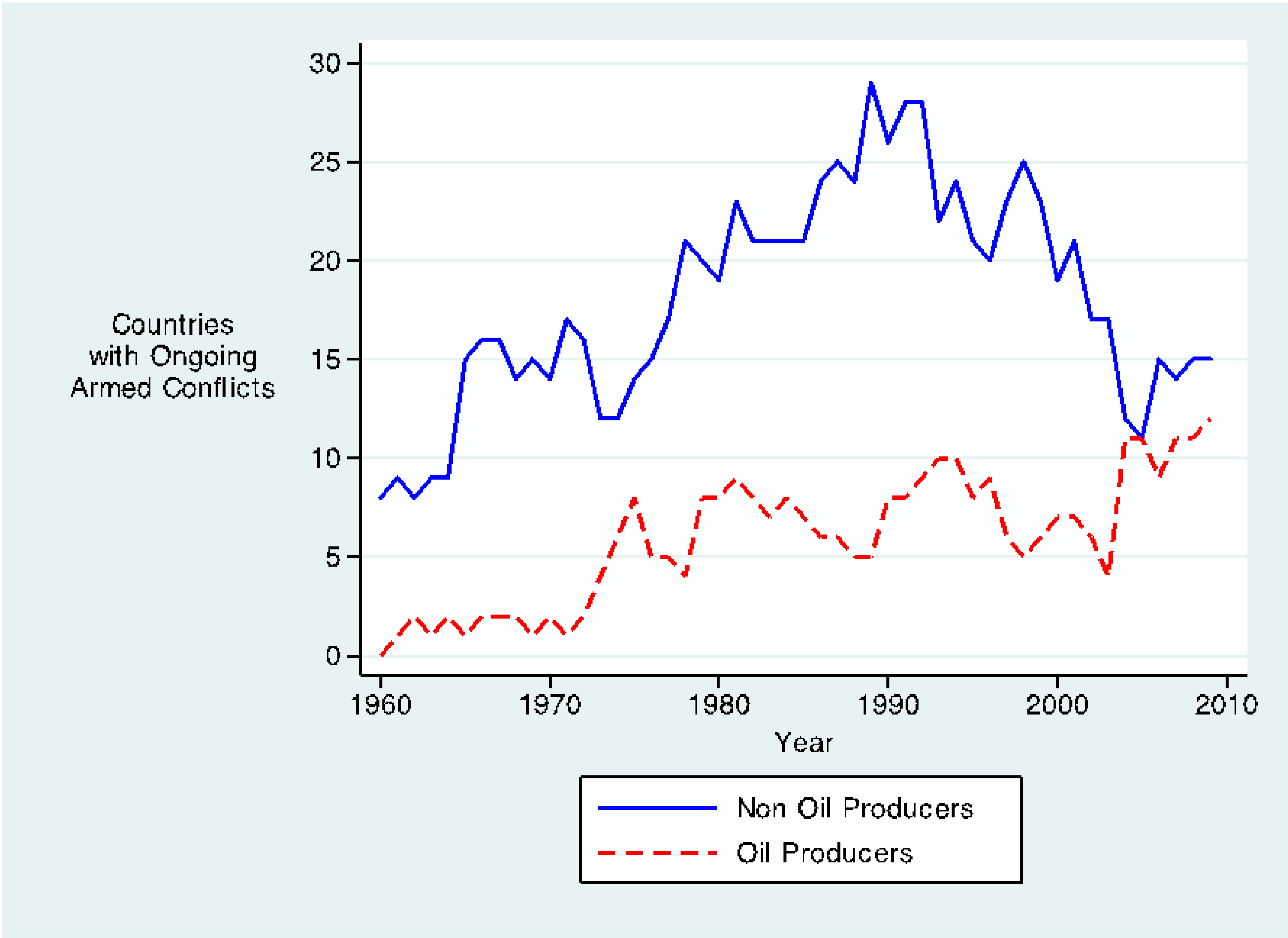
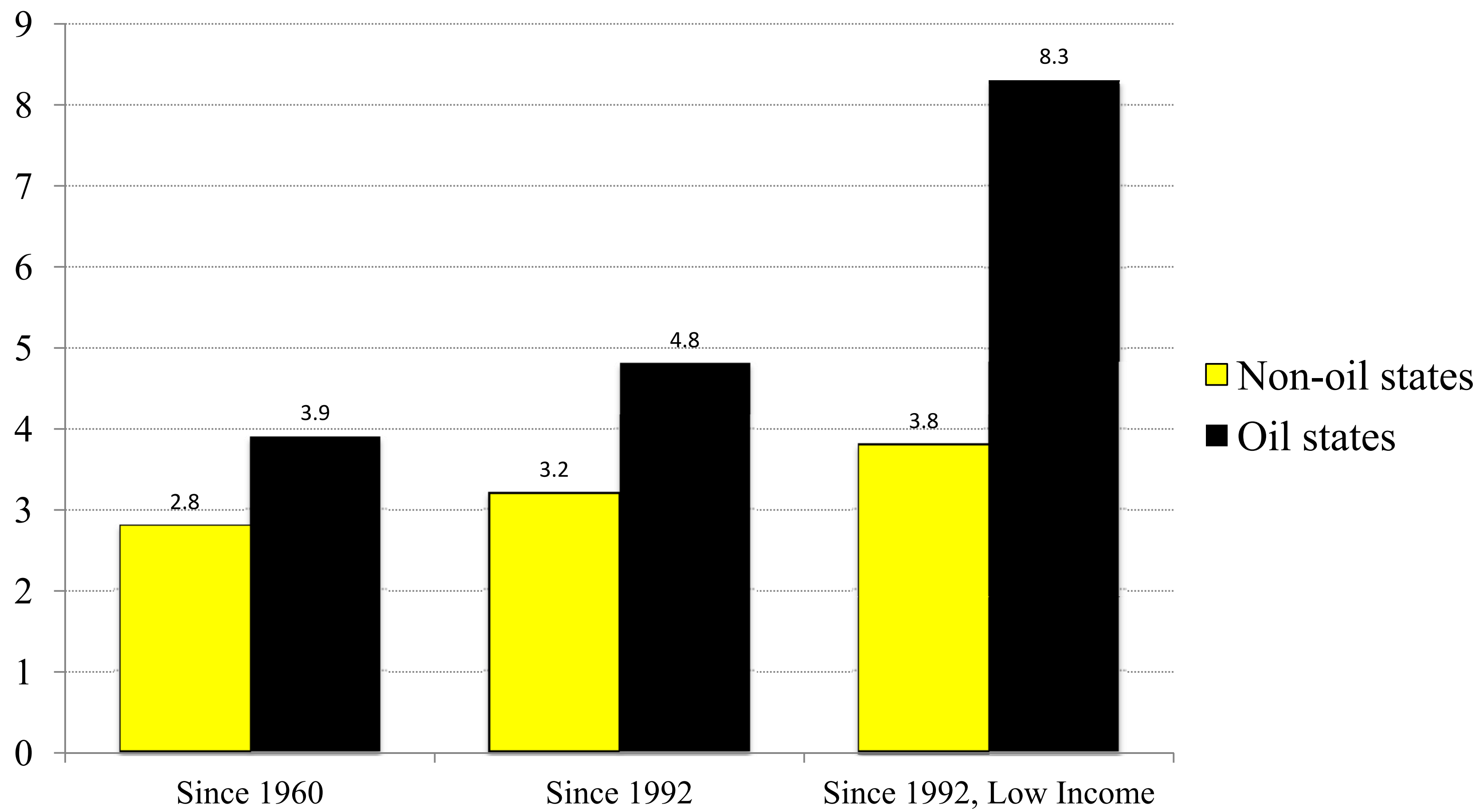


Annual Risk of Violent Conflict (%)



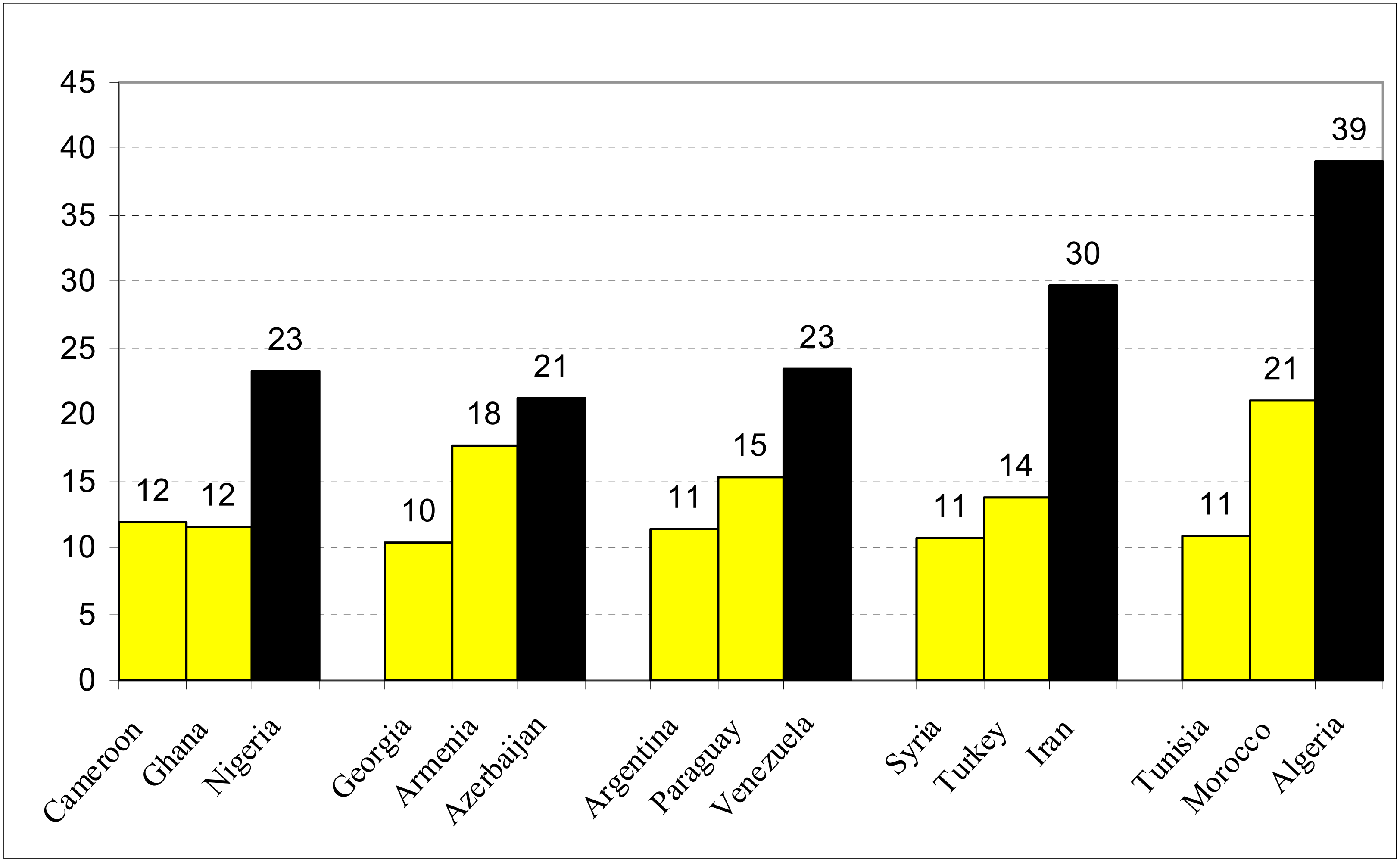
Oil-producing states with recent conflicts

- **Middle East:**
  - Iran
  - Iraq
  - Algeria
  - Yemen
  - Libya
  - Bahrain
  - Syria
- **Africa:**
  - Chad
  - Sudan
  - Congo Republic
  - Angola
  - Nigeria
- **Latin America**:
  - Colombia
  - Peru
  - Bolivia
  - Ecuador
- **Southeast Asia:**
  - East Timor
  - Myanmar
  - Thailand
  - Indonesia
- **Former Soviet Union**
  - Russia
  - Azerbaijan

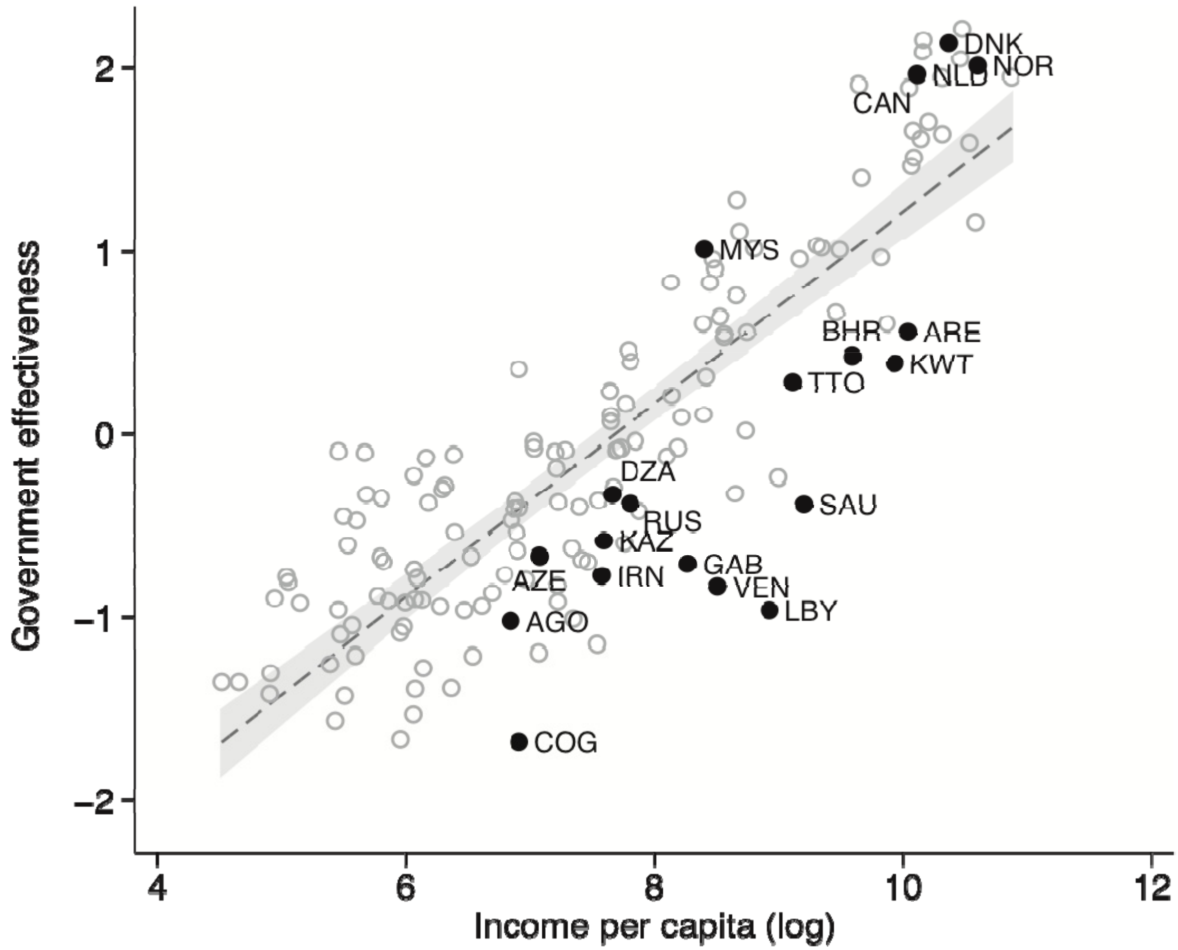
The *Political* Resource Curse

- Reduces government accountability
- Heightened risk of civil war
- Government policies become *more* important but *less effective*

Government spending dominates the economy



Yet their governments are relatively ineffective



What causes this ineffectiveness?

- Revenue volatility
  - *Involuntary* component (prices)
  - *Voluntary* components
    - Volume of production
    - Contract design
    - Fiscal volatility
    - Stabilization/savings funds: design is critical

What causes this ineffectiveness?

- Rent-seeking
  - *Hard to control* components
  - *Easier to control* components
    - Institutionalized transparency
    - Institutionalized competition
    - National oil companies – push towards competition, openness, accountability
    - Private sector that is productive & creates jobs

What causes this ineffectiveness?

- Reduced accountability
  - *Automatic component* (diminished need to tax)
  - *Voluntary components*
    - Transparency – revenues, expenditures, contracts
    - Civil society
    - International – EITI, Natural Resource Charter

Timor-Leste as a model

- Strong awareness of oil as potential danger
- Commitment to transparency in revenues, budgets, contracts, and decision-making
- EITI compliant → information is reliable
- Stabilization/future generations fund:
  - overseen by multi-stakeholder council
  - detailed quarterly reports
  - limits on withdrawals

Summary

- Many new low-income oil (& metal) producers
- Vulnerable to *political* resource curse
- Much can be done to offset this