Political Aspects of the Natural Resource Curse

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(I) What is the Natural Resource Curse?

- Countries with abundance of natural resources tend to underperform those with limited or no natural resource.

- Norway is considered a success story.

- Mixed success stories – Trinidad and Tobago, Botswana, Kuwait and Qatar.

- Below average long-term performance in spite of natural resources – Guyana, Nigeria, Venezuela, Democratic Republic of Congo, Angola, Equatorial Guinea, etc.

- Countries with limited or no natural resources: Barbados, Mauritius, Singapore, Japan, South Korea, Germany, France, United Kingdom, etc.
- The NRC tends to play out in various channels: civil conflict, corruption, de-industrialization, a phenomenon known as the Dutch Disease (currency appreciation), etc.
- I am less worried about the Dutch Disease; however, the political situation is very problematic.

(II) How Much Money Will Guyana Receive?

- A lot in spite of the less than optimal contract.

- The Table below provides simulations for different production levels, price level, and full cost recovery.

- Hence, management and distribution of this revenue is paramount.

- I am not optimistic Guyana has the political system to deal with the revenues in the best manner.

CALCULATIONS ASSUME FULL COST RECOVERY - 75% OF MARKET PRICE

Price per barrel	Gov Rev for one barrel - US$	Gov. Rev for 120K barrels - US$000	Gov. Rev for 250K barrels - US$000	Gov. Rev for 350K barrels US$000	Gov. Rev for 500K barrels - US$000	Gov. Rev for 750K barrels US$000	Gov. Rev for 1M barrels - US$000
35	4.73	204,120	3,150,000	4,410,000	6,300,000	9,450,000	12,600,000
40	5.40	233,280	3,600,000	5,040,000	7,200,000	10,800,000	14,400,000
45	6.08	262,440	4,050,000	5,670,000	8,100,000	12,150,000	16,200,000
50	6.75	291,600	4,500,000	6,300,000	9,000,000	13,500,000	18,000,000
55	7.43	320,760	4,950,000	6,930,000	9,900,000	14,850,000	19,800,000
60	8.10	349,920	5,400,000	7,560,000	10,800,000	16,200,000	21,600,000
65	8.78	379,080	5,850,000	8,190,000	11,700,000	17,550,000	23,400,000
70	9.45	408,240	6,300,000	8,820,000	12,600,000	18,900,000	25,200,000
75	10.13	437,400	6,750,000	9,450,000	13,500,000	20,250,000	27,000,000
80	10.80	466,560	7,200,000	10,080,000	14,400,000	21,600,000	28,800,000
85	11.48	495,720	7,650,000	10,710,000	15,300,000	22,950,000	30,600,000
90	12.15	524,880	8,100,000	11,340,000	16,200,000	24,300,000	32,400,000
95	12.83	554,040	8,550,000	11,970,000	17,100,000	25,650,000	34,200,000
100	13.50	583,200	9,000,000	12,600,000	18,000,000	27,000,000	36,000,000

Source: my calculations given terms in PSA.

(III) The NRC is not Inevitable, But Highly Likely Given Political Logjam

- Voting takes place strategically and ethnically – most people tend to vote to keep the other side out from power.

- The prize is the Executive.

- Losing the Executive is too costly.

- Hence, the leaders from the losing ethnic group have to find ways to undermine the leaders that win the election.

- No major party is interested in sub-executive power sharing via committees in Parliament.
- The list system means only party loyalists are promoted and hired by the winner. Hence, you have a strong correlation between the hires and members of one ethnic network.
- The losing group normally raises allegations of marginalization and discrimination – sometimes with merit and sometimes without.

(IV) Solutions for Minimizing the Likelihood of NRC

Necessary Condition – the condition must account for:

- A new constitution taking into account the strategic pro-ethnic voting.

- Minimizing the harmful effects of strategic pro-ethnic voting.

- Rules and laws for executive cooperation since both sides want the grand prize – Executive.

Sufficient Conditions

- New constitution must abandon pre-election alliances and leave post-election alliances open.

- Independents/Civil Society must be given a place in one House of Parliament.

- There should be an Upper and Lower House.

- One House will be elected by constituency.

- The second House will comprise of 25 percent independents from civil society, 45 percent members coming from the list system of the party that wins the Presidency or Executive, and 30 percent from the opposition parties which contested the election.

- A completely independent elections commission similar to Indian model.
- The list system must be modified but not completely abandoned. The list system often results in mostly (just a few exceptions) loyalists and sycophants dominating Parliament.

- Thank you for listening.

The End.