



# The State's Response to the Resource Curse Thesis

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# Format of Discussion

- Understanding the resource curse thesis
- Does T&T suffer from the resource curse?
- The State's response

# The Natural Resource Paradox

- Countries with abundant natural resources, tend in average to grow less than countries with fewer natural resources; this phenomenon happens with particular emphasis in countries with non renewable natural resources, like minerals and oil.
- This is known as the '**Resource Curse**' which occurs when the rate of growth of per capita income is lower for resource-dependent economies than for non-resource-dependent economies.

# The Resource Curse

There are several ways in which the Resource Curse inhibits a country from achieving sustainable growth:

- Dutch Disease and loss of competitiveness
- Volatility of international prices of commodities – “Boom-Bust” Cycle
- Access to easy credit – resulting in debt crisis
- Consumerism fever – moral hazard spending
- Corruption opportunities fueled by easy wealth
- Development of a dual economy leading to structural inequity.
- Unproductive use of resources / distorted distribution of production factors
- Corruption – General lack of transparency.
- Resources create an environment in which institutional quality (strength) declines.
- Resource-dependent economies are generally less diversified. They are rich in resources but relatively poor in other sectors.

# Resource Cursed Economies

According to Eifert, Gelb and Tallroth (2002), rentier states can be divided into five main categories which determines the degree to which these countries are affected by the Resource Curse.

1. Mature democracies- Norway
2. Factional democracies- Venezuela and Colombia
3. Paternalistic autocracies – Saudi Arabia
4. Reformist autocracies- Indonesia
5. Predatory autocracies- Nigeria

They noted that these differences lead to different levels of transparency, policy stability and policy quality, the political power of non-oil tradable sectors, the power of interests that are involved in activities directly attached to state spending, and ultimately the capacity of the state to address key policy challenges surrounding the resource curse.

# Where does T&T fit in?

- Trinidad and Tobago's democracy does have some characteristics that define a mature democracy and some that define a fractional democracy.
- While general consensus is reached on broad economic policies which is the behavior of a mature economy, as pointed out by Eifert et al (2002), there is still a high degree of personalized politics in the system which is typical for factional democracies.
- Based on this then, T&T still requires a concerted effort to increase transparency and raise public awareness as pointed out by Eifert et al (2002) for factional economies. **Thus it can be stated that T&T is more of a factional democracy than any other type.**

# Petroleum Dependence or Not?



	Petroleum FDI as a % of Total FDI	Petroleum GDP as a % of Total GDP	SITC 3+5 exports as % of Total Exports	Oil revenues as a % of Total Revenue
1991	86.80	32.79	82.14	40.57
1995	90.00	28.14	70.74	30.28
2000	90.30	31.29	82.61	33.32
2005	91.20	35.17	89.22	49.68
2010	91.00	41.60	84.40	43.13
2011	91.40	41.09	87.20	47.31
2012		40.10		36.98
2013		39.70		35.20

Source: Central Bank of T&T



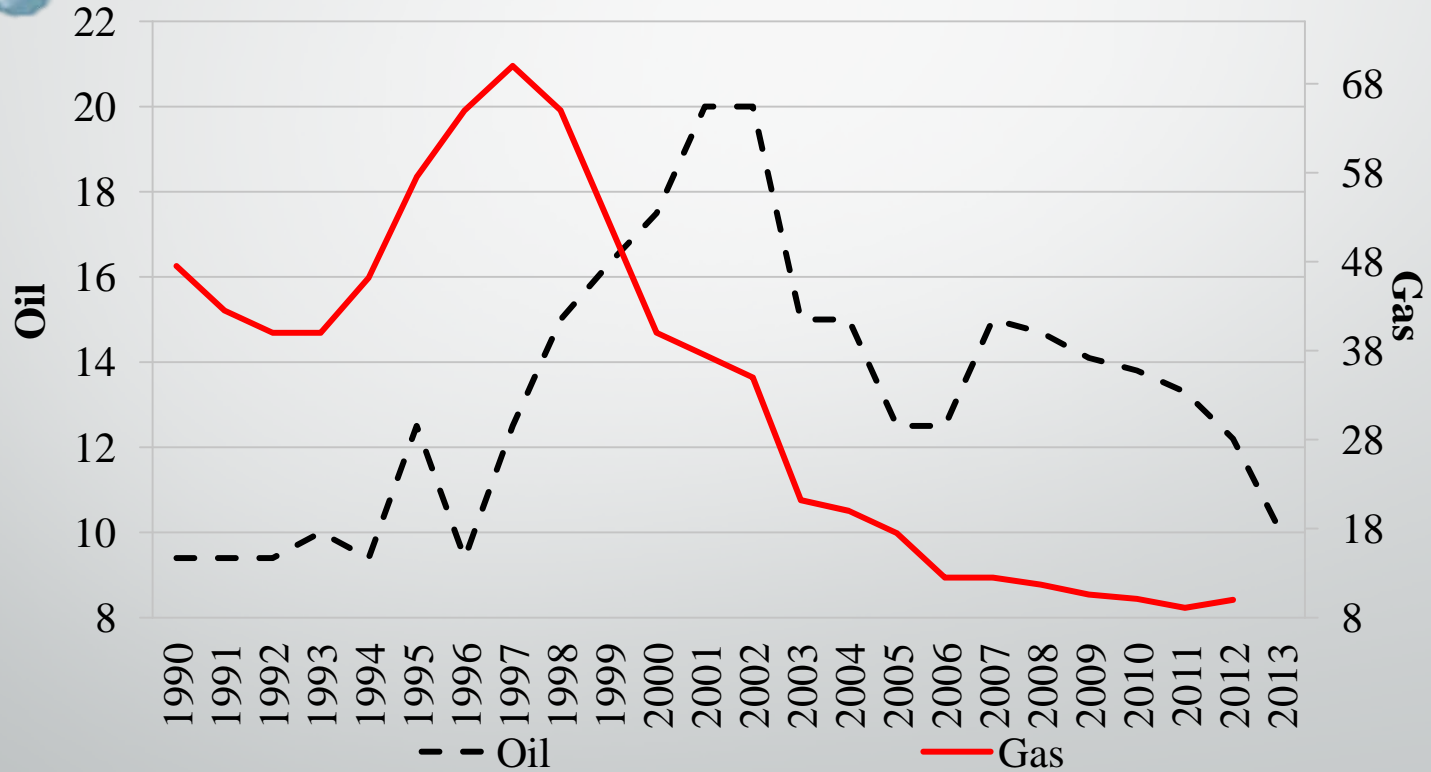
# Revenue Distribution by Expenditure

YEAR	REVENUE		EXPENDITURE	
2010	Total Revenue	43,682.9	Total Expenditure	46,701.4
			Recurrent	40,302.2 (86.2%)
			Capital	6,399.2 (13.8%)
2011	Total Revenue	47,500.6	Total Expenditure	51,492.4
			Recurrent	43,914.9 (85.2%)
			Capital	7,577.5 (14.8%)
2012	Total Revenue	49,277.9	Total Expenditure	52,806.9
			Recurrent	45,068.9 (85.3%)
			Capital	7,738.0 (14.7%)
2013	Total Revenue	52,984.8	Total Expenditure	59,470.2
			Recurrent	50,467.1 (84.9%)
			Capital	9,003.1 (15.1%)





### Time to Exhaustion (in years) for oil and gas



# Resource Curse and the State

## We have come a long way!

- Established reporting practices;
- Safeguards and quality control measures;
- Clear deliberate thrusts towards diversification;
- Holistic sustainable development strategy;
- Establishment of the Economic Development Board;
- Promotion of macroeconomic stability;
- Saving for the rainy day: Heritage and Stabilization Fund.

## Much still needs to be done..

- A greater degree of parliamentary oversight is needed especially with the licensing processes for drilling acreage;
- Greater degree of institutional monitoring is needed.

# Resource Curse and the State

One of the main ways for a country to avoid the curse is through proper management of the revenues generated by the Petroleum sector.

According to the Revenue Watch Institute, Trinidad and Tobago received a composite score of 74, ranking 10<sup>th</sup> out of 58 countries in terms of their performance in resource governance. This score is considered to be satisfactory meaning that there is still room for significant improvement to ensure that the country attain sustainable development.

A comparison between the benchmark economy and a Latin American resource based economy is presented below.

Performance on the Resource Governance Index for selected economies (Score out of 100)

T&T Rank (out of 58)		T&T	Venezuela Rank (out of 58)	Venezuela	Norway Rank (out of 58)	Norway
10	Composite Score	74	20	56	1	98
23	Institutional & Legal Setting	64	38	57	1	100
5	Reporting Practices	83	14	69	2	97
5	Safeguards & Quality Controls	86	18	67	1	98
19	Enabling Environment	52	45	18	1	98

Source: [www.revenuewatch.org](http://www.revenuewatch.org)

# The Way Forward

What is needed?



.....Pre requisites

- The creation of a sustainable future at the level of perpetual innovative capacity level

- Long term planning beyond a 5 year horizon
- Changes in institutional cultures
- Readjustment of the national value system to reflect