Economic development strategies for natural resource-rich countries

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Essential Questions

How have resource-rich countries approached the development challenge?

What are some of the main policy options?

What might be differences in economic development strategies for resource-rich countries?

What is the role of SAIs in encouraging governments to consider appropriate policy options?
Inclusive growth in resource-rich countries

• Ross (2012): Resource-rich countries are not meeting potential and are more authoritarian

• ‘Success’: Australia, Canada, Chile, Dubai (UAE), Indonesia, Malaysia, Norway, Qatar, U.K., U.S.

• Stagnation: Algeria, Azerbaijan, Bolivia, Botswana, Brazil, Ecuador, Kazakhstan, Iran, Russia, Trinidad and Tobago, Venezuela

• ‘Resource curse’ countries: Angola, Cameroon, DRC, Iraq, Libya, Nigeria, Sierra Leone, Yemen
Economic diversification

Oil, gas and mineral rents (% of GDP)

Data: World Bank (2013 data)
Why is economic diversification important?

- Job creation
- Key to long-term growth
  - More knowledge transfer with manufacturing
- Macroeconomic volatility
  - Worse investment decisions
  - More conflict
  - Lower growth
- Finite resource
In all cases of sustained high growth (7 percent or more sustained over 25 years or more), it is production in urban areas—that is, manufacturing and services—that led the growth.
What to invest in?

• Enabling environment (e.g., health, education, infrastructure) or specific sectors?
• How to create an enabling environment?
• Which sectors (e.g., agriculture, manufacturing, services, downstream value-added)?
Enabling environment or targeted?

Target specific sectors

- **Justin Lin and Dani Rodrik**
  - Endowments (labor, capital, resources) and comparative advantage should determine sectors to target
  - Identify blockages and remove them
  - Focus on value-added industrialization

- **Ha-Joon Chang**
  - Do not be limited by comparative advantage
  - Learn-by-doing, even if it means losses
Enabling environment or targeted?

Focus on the enabling environment

- **Paul Collier**
  - Urban infrastructure and education
  - Rules-based policy
  - Good public financial management
  - Informed citizenry
  - Clusters

- **Others**
  - Access to credit (Schumpeter; Hicks)
  - Rule of law and property rights (Coase; North)
Chile
Malaysia
Dubai (UAE)
Takeaway: Success Story Commonalities

Required policy choices:
• Prudent macroeconomic management
• Relatively open trade and open investment policies
• Investment in education and skills
• An enabling business environment, including political stability
• Access to financing for the private sector
• Government working with the private sector to spur investment
Policy options

1. Development strategies
2. Industrial policy with clear targets and timeline for removal of support
3. Education and urban infrastructure spending
Role of SAIs

Performance and compliance audits on:

- Whether revenues are actually making their way into the budget (e.g. NOC and SWF mismanagement)
- Macroeconomic management, including fiscal sustainability and volatility
- Quality of investments in education and skills
- Quality of infrastructure investments
- Whether there exists an enabling environment for businesses to grow
- Whether financing for the private sector is patronage or supporting industrial policy efforts through use of targets
Group discussion

• What is the role of government in development?
• How can SAIs encourage the government to invest oil revenues and not consume them?

In your country:
• What are the major bottlenecks to development? How can resource revenues be spent best?
• What policy options presented may be applicable to your country?
Thank You!

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