



Success and Failures in Resource-Based Transition Economies

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Outline

- Presentation based on Akram Esanov, Martin Raiser and Willem Buiter (2003), “Nature’s Blessing or Nature’s Curse: The Political Economy of Transition in Resource-Based Economies”
- Main argument of the paper
- Measures of resource dependence
- Energy rents and reform
- Political economy of resource dependence
- Pathways out of resource dependence
- Conclusion



Main Argument of the Paper

Resource rents, far from being a blessing that would have allowed resource-rich countries to cushion the impact of reforms and thus make faster progress, have often been wasted or appropriated and misused by the ruling elites to slow down reform.



Countries under Study

- Azerbaijan
- Kazakhstan
- Turkmenistan
- Uzbekistan

AKTU – acronym for the countries under study



Rent Calculations

TR:	Total Rent
ER:	Rent from Exports
DR:	Rents from domestic sales
TV:	Total Production Volume
EV:	Export Volume
DV:	Domestic Consumption
DS:	Domestic User (Consumer) Subsidy
EP:	Export Price
IP:	Import Price
DP:	Domestic Price
PC:	Lifting Cost
TC:	Transportation Cost



$$TR = TV * [EP - (PC + TC)] \quad (1)$$

(EP is viewed as opportunity cost of total sales)

$$ER = EV * [EP - (PC + TC)] \quad (2)$$

$$TV = DV + EV \quad (3)$$

$$DS = DV * (IP - DP) \quad (4)$$

(IP is viewed as opportunity cost of domestic sales)

$$\begin{aligned} DR &= TR - ER - DS \\ &= DV * [EP - (PC + TC) - (IP - DP)] \quad (5) \end{aligned}$$



Superior Alternative

$$TR' = EV * [EP - (PC + TC)] + DV * [IP - (PC + TC)] \quad (6)$$

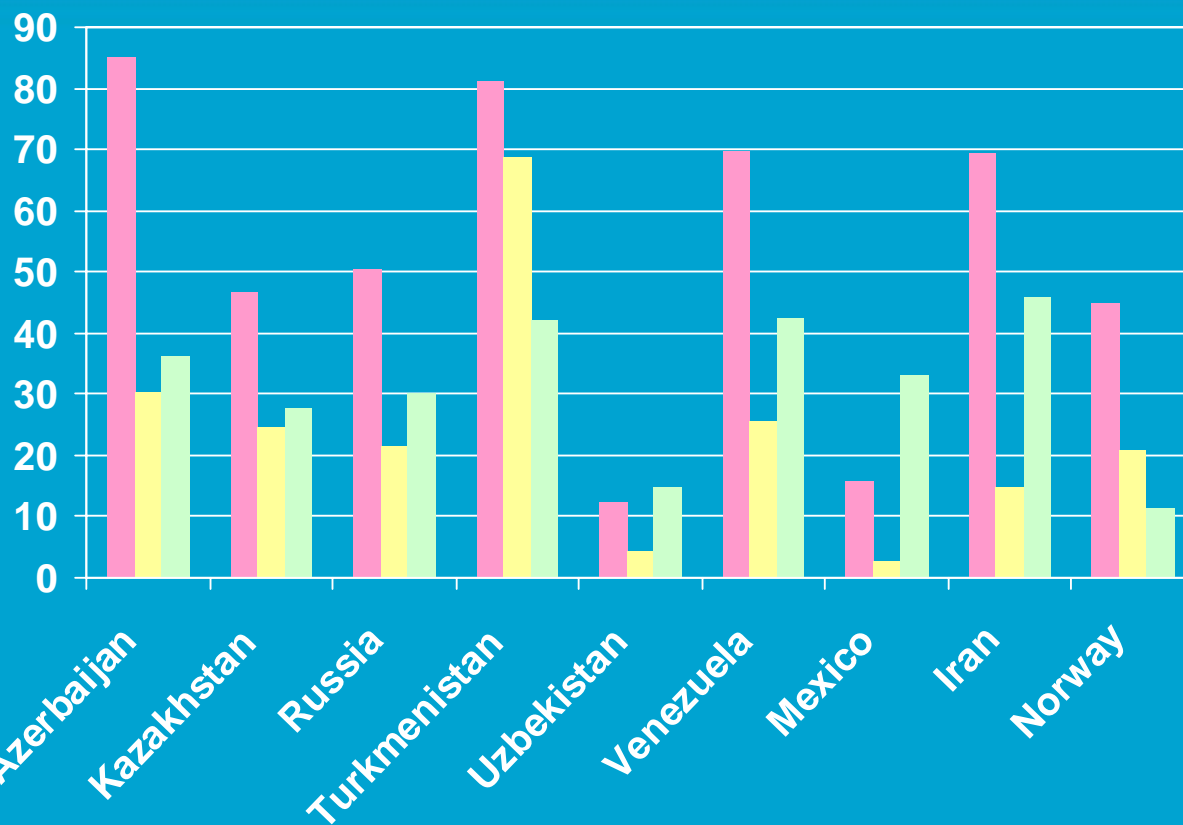
$$DS + DR' = DV * [IP - (PC + TC)] \quad (7)$$

$$DS = DV * (IP - DP) \quad (8)$$

$$DR' = DV * [DP - (PC + TC)] \quad (9)$$



Indicators of Resource Dependence

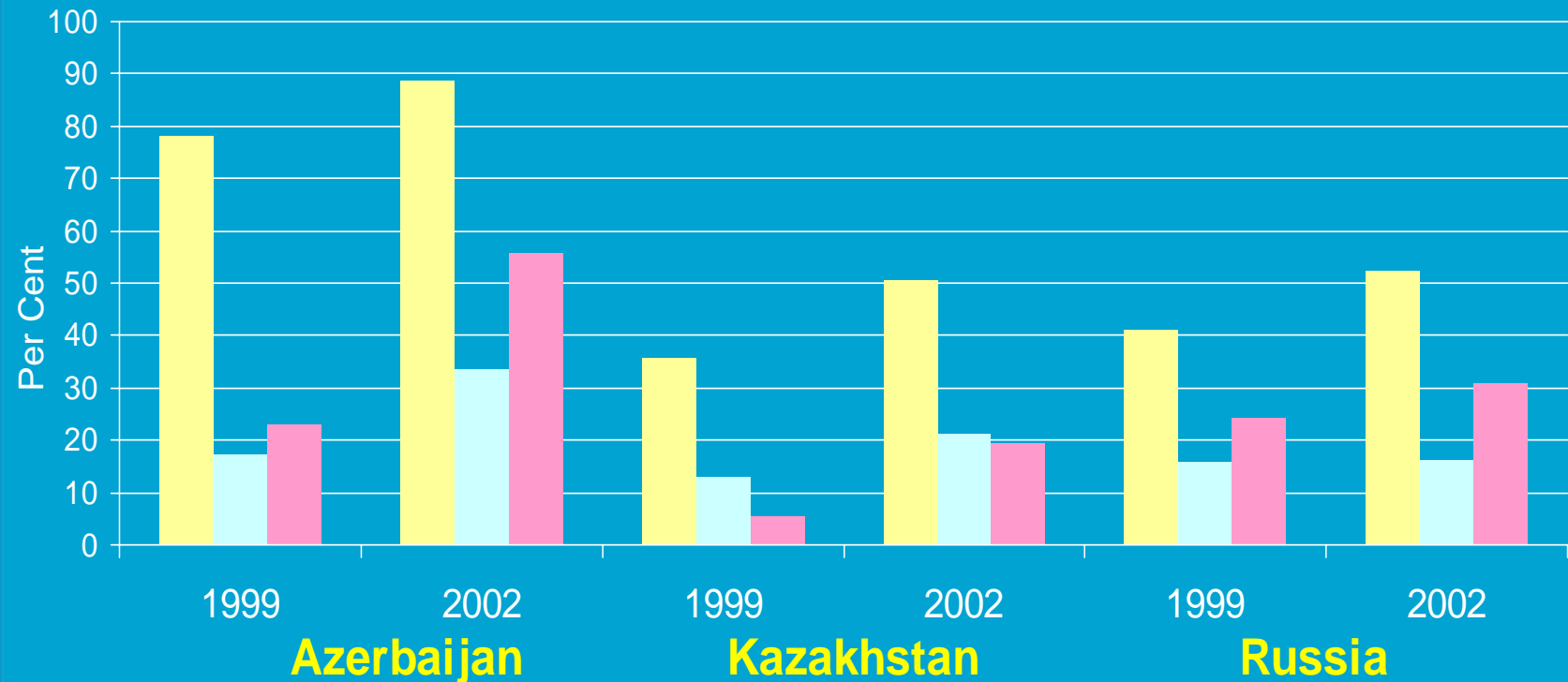


■ Oil and gas exports in per cent of total exports
■ Oil and gas exports in per cent of GDP
■ Oil and gas revenues in per cent of total government revenues



Sources: IMF Staff Report, World Investment Report, The EIA.

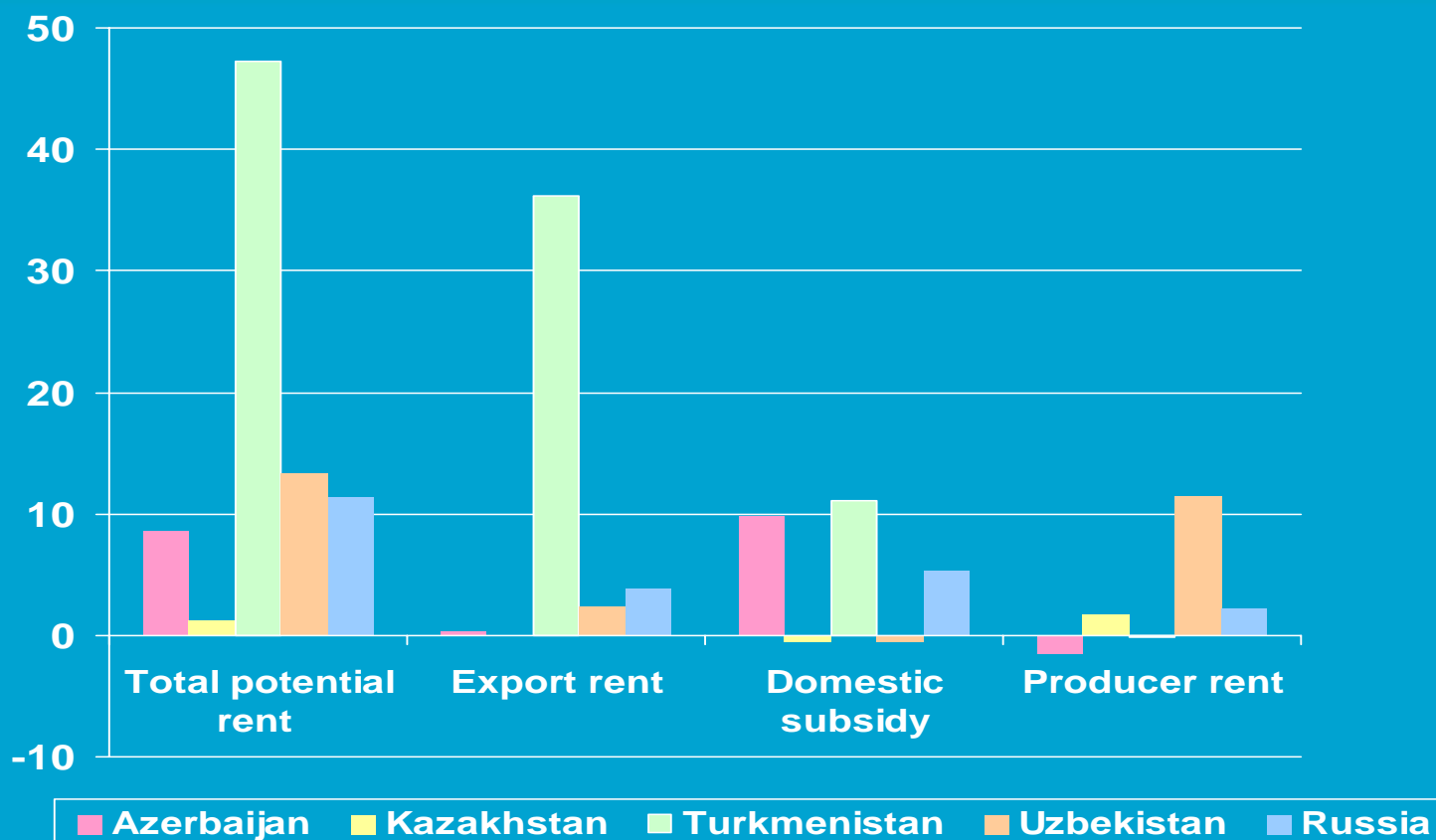
Resource dependence increased since 1999



- Oil and gas exports in per cent of total merchandise exports
- Oil and gas exports in per cent of GDP
- Oil and gas revenues in per cent of total government revenues



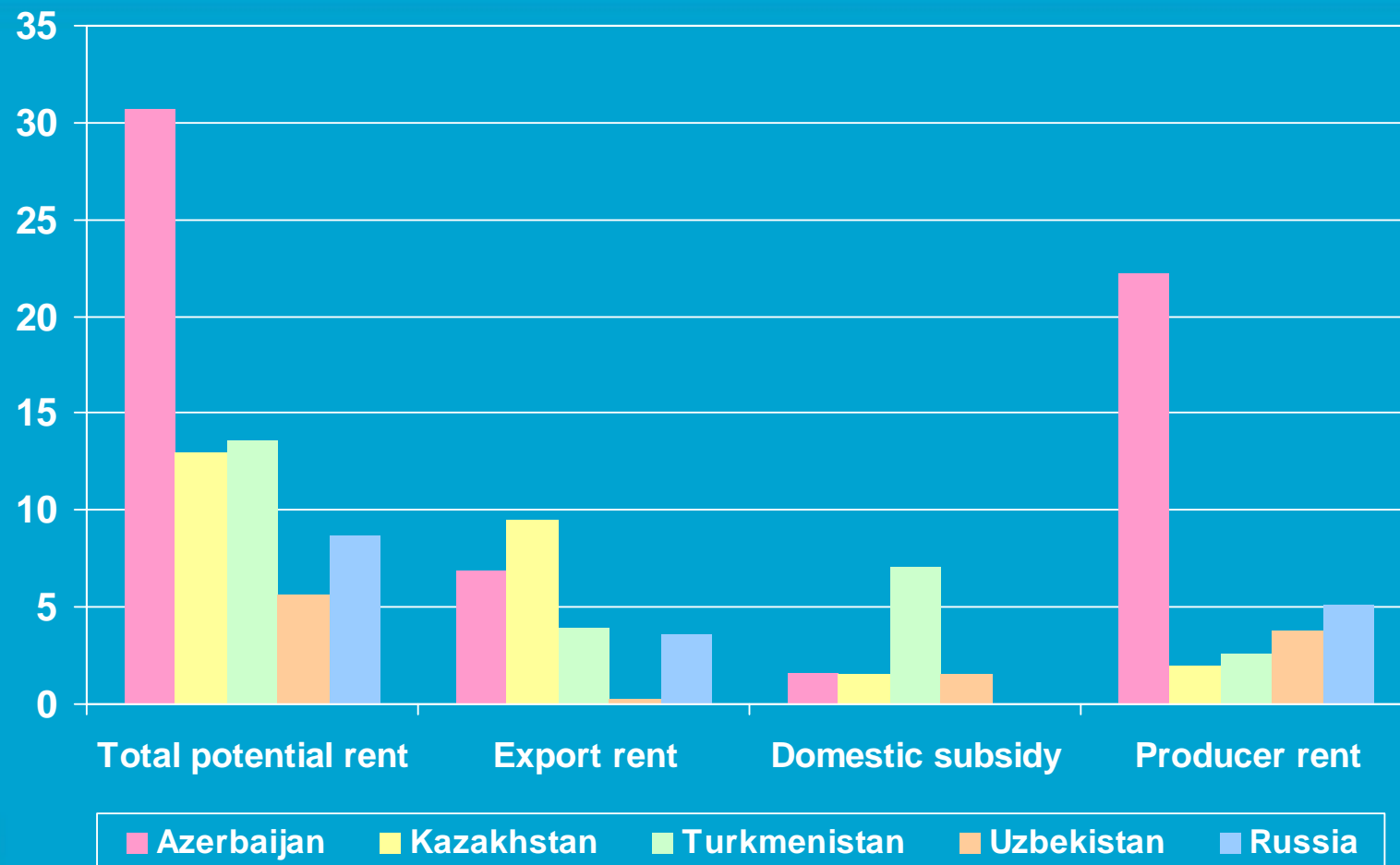
Gas Rents (% of GDP), 1992 – 2000 Average



Sources: National statistical offices, International Energy Agency, Interfax Petroleum Report, PlanEcon.



Oil Rents (% of GDP), 1992 – 2000 Average

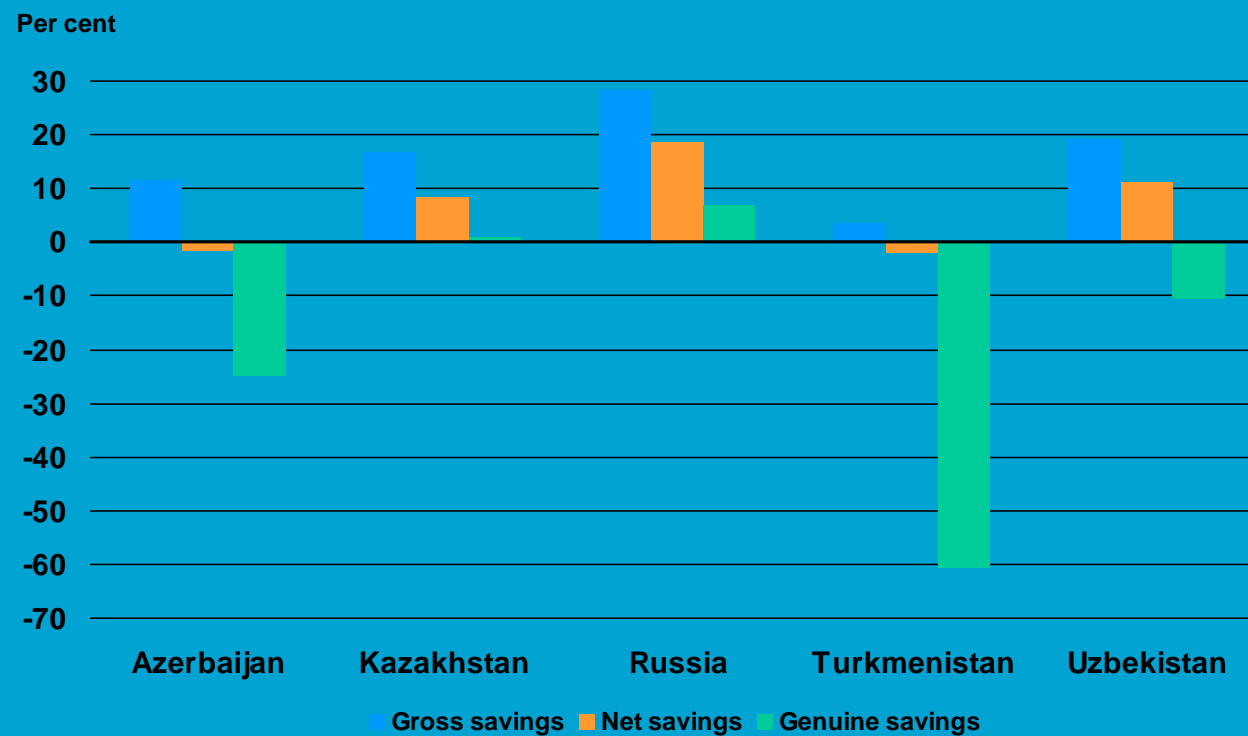


Sources: National statistical offices, International Energy Agency, Interfax Petroleum Report, PlanEcon.



Gross, Net and 'Genuine Saving'

As a percentage of GDP, 1992-1999 average



Average Expenditures on Health and Education

	Health % GDP		Education % GDP	
	Average 1991-2000	2000	Average 1991-2000	2000
AKTU				
Azerbaijan	1.5	0.9	4.2	3.8
Kazakhstan	2.4	2.2	4.1	3.9
Turkmenistan	2.6	3.6	4.6	2.8
Uzbekistan	3.6	3	8.2	7.3
Russia	3.3	3.1	3.7	2.8
CEE	5.5	5.4	4.7	4.7
CIS	3.1	2.3	4.9	3.6



Sources: National authorities, IMF.

www.ebrd.com

Reform Progress in Energy-Rich Countries Compared to Eastern Europe and Non-Oil CIS Average

Country	Year	LSP	SSP	G&ER	PL	T&FES	CP	BR&IRL	SM&NB	ref1	ref2
Azerbaijan	T10	2	3.3	2	3	3.3	2	2.3	1.7	2.9	2
Kazakhstan	T10	3	4	2	3	3.3	2	2.7	2.3	3.3	2.3
Turkmenistan	T10	1	2	1	2	1	1	1	1	1.5	1
Uzbekistan	T10	2.7	3	1.7	2	1.7	2	1.7	2	2.3	1.8
Russia	T10	3.3	4	2.3	3	2.7	2.3	1.7	1.7	3.3	2
CEE	T10	3	3.9	2.5	3	3.9	2.2	2.9	2.3	3.5	2.5
CIS non-oil	T10	2.7	3.4	1.8	3	3.6	1.9	1.9	1.8	3.2	1.8
AKTU (w/o Russia)	T10	2.2	3.1	1.7	2.5	2.3	1.8	1.9	1.8	2.5	1.8

Notes: LSP-large scale privatization, SSP-small scale privatization, G&ER-governance and enterprise restructuring, PL-price liberalization, T&FES-trade and foreign exchange system, CP-competition policy, BR&IRL-banking reform and interest rate liberalization, SM&NB-securities markets and non-bank financial institutions, ref1-average of LSP, SSP, PL and T&FES, ref2-average of G&ER, CP, BR&IRL and SM&NB.

Source: EBRD.



Political Economy of Resource Dependence

- From Soviet transfers to domestic rent appropriation
 - ✓ Big trade distortions
 - ✓ Disappearance of transfers



Political Economy of Resource Dependence

- Resource rents and economic policy during transition
 - ✓ Dalmazzo and de Blasio's framework (2001)
 - ✓ Low government turnover in the AKTU



Government Turnover and Social Cohesion in Transition Economies

	GT	SC
Czech Republic	25.5	16
Estonia	15	0
Hungary	20.8	9
Latvia	15	14
Lithuania	13.25	26
Poland	14.25	35
Slovak Republic	25.5	16
Slovenia	52	14
Armenia	52.5	2
Belarus	52.5	79
Georgia	49	26
Kyrgyzstan	53	100
Moldova	26.5	38
Tajikistan	106	99
Ukraine	52.5	72
Russia	105	40
Azerbaijan	33	78
Kazakhstan	105	94
Turkmenistan	108	100
Uzbekistan	106	100

Note: GT – average tenure of governments in months, 1990 – 1998; SC – proportion of seats held by ex-communists in first parliament.

Source: EBRD.



Pathways out of Resource Dependence

- Portfolio Diversification
 - ✓ Strong budgetary institutions
 - ✓ Responsible fiscal policy
- Economic Diversification
 - Do not deny comparative advantage
 - Investment in physical infrastructure and human capital
 - ✓ Increase transparency (PSAs; publish what you pay and to whom; publish what you receive and from whom)
 - ✓ Predictable government policies



Conclusion

- Negative association between reform performance and natural resource wealth
- Crucial policy challenges

