



## *A Blessing or a Curse?*

Many countries across the world boast of being commodity-based and 'blessed' with oil, natural gas, copper and precious metals, among others. But are they really blessed? Numerous articles have been written and researched debating that while most of these countries may be resource rich, they are poor and underdeveloped, not despite their hydrocarbon and mineral riches but because of their resource wealth. In the last two years we've seen commodity prices go through booms and busts with oil reaching a high of US\$145.29 per barrel and a low of US\$33.87 per barrel, while gold has touched US\$1,064.30 per troy ounce from a low of US\$640.90. So how do oil-exporting countries, from Saudi Arabia to Venezuela, including our own twin-isle of Trinidad and Tobago, refrain from succumbing to the so-called 'resource curse'?

There is no doubt that the volatility of commodity prices, specifically oil, can considerably impact upon developing/underdeveloped commodity-based countries. Economies across the globe continue to focus on boosting growth by maintaining very low interest rates as they feel the brunt of the global financial crisis. But importantly, should the main focus really be on boosting economic growth or economic development, especially for commodity-based countries? What's the difference? By definition, "economic growth implies only an increase in quantitative output" and does not necessarily involve economic development which refers to social and technological progress. The latter involves focus on indicators such as literacy rates, life expectancy and poverty rates. This is where Norway, the tenth largest oil producing nation in the world, becomes the exception to the "resource curse" and takes the lead.

In the 2009, Human Development Index (HDI) which captures the three aspects of human development i.e. Literacy Rates, Life Expectancy Rates and Standard of Living/Poverty Rates, Norway stands at number 1 in country rankings with the United States at number 13 out of 182 countries. Venezuela and Trinidad and Tobago rank at 58 and 64 respectively with the emerging market of Brazil even lower at 75. Maintaining economic stability, prudent fiscal and monetary policies, diversifying the economy and proper management of sovereign wealth funds/heritage and stabilization funds are all important issues to any commodity-based economy. However, research shows that to avoid being a victim of 'the curse', a vital pre-cursor to the technical economic aspects is to ensure "democracy, transparency, and effective public institutions that are responsive to citizens".

When oil prices are high there is the view that countries are necessarily better off as there is an increase in revenue from oil exports especially if the market price is well over and above the oil price that a government bases its fiscal plan. While this may be true, there are always two sides to a coin. This increase in revenue can lead to overinvestment, careless risk-taking and possibly an increase in debt. Many times we see heavy investment in capital, a boom in construction and when

revenues drop, there is an instant freeze and the country is left with projects which are unfinished or not accessible. Conversely, during the “bust” period low oil prices reduce government revenue and there is the tendency to significantly cut budgeted expenditure in an effort to preserve revenue, which in most cases affects those who are most in need and dependent on government programs.

In Trinidad and Tobago, 52.13% of the central government revenue came from oil revenue in 2008. This was up from 48.16% the year before and 56.43% more than the contribution of oil revenue to total revenue in the year 2000. Even with oil accounting for more than half of government revenue, the oil industry is highly-concentrated and capital intensive. This means that oil-fueled growth does not necessarily create jobs in volumes proportionate to oil’s large share of the economy. Indeed, from 2003 to 2008, the amount of people employed in the Petroleum and Natural Gas sector accounted for less than 4% of all jobs in every sector of the economy.

So how do poor, under-developed but resource-rich nations become exceptions to the rule like Norway? As the world’s seventh largest oil exporter and one whose petroleum industry accounts for around 25% of its GDP, Norway ranks as one of the wealthiest countries in the world. With GDP per capita (based on Purchasing Power Parity:PPP) of US\$53,433, Norway compares favourably to the world’s largest economy, the US, with US\$45,592 per capita and is more than twice that of Trinidad and Tobago’s. The Norwegian currency is also considered as one of the most stable in the world even in the midst of current global economic challenges. From January 2007 to September 2009, the Norwegian kroner remained relatively unchanged depreciating by a modest 3.88% as opposed to the Euro which lost 12.33% of its value during the same period. The Norwegian economy was the first in the Euro region and second in the world to raise interest rates having pulled out of the recession. The Norwegian deposit rate was raised by 25 basis points to 1.50% at the end of October from the 5.75% rate seen in September 2008 when the country’s easing cycle began. This early recovery was due to continued investment in its petroleum industry, a stimulus package equal to 4.7% of GDP and low borrowing costs. These low costs supported domestic demand and kept unemployment at a low of 2.6% in October which was a fall from 2.7% the month before. High pre-crisis levels of economic activity in relation to its European counterparts and the average of countries in the Organization for Economic Cooperation and Development (OECD) also placed Norway in a better position for an early recovery.

**Table 1: Social Indicators**

Country	Government Expenditure based on Health per Capita (PPP USD)	Public Expenditure on education as a percentage of total government expenditure (%)	Ratio of the richest 10% to the poorest 10%
Norway	3,780	16.7	6.1
United States	3,074	13.7	15.9
Venezuela	196	Not Available	18.8
Trinidad and Tobago	438	13.4	14.4

Source: Human Development Report 2009

So what is Norway's secret? Could it be its record of ranking highest of all 182 countries in the human development index from 2001-2007 and then again in 2009? Or is it that the standard of living in Norway is among the highest in the world and that they have and continue to invest heavily in the Health, Education and Safety of its citizens? From Table 1 we can see the why Norway stands ahead of the rest. Its government expenditure on Health per capita is eight (8) times more than that of Trinidad and Tobago and almost twenty times as much as Venezuela. We can also see that Norway has a relatively equal distribution of wealth, in comparison to the others, based on the low ratio of the richest 10% to the poorest 10% which is a reflection of the income or expenditure share of the richest group to that of the poorest.

Research shows that there is a strong connection between economic growth and human development. As economic growth provides substantial resources to human development, so too will a strong labour force drive economic growth. Developing and under-developed resource-based countries will do well by trying to become the exception to the rule, learning from those countries that have already set the standard and have not fallen prey to 'the curse'.

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## FINANCIAL & ECONOMIC INDICATORS

As at 29 October, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	91.41	91.30
Euro	1.48	1.50
Jamaica	89.22	89.19
Guyana	204.70	205.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	79.87	81.19
Natural Gas (US\$/mmbtu)	4.57	4.99
Gold (US\$/Troy Ounce)	1,047.00	1,060.10

### Eurobond Indices (As at 29-10-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	8.03
JP Morgan EMBI+ (Basis points)	314
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	32.14

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.12	0.12
Euro Zone	1.00	1.00
Japan	0.10	0.11
Brazil	8.75	8.75
Trinidad	6.25	6.25
Jamaica	12.50	12.50
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.05	0.05
US 10-Yr Treasury	3.50	3.42
3-month UK Libor	0.59	0.60
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	8.60	8.60
TT 90-day T-Bill	1.49	1.59
Jamaica 90-day T-Bill	16.39	16.39
Barbados 90-day T-Bill	3.51	3.51

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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