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THESIS

GUYANA AND THE RESOURCE CURSE

by

Jerimy R. Hartless

March 2023

Thesis Advisor:
Second Reader:

Emily L. Meierding
Robert E. Looney

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GUYANA AND THE RESOURCE CURSE

Jerimy R. Hartless
Lieutenant Commander, United States Navy
BBA, Austin Peay State University, 2011

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March 2023**

Approved by: Emily L. Meierding
Advisor

Robert E. Looney
Second Reader

Afshon P. Ostovar
Associate Chair for Research
Department of National Security Affairs

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ABSTRACT

Immense oil deposits were discovered in the offshore Guyana Basin in 2015 and Guyana is now on the verge of a monumental economic transformation. Significant financial and societal benefits might be byproducts of Guyana's oil wealth; however, scholars have well documented that resource blessing can become a resource curse. This thesis examines Guyana's history leading up to oil discovery, evaluates the post-discovery political events that exhibit mechanisms of the resource curse, and assesses Guyana's economic progress and policies implemented to understand how these mechanisms affect Guyana and how Guyana is mitigating the harmful effects of the resource curse. This thesis concludes that several mechanisms of the resource curse are contributing to the contentious political environment and negatively affecting economic development and growth. However, Guyana has progressed in politics, including improvements in transparency, implementation of local elections, and adoption of rules to mitigate violence. Guyana also has implemented several economic policies, including establishing a development strategy, a natural resource fund, and a local content policy to reduce the economic effects of the resource curse. These safeguards, among others, are helping Guyana to avoid the resource curse.

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LIST OF ACRONYMS AND ABBREVIATIONS

AFC	Alliance for Change
APNU	A Partnership for National Unity
APNU+AFC	A Partnership for National Unity and Alliance for Change
BPD	barrels per day
CARICOM	Caribbean Community
CCJ	Caribbean Court of Justice
CNOOC	China National Offshore Oil Company
CPI	Corruption Perception Index
CRC	Constitutional Reform Commission
DSF	Disciplined Service Forces
EEZ	exclusive economic zone
EITI	Extractive Industries Transparency Initiative
ESSO	Esso Exploration and Production Guyana Limited
FDI	foreign direct investment
FPSO	Floating Production, Storage, and Offloading Vessel
GDF	Guyana Defense Force
GDP	gross domestic product
GECOM	Guyana Election Commission
GOG	Government of Guyana
GSDS	Green State Development Strategy: Vision 2040
GUYSUCO	Guyana Sugar Company
GYD	Guyana Dollar
HADR	Humanitarian Aid and Disaster Relief
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LCA	Local Content Act
LCDS	Low Carbon Development Strategy
LCMP	Local Content Master Plan
LCP	Local Content Policy
NRF	Natural Resource Fund

PAOC	Public Accountability and Oversight Committee
PCD	People’s Coalition for Democracy
PPP	People’s Progressive Party
PPP/C	People’s Progressive Party/Civic
PNC	People’s National Congress
PNC/R	People’s National Congress/Reform
PR	Proportional Representation
PSA	production sharing agreement
REED+	Reduced Emissions from Deforestation and forest Degradation
REER	real effective exchange rate
SOE	state-owned enterprise
SWF	Sovereign Wealth Fund
TUF	The United Force
UN	United Nations
WPA	Working People’s Alliance

I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

In 2015, ExxonMobil discovered a bountiful natural resource endowment in offshore oil and gas reserves in Guyana's territorial waters. As of December 2021, twenty-four subsequent discoveries have amounted to more than 10 billion barrels of high-quality petroleum within the Guyana Basin.¹ Retrieving oil from the sandstone reservoirs 120 miles off the Guyanese coast required four years of development. In partnership with Hess and China National Offshore Oil Company (CNOOC), Exxon-Mobil began extracting Guyanese crude in December 2019. The wealth derived from oil extraction could provide unimaginable prosperity for the developing nation of Guyana.

However, over the last century, the experiences of other oil-producing states have revealed that oil wealth is often more of a curse than a blessing. The resource curse is a phenomenon experienced by developing countries that counterintuitively suffer from long-term adverse economic, political, and social effects after discovering an abundance of natural resources. This thesis asks the question: can Guyana avoid the resource curse?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

Guyana is a small developing country in South America positioned between Venezuela, Suriname, and Brazil. It possesses a small population of approximately 800,000 people, who primarily inhabit the unforested lowlands adjacent to the Atlantic coast. It is the only South American country with English as a primary language, due to its British colonial heritage, and is most often associated with the Caribbean Community (CARICOM). Guyana has been poor throughout its history, and due to a lack of economic opportunity and sociopolitical struggles, many Guyanese have migrated to more prosperous countries.

¹ Reuters, "Exxon Raises Guyana Resource Estimate after New Discovery," October 7, 2021, <https://www.reuters.com/business/energy/exxon-raises-guyana-resource-estimate-after-new-discovery-2021-10-07/>.

However, Guyana instantly became the second wealthiest countries in proven oil reserves per capita in the world with the discovery of 10 billion barrels.² Guyana's target oil production in 2021 was 120,000 barrels per day (bpd), and the state plans to increase to 800,000 bpd by 2025, rivaling the oil production capabilities of Mexico.³ In the next decade, it is anticipated that Guyana will become a major exporter of energy in Western Hemisphere.⁴ The International Monetary Fund assessed Guyana's real GDP growth rate in 2020 at 43.4%, despite low oil prices and the onset of a pandemic, and the IMF predicts Guyana's GDP will double by 2024.⁵

Guyana is on the verge of a monumental economic transformation. Significant financial and societal benefits might be byproducts of Guyana's oil wealth; however, scholars have well documented that, in many developing countries, what appears to be a resource blessing becomes a resource curse. Guyana can look at its closest and least-welcoming neighbor, Venezuela, to see the adverse effects of over-reliance on oil revenues. Countries like Venezuela succumb to the resource curse due to poor economic planning, low-quality institutions, political corruption, and intrastate conflict.

If Guyana can ward off the adverse effects of the resource curse, then its endowment can transform the nation into one of significant wealth and regional influence. From a regional perspective, Guyana's success could help stabilize Latin American and the Caribbean countries through infrastructure development projects designed to facilitate trade, fostering regional economic recovery following the COVID-19 pandemic.

² City Population, "Proved Crude Oil Reserves / Countries of the World," accessed March 5, 2023, <http://www.citypopulation.de/en/world/bymap/oilreserves/>. Source: CIA World Factbook and City Population. Guyana's 2nd place position is based on 10 billion barrels of proven oil reserves divided by an estimated population of 800,000 which totaled 12,500 barrels of oil per person. This was compared to a table published on citypopulation.de, which calculated proved oil reserves per capita from January 2018.

³ Julianne Geiger, "ExxonMobil Sets Higher Guyana Oil Production Target," OilPrice.com, May 12, 2021, <https://oilprice.com/Latest-Energy-News/World-News/ExxonMobil-Sets-Higher-Guyana-Oil-Production-Target.html>.

⁴ Clifford Krauss, "With a Major Oil Discovery, Guyana Is Poised to Become a Top Producer," *New York Times*, January 14, 2017, sec. Business, <https://www.nytimes.com/2017/01/13/business/energy-environment/major-oil-find-guyana-exxon-mobile-hess.html>.

⁵ International Monetary Fund Datamapper, "Guyana," accessed April 27, 2021, <https://www.imf.org/en/Countries/GUY>.

From a U.S. perspective, an economically and politically stable Guyana means the United States would have another reliable partner in the Latin American and the Caribbean (LAC) region. A U.S.-Guyanese partnership could provide Humanitarian Aid and Disaster Relief (HADR) to LAC countries suffering from the effects of climate and health catastrophes, promote democracy and the rule of law, and combat illicit finance and narcotics operations in the region. Therefore, to boost regional security, it is in the United States' interest to assist Guyana toward sustained economic growth while promoting principles of democracy. To foster this relationship, it is important for the United States to understand the inherent conditions within Guyana and its susceptibility to adverse effects of the resource curse.

C. LITERATURE REVIEW

1. Resource Curse Literature

The term “resource curse” was first used in 1993 by Richard Auty when he described how countries rich in natural resources are often unable to generate sustained economic performance.⁶ In 1995, Sachs and Warner found additional evidence to support Auty's findings with a cross-country study of the 1970–1989 period that documented a “statistically significant, inverse, and robust association between natural resource intensity and growth,” while controlling for other structural characteristics of the country.⁷ Over the past 30 years, the resource curse literature has expanded in complexity and become a multidimensional phenomenon; scholars now discuss how resource abundance can affect a country's economy, politics, state institutions, and propensity for armed internal conflict. Most of the literature supports the idea of a resource curse, but there is dissent from a minority of scholars. Many scholars also argue that the resource curse exists only under some conditions. This review will examine three strands of the resource curse literature:

⁶ Richard Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis*, 1st ed. (Abingdon, Oxon: Routledge, 1993), <https://doi.org/10.4324/9780203422595>.

⁷ Jeffery D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, NBER Working Paper 5398 (Cambridge, MA: National Bureau of Economic Research, 1995), 21–22, https://www.nber.org/system/files/working_papers/w5398/w5398.pdf.

macroeconomic effects, institutional and political effects, and effects on intra-state armed conflict.

2. Macroeconomic Effects

The resource curse literature emerged as a challenge to the “modernization” scholars of the 1950s and 1960s, such as Innes, Lewis, Rostow, and Watkins, who proposed that natural resource abundance was a blessing in terms of macroeconomic benefits.⁸ The most commonly observed macroeconomic element of the resource curse is the Dutch Disease. The Dutch Disease was first discussed in *The Economist* in 1977.⁹ It refers to the natural gas boom experienced by the Netherlands in the 1960s. The emerging natural gas sector caused exchange rates to appreciate and the country’s industrial base diminished because they could no longer compete domestically for investment or labor, nor externally because the prices for their products were no longer competitive.¹⁰ In 1982, Corden and Neary published the Dutch Disease theoretical model, which identified two mechanisms that cause appreciation: the spending effect and the resource movement effect.¹¹

The spending effect causes a rise in real incomes from the booming tradeable goods sector, increasing the demand for non-tradable goods, triggering inflation.¹² Inflation increases the relative prices of domestic non-resource commodities, consequently decreasing demand for these goods in domestic and world markets. Additionally, the greater demand for non-tradable goods generates higher demand for labor and capital in

⁸ Emma Gilberthorpe and Elissaios Papyrakis, “The Extractive Industries and Development: The Resource Curse at the Micro, Meso and Macro Levels,” *The Extractive Industries and Society* 2, no. 2 (2015): 381–90, <https://www.sciencedirect.com/science/article/abs/pii/S2214790X15000520>.

⁹ The Economist, “The Dutch Disease,” *The Economist Newspaper Limited Business and Finance*, November 26, 1977, 82–83, <https://www.uio.no/studier/emner/sv/oekonomi/ECON4925/h08/undervisningsmateriale/DutchDisease.pdf>.

¹⁰ W. M. Corden, “Booming Sector and Dutch Disease Economics: Survey and Consolidation,” *Oxford Economic Papers* 36, no. 3 (1984): 359, <http://www.jstor.org/stable/2662669>.

¹¹ W. Max Corden and J. Peter Neary, “Booming Sector and De-Industrialisation in a Small Open Economy,” *Economic Journal* 92, no. 368 (December 1982): 827, <https://doi.org/10.2307/2232670>.

¹² Corden and Neary, 827.

this service sector; this demand pulls labor and investment away from the less competitive lagging tradeable goods sector, causing indirect de-industrialization.¹³

The resource movement effect causes a direct shift in the factors of production from the lagging sectors towards the booming sector.¹⁴ This shift in factors of production raises the price of domestic inputs, resulting in a higher cost of production within lagging sectors. Changes in relative marginal production cost leads to the contraction of lagging industries, causing direct de-industrialization.¹⁵

These two mechanisms of the Dutch disease cause an appreciation of real exchange rates and crowd out the lagging tradeable goods sectors. Manufacturing and agriculture are often negatively affected by this crowding-out process. The Dutch Disease also makes future economic diversification difficult and lowers overall economic growth. However, Corden acknowledges that the resource movement effect is often negligible in developing countries with a large labor surplus or in capital-intensive extractive industries that employ few workers, such as the petroleum sector.¹⁶

Hirschman contends that extractive industries often exhibit enclave tendencies with minimal forward and backward linkages in the local economy.¹⁷ Instead of employing the local unemployed or underemployed labor force, extractive industries import foreign workers, often because the domestic workers lack sufficient skills or training essential to the job. Developing countries also tend to lack the technology and equipment required to extract natural resources; therefore, this machinery must be furnished and imported by foreign entities.¹⁸ These companies also import foreign goods and services, and their foreign workers repatriate their income to their home countries, rather than spending or

¹³ Corden, “Booming Sector and Dutch Disease Economics,” 361.

¹⁴ Corden and Neary, “Booming Sector and De-Industrialisation in a Small Open Economy,” 827.

¹⁵ Corden and Neary, 830.

¹⁶ Corden, “Booming Sector and Dutch Disease Economics,” 369.

¹⁷ Albert O. Hirschman et al., *The Essential Hirschman* (Princeton, US: Princeton University Press, 2013), 151, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=1316757>.

¹⁸ Hirschman et al., 154.

investing it in the local economy. These enclave tendencies create little economic opportunity for the host countries.

Additional macroeconomic effects of the resource curse include reduced investment and savings rates,¹⁹ national debt crises caused by “boom-based borrowing,”²⁰ and the see-saw effect that resource-rich economies undergo due to the volatility of natural resource prices in the world market called boom-bust cycles.²¹ The effects of volatility are amplified by the lack of economic diversification caused by the Dutch Disease and enclave tendencies. Volatility can also cause fiscal discipline issues for resource-dependent governments that do not implement counter-cyclical economic policies.²²

Several scholarly studies, however, have found no evidence of the macroeconomic effects of the resource curse. For example, Alexeev and Conrad argue that large endowments of oil or non-fuel minerals have little or no adverse effect on long-term economic growth; instead, their data indicated that these endowments led to long-term growth.²³

3. Institutional and Political Effects

Some scholars have focused their studies on the relationship between natural resources and the state institutions, including government efficacy, corruption, and the rule of law. In his 2015 review of the political resource curse literature, Ross points out that

¹⁹ Giles Atkinson and Kirk Hamilton, “Savings, Growth and the Resource Curse Hypothesis,” *World Development* 31, no. 11 (2003): 1804, <https://doi.org/10.1016/j.worlddev.2003.05.001>.

²⁰ Norio Usui, “Dutch Disease and Policy Adjustments to the Oil Boom: A Comparative Study of Indonesia and Mexico,” *Resources Policy* 23, no. 4 (December 1, 1997): 151–62, [https://doi.org/10.1016/S0301-4207\(97\)00023-8](https://doi.org/10.1016/S0301-4207(97)00023-8).

²¹ F. van der Ploeg and S. Poelhekke, “The Pungent Smell of ‘Red Herrings’: Subsoil Assets, Rents, Volatility and the Resource Curse,” *Journal of Environmental Economics and Management* 60, no. 1 (2010): 44–55, <https://doi.org/10.1016/j.jeem.2010.03.003>.

²² Richard M. Auty, “Industrial Policy Reform in Six Large Newly Industrializing Countries: The Resource Curse Thesis,” *World Development* 22, no. 1 (January 1994): 11–26, [https://doi.org/10.1016/0305-750X\(94\)90165-1](https://doi.org/10.1016/0305-750X(94)90165-1).

²³ Michael Alexeev and Robert Conrad, “The Elusive Curse of Oil,” *The Review of Economics and Statistics* 91, no. 3 (2009): 586–98, <https://doi.org/10.1162/rest.91.3.586>.

petroleum is the natural resource most often associated with these adverse institutional and political outcomes.²⁴

The term rent-seeking was first used in 1967 by Gordon Tullock and referred to the act of gaining control of natural resources to secure access to revenues without creating new wealth.²⁵ Anne Kruger proposed that competitive rent-seeking often leads to illegal means of obtaining access to natural resources, such as bribing public officials who influence legislation that benefits the rent-seeker, thus diverting resources away from public goods or more productive economic activities.²⁶ Tornell and Lane introduced the “voracity effect” to rent-seeking, which occurs when powerful organized groups in states with weak institutions compete to retain resource revenue windfalls during resource booms, which leads to reduced economic growth.²⁷

Many other scholars have expanded on the concept of rent-seeking and the associated negative institutional and political impacts that stem from a government’s dependence on resource rents. In 1970, Mahdavy defined rentier states as “countries that receive on a regular basis substantial amounts of external rent. External rents are in turn defined as rentals paid by foreign individuals, concerns or governments to individuals, concerns or governments of a given country.”²⁸ Karl describes how these rentier states, specifically oil states, become dependent on external rents and perpetuate poor institutional quality. She emphasized that oil wealth produces “a vicious cycle of negative development

²⁴ Michael Lewin Ross, “What Have We Learned about the Resource Curse?,” *Annual Review of Political Science* 18, no. 1 (May 11, 2015): 239–59, <https://doi.org/10.1146/annurev-polisci-052213-040359>.

²⁵ Gordon Tullock, “The Welfare Costs of Tariffs, Monopolies, and Theft,” *Economic Inquiry* 5, no. 3 (1967): 224–32, <https://doi.org/10.1111/j.1465-7295.1967.tb01923.x>.

²⁶ Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” *The American Economic Review* 64, no. 3 (1974): 291–303, <http://www.jstor.org/stable/1808883>.

²⁷ Aaron Tornell and Philip R Lane, “The Voracity Effect,” *The American Economic Review* 89, no. 1 (1999): 22–46, <https://doi.org/10.1257/aer.89.1.22>.

²⁸ Hossein Mahdavy, “Patterns and Problems of Economic Development in Rentier States: The Case of Iran,” in *Studies in the Economic History of the Middle East*, ed. M. A. Cook (London: Routledge, 1970), 428, <https://doi.org/10.4324/9781315000312-36>.

outcomes” by replacing domestic tax revenue, creating a legacy of centralized political power, and encouraging the development of patronage networks.²⁹

In the 2000s, Mehlum et al. concluded that “the quality of institutions determines whether natural resource abundance is a blessing or a curse.”³⁰ They examined the connection between rent seeking and production. If resource rents remain outside of the productive capacity of the economy the country is considered to have “grabber friendly” institutions.³¹ This means that political institutions are more willing to engage in corruption and capture resource rents for a select few; and therefore, the country experiences more negative economic outcomes.³² However, if resource rents are allocated to production, then the country is considered “producer friendly,” which makes it less susceptible to corruption and more likely to experience positive economic outcomes.³³

Other scholars identify specific institutional conditions in which the resource abundance will have adverse effects. Robinson et al. observed that states with weak institutions before resource booms or new resource discoveries suffer from inefficient redistribution of newly acquired wealth.³⁴ They emphasize that booms provide political incentives for incumbents to utilize rents to establish a patron-client relationship by expanding state budgets and public sector employment to influence future elections and remain in power.³⁵ Robinson et al. claim that “countries with institutions that promote accountability and state competence will tend to benefit from resource booms since these

²⁹ Terry Lynn Karl, “The Perils of the Petro-State: Reflections on the Paradox of Plenty,” *Journal of International Affairs* 53, no. 1 (1999): 31–48, <http://www.jstor.org/stable/24357783>.

³⁰ Halvor Mehlum, Karl Moene, and Ragnar Torvik, “Cursed by Resources or Institutions?,” *World Economy* 29, no. 8 (2006): 1119, <https://doi.org/10.1111/j.1467-9701.2006.00808.x>.

³¹ Mehlum, Moene, and Torvik, 1121.

³² Mehlum, Moene, and Torvik, 1121.

³³ Mehlum, Moene, and Torvik, 1125.

³⁴ James A. Robinson, Ragnar Torvik, and Thierry Verdier, “Political Foundations of the Resource Curse,” *Journal of Development Economics*, *Journal of Development Economics*, 79, no. 2 (2006): 447–68, <https://doi.org/10.1016/j.jdeveco.2006.01.008>.

³⁵ Robinson, Torvik, and Verdier, 466.

institutions ameliorate the perverse political incentives that such booms create.”³⁶ Therefore, the quality of the state’s institutions before and during booms affects the probability of a country avoiding or overcoming the resource curse.

Corruption is also a commonly discussed side effect of natural resource wealth. Brollo et al. find that resource windfalls tend to trigger corruption because incumbent politicians receive less scrutiny during booms and seize more rents without upsetting voters.³⁷ This mechanism also entices lower-quality candidates into office. These politicians, who are more amenable to corrupt practices, utilize rents to increase their chances of re-election, further lowering the overall quality of the institutions.³⁸ Arezki and Bruckner observe that “within-country increases in oil rents lead to significant within-country increases in corruption, significant within-country decreases in political rights, as well as significant within-country increases in civil liberties.”³⁹

Several studies have found that the relationship between oil rents and corruption is conditional. In 2013, Andersen et al. noticed that corruption, identified as increases in oil rents leading to a rise in the value of a country’s bank deposits in tax havens, existed only in authoritarian regimes that lacked competitive elections.⁴⁰ Bhattacharyya and Hodler and Arezecki and Gylfason also suggested that resource abundance provokes corruption, though this only occurs in non-democratic regimes.⁴¹

³⁶ Robinson, Torvik, and Verdier, 450.

³⁷ Fernanda Brollo et al., “The Political Resource Curse,” *The American Economic Review* 103, no. 5 (2013): 1794, <https://doi.org/10.1257/aer.103.5.1759>.

³⁸ Brollo et al., 1794.

³⁹ Rabah Arezki and Markus Brückner, “Oil Rents, Corruption, and State Stability: Evidence From Panel Data Regressions” (working paper, International Monetary Fund, 2009), 12, <https://www.imf.org/external/pubs/ft/wp/2009/wp09267.pdf>.

⁴⁰ Jørgen Juel Andersen et al., “Petro Rents, Political Institutions, and Hidden Wealth: Evidence from Bank Deposits in Tax Havens” (working paper, Norwegian Business School, BI Norwegian Business School, 2013), 28, <http://hdl.handle.net/11250/196681>.

⁴¹ Ramez Abubakr Badeeb, Hooi Hooi Lean, and Jeremy Clark, “The Evolution of the Natural Resource Curse Thesis: A Critical Literature Survey,” *Resources Policy* 51 (March 2017): 127, <https://doi.org/10.1016/j.resourpol.2016.10.015>.

A significant portion of the resource curse literature pertains to resource wealth, specifically oil wealth, and its relationship with democracy. In his 2015 review of relevant scholarly works, Ross states that most studies “are broadly consistent with the claim that higher levels of oil wealth make autocratic governments more stable, hence less likely to transition to democracy.”⁴² However, several studies display less conclusive results regarding resources’ effects on democratization and democratic backsliding.⁴³ Smith and Dunning are two scholars who identified the positive or stabilizing effects of resource wealth. Smith found that oil wealth has a stabilizing impact on regimes, regardless of their type.⁴⁴ Dunning indicated:

On the one hand, a resource boom may increase the incentives to control the *distribution* of resource rents and decrease the attractiveness of democracy to elites. This is the “direct authoritarian effect of resource rents. On the other hand, a resource boom may also mitigate the *redistribution* of private income through taxation and thereby increase the attractiveness (or reduce the disutility) of democracy. This is the “indirect,” democratic effect of which is indirect because it works through the effect of resource rents on the redistribution of private income under democracy.⁴⁵

Dunning concludes that pro-democratic effects are conditional and occur when resource dependency is low and income inequality is high, meaning elites benefit from the tax-reducing characteristics of resource wealth.⁴⁶

Ross provides an alternative explanation for Dunning’s discovery; he argues that countries obtain positive democratic effects from oil rents if they had prior experience with democratic rule.⁴⁷ Many countries in Dunning’s study that experience democratic

⁴² Ross, “What Have We Learned about the Resource Curse?,” 243.

⁴³ Ross, 244.

⁴⁴ Benjamin Smith, “Oil Wealth and Regime Survival in the Developing World, 1960–1999,” *American Journal of Political Science* 48, no. 2 (2004): 232–46, <https://doi.org/10.2307/1519880>.

⁴⁵ Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes* (New York, N.Y.: Cambridge University Press, 2008), 11, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=377878>.

⁴⁶ Dunning, 21.

⁴⁷ Michael Lewin Ross, *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations* (Princeton, NJ: Princeton University Press, 2012), 84.

transitions, including Venezuela, Bolivia, Argentina, Mexico, and Ecuador, had democratic regimes before oil discovery, which may be the causal factor in the pro-democratic effects of oil.⁴⁸ Ross believes that oil wealth can have both positive and negative effects on democracy, stating:

Rich democracies tend to place more effective constraints on executive power, due to the greater influence of their parliaments and courts; less wealthy democracies typically have weaker legislatures, weaker courts, and weaker constraints on executive power. In wealthy oil-producing democracies, checks and balances that keep incumbents from accruing too much power should counterbalance the economic power that oil brings to the incumbent. But in poor and middle-income democracies, oil wealth may help incumbents accumulate enough political influence to dismantle the checks and balances that would otherwise keep their government democratic.⁴⁹

Therefore, a nation's wealth and institutional strength are factors that determine the waxing and waning of democracy in oil-producing countries. However, a study by Herb found no evidence that resource rents have positive or negative effects on democracy.⁵⁰

As contradictory as most of these studies can be, the key takeaway from the exorbitant amount of literature regarding resources affecting the quality of institutions, politics and democracy are that upholding rule of law, property rights, minimizing levels of corruption, and creating efficient bureaucracies increases the probability of desirable outcomes from resource wealth.

4. Effects on Intrastate Conflict

Many studies identify a positive relationship between intrastate armed conflict and resource wealth. In 1998, Collier and Hoeffler postulated that “four variables are significant and strong determinants of both the duration and the probability of civil

⁴⁸ Ross, 84.

⁴⁹ Ross, 85.

⁵⁰ Michael Herb, “No Representation without Taxation? Rents, Development, and Democracy,” *Comparative Politics* 37, no. 3 (2005): 311, <https://doi.org/10.2307/20072891>.

wars.”⁵¹ These four variables are per capita income, natural resource endowments, population size, and ethnolinguistic fractionalization. They found that countries with lower per capita income have a higher the risk, and suffer longer durations, of civil war. They specified that “civil war is overwhelmingly a phenomenon of low income countries,” where the gains from rebellion are more significant than those of higher-income states.⁵² The greater propensity for civil war in lower-income countries is due to the opportunity cost for rebellion, comprised of the cost of conflict and cost of coordination.⁵³

Collier and Hoeffler also argue that resource endowments are non-monotonic, meaning when a resource is discovered, and subsequently extracted by the state, the risk and potential duration of a civil war increases; however, over time the risk is reduced. The reduction in the potential for conflict is caused by the initial desire for rebels to gain control of the state’s resource revenues. If the rebels are incapable of gaining control of the resources from the government, then the government uses its increased financial capacity for defense against and suppression of the rebellion.⁵⁴ Collier and Hoeffler discovered that countries with larger populations are at greater risk of protracted civil wars.⁵⁵

Collier and Hoeffler’s most significant discovery was that the risk of civil war does not increase due to a high degree of ethnolinguistic fractionalization. Instead, “the danger of civil war arises when the society is polarised into two groups.”⁵⁶ They find that a country comprised of two ethno-linguistic groups of similar size have a 50% greater likelihood of civil war when compared to countries with homogenous or fractionalized populations.⁵⁷ This is because rebellion coordination cost in highly fractionalized societies is too high, and the rebellion gains in homogenous societies are too low.

⁵¹ Paul Collier and Anke Hoeffler, “On Economic Causes of Civil War,” *Oxford Economic Papers* 50, no. 4 (1998): 571, <http://www.jstor.org/stable/3488674>.

⁵² Collier and Hoeffler, 568.

⁵³ Collier and Hoeffler, 569.

⁵⁴ Collier and Hoeffler, 571.

⁵⁵ Collier and Hoeffler, 571.

⁵⁶ Collier and Hoeffler, 572.

⁵⁷ Collier and Hoeffler, 571.

Some authors have discovered that the effects of natural resources on armed conflict are conditional. Ostby et al. found that the onset of civil war is more likely in poor regions with lower levels of education, strong intra-regional inequalities, and horizontal inequality—inequality that exists among identity-based cleavages, such as ethnic or religious groups.⁵⁸

Other researchers have emphasized resource location as a factor contributing to armed conflict. Lujala found onshore petroleum reserves, whether in production or not, increase both onset and duration, especially if located inside the conflict zone, which often doubles the duration.⁵⁹ However, she noted, that there was no significant effect on the risk of civil war if the petroleum reserves were located offshore.

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

This thesis responds to the following question: Can Guyana avoid the resource curse? The literature review identifies three major ways in which the resource curse can strike a resource-producing country: through its macroeconomic effects, political effects, and effects on intrastate armed conflict. The thesis will assess Guyana’s vulnerability to the resource curse in each area.

E. RESEARCH DESIGN

This thesis will begin by briefly examining Guyana’s politics and social conflict before the state’s oil discovery. Understanding these conditions will provide a baseline for evaluating Guyana’s vulnerability to the resource curse and permit insight for identifying specific avenues for the onset of the resource curse. The thesis will then evaluate its hypotheses by examining the effectiveness of the measures Guyana has implemented since the oil discovery to counter each resource curse mechanism. For the institutional and political dimensions of the resource curse, it will examine Guyana’s progress toward

⁵⁸ Gudrun Østby, Ragnhild Nordås, and Jan Ketil Rød, “Regional Inequalities and Civil Conflict in Sub-Saharan Africa,” *International Studies Quarterly* 53, no. 2 (2009): 301–24, <https://doi.org/10.1111/j.1468-2478.2009.00535.x>.

⁵⁹ Päivi Lujala, “The Spoils of Nature: Armed Civil Conflict and Rebel Access to Natural Resources,” *Journal of Peace Research* 47, no. 1 (2010): 26, <http://www.jstor.org/stable/25654525>.

strengthening its institutions, increasing transparency, and eliminating corruption. For the macroeconomic dimensions of the resource curse, it will look at Guyana's plans for economic diversification, its national sovereign wealth fund, and plans for sustainable development. Understanding the extent to which Guyana has combat the resource curse will allow for a reassessment of policy applications and potential improvement in future policy proposals.

Along with the literature review sources, additional data sources for this analysis include various World Bank, International Monetary Fund, and Observatory of Economic Complexity data sets. Documents will be derived from Organization of American States, CARICOM, and the Carter Center. It also references publicly available records on Guyana's Department of Public Information website from the various Guyanese Ministries and the Bank of Guyana Annual Reports. This thesis will utilize information from official political statements and will including the future strategies, polices and promises listed in Guyana's *Green State Development Plan 2040*, *Low Carbon Development Strategy*, *Natural Resource Fund*, *Local Content Policy*.

F. THESIS OVERVIEW

The rest of the thesis is structured into three chapters. Chapter II examines Guyana's political and social history to understand these friction points in the present-day context, assesses the effects of the resource curse's political and interstate conflict mechanisms, and evaluates the policies Guyana implemented to strengthen itself against the effects of the resource curse and the unlikelihood of intrastate conflict. Chapter III explores Guyana's economic status before oil discoveries and the state's measures to limit the macroeconomic dimensions of the resource curse. Chapter IV concludes by assessing Guyana's ability to ward off the resource curse and offering insight into short- and long-term policy goals to strengthen Guyana's resilience.

II. THE POLITICAL AND INTRA-STATE CONFLICT EFFECTS OF THE RESOURCE CURSE IN GUYANA

The expected wealth generated from the extraction of oil could be a blessing for this developing country of Guyana. However, the historic racial tensions and mistrust between Guyana's two ethnic majority populations, and corresponding ethnic based political parties, could turn this transformational discovery into a curse. This chapter is subdivided into four sections. Section 1 covers Guyana's social and political history, from colonization until the country's major oil discovery in 2015 to set up an assessment of Guyana's vulnerability to the political/institutional and intrastate conflict strands of the resource curse. Section 2 discusses the discovery of oil and what it means for the underdeveloped country. Section 3 covers events that have occurred since oil discovery and how they relate to Guyana's susceptibility to, or defense against, the resource curse. Section 4 concludes with an assessment of Guyana's vulnerability to the political and intrastate armed conflict effects of the resource curse.

A. SECTION 1: GUYANA'S SOCIAL AND POLITICAL HISTORY

1. Geography, Discovery, and Sovereignty

Guyana, known to the indigenous Amerindians as the "land of many waters," is located on the northeastern shoulder of the South American continent. As its native name suggests, Guyana has abundant waterways flowing from its rolling highlands of the Guiana Plateau to the Atlantic coast. Additional geographical features include a narrow and fertile coastal plain, southern savanna, and densely forested land that accounts for 85% of the country's interior.⁶⁰ Guyana borders Suriname to the east, Brazil to the south, and maintains a disputed border with Venezuela to the west. Guyana inherited this border dispute from the British in 1966 when it achieved independence. Venezuela claims over two-thirds of Guyana's territory and has increased economic and political pressure on

⁶⁰ Central Intelligence Agency, "Guyana—The World Factbook," accessed March 18, 2021, <https://www.cia.gov/the-world-factbook/countries/guyana/>.

Guyana since the 2015 oil discovery. The dispute is under review by the International Court of Justice (ICJ).

2. Early Social and Political Development

Guyana was originally home to nine indigenous communities, collectively referred to as the Amerindians. Following the Europeans' arrival in the Guianas, the Dutch forced the Amerindian population into slavery to cultivate sugarcane and tobacco, which facilitated economic growth.⁶¹ The Amerindian population declined due to disease and maltreatment, or sought asylum in the hinterlands by the mid-17th century. The Dutch land-owning elite responded to the resultant labor scarcity by importing African slaves. However, slave rebellions and unchallenged British colonization forced the Dutch to relinquished control of their colony to the British in 1814.⁶² British Guiana was ruled by a Governor and a representative government for the next century and a half. The British House of Commons made it illegal for British ships to participate in the international slave trade in 1808; however, the exploitive practice continued in British Guiana until 1834.⁶³ British Guiana's landed elite resisted the former slaves' attempts at collective bargaining by engaging in indentureship. The British contracted poor Chinese, Portuguese, and predominantly East-Indian lower-caste workers as indentured servants to replace the free labor lost during emancipation.⁶⁴

Between slavery and the end of indentured labor in the early 20th century, the African (or "Afro-Guyanese"), and East Indian (or "Indo-Guyanese"), became the two majority populations; however, they developed different socio-political lives in British

⁶¹ Mark Wilson and Charles Arthur, "History: Guyana," Europa World Online, April 29, 2021, 1, <http://www.europaworld.com/entry/guy.hi>.

⁶² CountryWatch, "Political Overview," *Guyana Country Review* (working paper, Houston, TX, 2002), 9, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=5274413&site=ehost-live&scope=site>.

⁶³ Stephen G. Rabe, *U.S. Intervention in British Guiana: A Cold War Story* (Chapel Hill: The University of North Carolina Press, 2005), 16, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=413397>.

⁶⁴ John Gafar, *Guyana: From State Control to Free Markets* (Hauppauge, NY: Nova Publishers, 2003), 5.

Guiana.⁶⁵ After emancipation, the African population urbanized and shifted employment to the civil service and mining sectors.⁶⁶ Afro-Guyanese assimilated into colonial life and adopted Christianity, leading to the creation of the creole society.⁶⁷ Assimilation allowed the Afro-Guyanese to receive an education and acquire the literacy and skills necessary to lead a more active life in colonial civil society and politics.⁶⁸

The Indo-Guyanese were offered land grants to continue working on the plantations after completing their indentured contracts. The Indo-Guyanese created secluded rural communities and establish communal rice plantations on these lands.⁶⁹ Originally grown for subsistence, rice became a primary export commodity that enabled the Indo-Guyanese community to generate wealth.⁷⁰

Cultural separation and wealth disparity, combined with perceptions of “the other,” led to tension between these two ethnic groups. Afro-Guyanese were resentful of the land and wealth that the Indo-Guyanese had accumulated.⁷¹ The Afro-Guyanese asserted that their integration and active participation in colonial society and politics afforded them privileges within the country. The Indo-Guyanese perceived the Afro-Guyanese as irresponsible due to their inability to create wealth and unwillingness to work on the plantations.⁷² Although not universally held, these racialized beliefs, often pushed by the local European elite, fueled ethnic cleavages between these two communities for generations.

⁶⁵ Rabe, *U.S. Intervention in British Guiana*, 18.

⁶⁶ CountryWatch, “Political Overview,” 9.

⁶⁷ Rabe, *U.S. Intervention in British Guiana*, 20.

⁶⁸ CountryWatch, “Political Overview,” 10.

⁶⁹ Rabe, *U.S. Intervention in British Guiana*, 19.

⁷⁰ CountryWatch, “Political Overview,” 9.

⁷¹ Stacey-Ann Wilson, “Guyana: The Uncooperative Republic,” in *Politics of Identity in Small Plural Societies* (New York: Palgrave Macmillan, 2012), 78, https://doi.org/10.1057/9781137012128_5.

⁷² Wilson, 78.

3. The Pathway to Independence

Dr. Cheddi Jagan created Guyana's first modern political party, the People's Progressive Party (PPP), in 1950. Jagan, a rural Indo-Guyanese American-educated dentist with Marxist political leanings, attracted support from Indo-Guyanese workers who were critical of the living and working conditions on the plantations.⁷³ However, to gain multi-ethnic support the PPP brought in Forbes Burnham, an urban Afro-Guyanese lawyer educated in London with socialist political leanings.⁷⁴ Jagan's and Burnham's multi-ethnic appeal helped secure the PPP's success during the 1953 general election and Jagan was appointed Prime Minister. The British government and conservative landowners, however, were anxious about the anti-capitalist and anti-imperialist message espoused by the PPP. So, the Royal Government deployed British troops, suspended the constitution, and replaced the democratically-elected PPP government.⁷⁵ The PPP was allowed to continue political engagement in the country, but the party began to fracture.

Ethnic tensions were at the heart of the split as each side felt real or perceived prejudices from the other.⁷⁶ Burnham and many Afro-Guyanese left the PPP because they felt Jagan's proposed reforms threatened their dominant role in the civil service. The remaining Afro-Guyanese supporters left when Indo-Guyanese were prioritized for political appointment. A secondary cause of the split was ideological. Jagan, a Marxist, was considered by Burnham, a socialist, to be too radical and disruptive to negotiate for the state's independence from the British. Burnham formed the People's National Congress (PNC) party, primarily consisting of the Afro-Guyanese, and ran on a more moderate platform.

⁷³ Wilson and Arthur, "History: Guyana," 2.

⁷⁴ Colin A. Palmer, *Cheddi Jagan and the Politics of Power : British Guiana's Struggle for Independence* (Chapel Hill: University of North Carolina Press, 2010), 203, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=605926>.

⁷⁵ Palmer, 14–16.

⁷⁶ Palmer, 146.

The PPP was allowed to compete in the 1957 general election and won most parliamentary seats. With parliamentary control they pursued policies that primarily benefited the Indo-Guyanese, such as distributing additional rice lands, sugar labor union representation, and governmental positions.⁷⁷ The PPP won again in 1961, with the PNC and The United Force (TUF) in opposition. TUF was pro-capitalist party that consisted of Chinese, Portuguese, Amerindian, and Roman Catholic supporters. The PNC and TUF protested the PPP's 1961 victory and advocated for proportional representation (PR) rather than the first-past-the-post voting system.⁷⁸ The PPP resisted, and the opposition parties encouraged their ethnic bases to protest in response. Ethnic divisions intensified as violence increased and the anticipation of independence swelled. The British government postponed independence discussions in 1962, sent in troops to quell unrest, and implemented a constitutional change allowing a PR electoral system in the 1964 election.

4. The Burnham Regime

While campaigning for the 1964 election, each party rallied its supporters with the rhetoric of *aphan jatt*, which translates to “vote your own.” This rhetoric reinforced the ethno-political divide in the country. The results of the 1964 election were 24 PPP seats, 22 PNC seats, and 7 TUF seats.⁷⁹ The ideologically opposed pro-socialist PNC and pro-capitalist TUF formed a coalition government to leverage their combined seat majority. The coalition appointed Forbes Burnham as Prime Minister and many Indo-Guyanese feared their interest would go unsupported in the Afro-Guyanese government. Nonetheless, the PNC's popularity rose, and Burnham negotiated his country's independence in 1966. During the 1968 election, the PNC won a majority of seats in the parliament, which solidified Burnham's rule and freed him from needing coalition support.

After the 1968 election, Burnham became more dictatorial. In 1970, Guyana formally broke ties with Britain, removing Queen Elizabeth II as head of state. Burnham

⁷⁷ Wilson, “Guyana: The Uncooperative Republic,” 80.

⁷⁸ Wilson, 81.

⁷⁹ Wilson, 82.

was now the Prime Minister and the ceremonial President, which replaced the British Governorship.⁸⁰ With the PNC's political dominance solidified, Burnham expanded the armed forces. The military provided an employment opportunity for Afro-Guyanese, who joined in greater numbers than the Indo-Guyanese.⁸¹ With control over the security forces, the Burnham administration became more authoritarian, brutally quelling dissent.⁸² The PNC also shifted oversight of the electoral process from an independent Elections Commission to the commissioner of National Registration, who was subordinate to the Ministry of Home Affairs, a presidential appointee. This level of political control allowed the PNC to choose election officials, produce the voter list, and authorize postal and overseas voting.⁸³ Burnham used these measures to further consolidate the PNC's political power.

As the PNC's power grew, its actions veered away from the socialist agenda. Instead, the regime actively repressed the workforce to support capitalist interests. The PNC limited laborers' rights to work and strike.⁸⁴ Corruption became rampant, and Burnham rigged a referendum that allowed him to draft a new constitution, which created a new executive presidential position and delayed the 1978 election until 1980.⁸⁵ Two other flagrant abuses of power were the assassination of the Working People's Alliance (WPA) leader, Walter Rodney, and the patently rigged national election of 1980.⁸⁶ The WPA was a multi-ethnic party that condemned the PPP's and PNC's divisive ethnic-based fractionalization. The PPP and WPA contested Burnham's executive power grab and campaigned against him in the 1980 election; however, Burnham was declared executive

⁸⁰ Central Intelligence Agency, "Guyana—The World Factbook."

⁸¹ David Hinds, *Ethno-Politics and Power Sharing in Guyana: History and Discourse* (Washington, DC: New Academia Publishing, LLC, 2011), 11.

⁸² Wilson and Arthur, "History: Guyana," 2.

⁸³ The Carter Center, *Observing Guyana's Electoral Process, 1990–1992* (Atlanta, GA: The Carter Center, 1992), 16, https://www.cartercenter.org/documents/electionreports/democracy/finalreportguyana1990_1992.pdf.

⁸⁴ Wilson, "Guyana: The Uncooperative Republic," 82.

⁸⁵ Wilson and Arthur, "History: Guyana," 2.

⁸⁶ CountryWatch, "Political Overview," 10.

president in 1980 because of a fraudulent election. Rodney was later killed in a car bombing, for which the Burnham regime was allegedly responsible.⁸⁷ Burnham remained in power until his unexpected death in 1985. During that time, Guyana's economic situation worsened as debt mounted, private investment dried up, and a sizable number of disaffected Guyanese managers and business professionals emigrated.⁸⁸

5. Progress Toward a Democratic Guyana

Following Burnham's death in office, the 1985 election resulted in another PNC victory. Desmond Hoyte became President, and Hamilton Green was appointed Prime Minister.⁸⁹ Hoyte inherited an economy in severe distress, and he gradually adopted pro-capitalist foreign and domestic policies due to external pressure from the United Kingdom, Canada, and the United States. Considering Guyana's Gross Domestic Product (GDP) had declined by 23% from 1980 to 1989, Hoyte had to improve Guyana's economic outlook; therefore, he implemented an Economic Recovery Plan in 1989, which allowed Guyana to take advantage of renewed loans from international financial institutions and improve its economic situation.⁹⁰

Additionally, five opposition parties formed the Patriotic Coalition for Democracy (PCD), which demanded election reform. Their demands included an independent electoral commission, restrictions on military activity during election day, the elimination of overseas voting, international observers in elections, and removing government restrictions on the media.⁹¹ In response, Hoyte instituted three crucial electoral reforms. The first was the Guyana Election Commission (GECOM). The second was house-to-house registration to create an accurate voting list. The third was a rule that ballot counting must occur at the

⁸⁷ The Carter Center, *Observing Guyana's Electoral Process, 1990–1992*, 16.

⁸⁸ Chaitram Singh, "Re-Democratization in Guyana and Suriname: Critical Comparisons," *European Review of Latin American and Caribbean Studies*, no. 84 (April 15, 2008): 75, <https://doi.org/10.18352/erlacs.9627>.

⁸⁹ Singh, 77.

⁹⁰ The Carter Center, *Observing Guyana's Electoral Process, 1990–1992*, 17.

⁹¹ The Carter Center, 17.

individual polling stations. Hoyte's one-term presidency saw an opening of Guyana's economic and political system, yet many Guyanese suffered poverty, high inflation, limited access to public goods. Most doubted that the PNC leadership would allow a free and fair election in 1992.

6. People's Progressive Party/Civic

The PPP and a group of Afro-Guyanese called Civic formed the Peoples' Progressive Party/Civic (PPP/C) and won the 1992 general election.⁹² The 28-year one-party rule of Guyana ended with a peaceful transition of power; however, there isolated acts of violence after polling day.⁹³ Dr. Cheddi Jagan became President, with Samuel Hinds as his Prime Minister. Jagan proclaimed during his inaugural address that his party desired to "once again build national, racial/ethnic and working people's unity."⁹⁴ However, Civic's role within the party was minimized.⁹⁵ While exclusionary racial aspects of the party remained, Jagan had toned down his Marxist rhetoric and advocated for a neo-liberal economic agenda to help develop the struggling economy.

Jagan's pre-election stance regarding presidential powers and authority also changed once he became the leader of Guyana. While in opposition, Jagan advocated for a power-sharing approach in Guyanese politics, including reducing presidential authority and media liberalization. However, after the election, he immediately became comfortable with consolidated executive authority, stating it was not the Presidential powers but the person who wielded them that was objectionable.⁹⁶ Along with accusations of discrimination, Jagan's administration was accused of bureaucratic ethnic cleansing for replacing Afro-Guyanese diplomats with Indo-Guyanese.

⁹² Wilson, "Guyana: The Uncooperative Republic," 85.

⁹³ The Carter Center, *Observing Guyana's Electoral Process, 1990–1992*, 113.

⁹⁴ The Carter Center, 137.

⁹⁵ Wilson, "Guyana: The Uncooperative Republic," 84–85.

⁹⁶ Wilson, 86.

Jagan died in office in 1997 and was succeeded by his wife, Janet Jagan in the subsequent general election. The PPP/C declared a state of emergency to prevent anti-PPP/C violence, mounted by the PNC and other opposition parties who claimed election fraud. In an attempt alleviate violent protest, CARICOM proposed the Herdmanston Accord, which called for a Constitutional Reform Commission (CRC) and elections within three years. The PNC also politically rebranded as the multi-ethnic platform, the PNC/Reform (PNC/R). However, much like the Civic in PPP/C, the Reform group would operate in the periphery of their political party.

The CRC was formed by parliament in 1999, after Bharrat Jagdeo assumed the Presidency following Jagan's resignation. The CRC instituted voter identification card requirements in combination with an updated voter list; however, because the state could not provide all Guyanese voter ID, the only voting requirement in the 2001 election was that the citizen's name appeared on the voting list. GECOM worked with international observers during the pre-election process to ensure voter lists were accurate.⁹⁷

The PPP/C won the 2001 general election. This caused civil unrest and rioting by the Afro-Guyanese community, which claimed they were perpetually marginalized by the PPP/C.⁹⁸ While widespread voter fraud was not noted, several problematic electoral processes were noticed by international observers. These included the involvement of politically-appointed members of GECOM; Disciplined Service Forces (DSF) being deployed on election day; heavy-handed actions by the Guyanese police during the post-election protests; government-owned media bias in favor of the PPP/C; independent media lacking professional objectivity and espousing rhetoric that fueled ethnic tension; and the GECOM civic education program's limited reach in Amerindian regions.⁹⁹ Post-election

⁹⁷ The Carter Center, *Observing the 2001 Guyana Elections* (Atlanta, GA: The Carter Center, 2002), 10, <https://www.cartercenter.org/documents/1036.pdf>.

⁹⁸ Lisa Ann Vasciannie, "International Election Observation in Guyana 1964–2001," *Commonwealth & Comparative Politics* 55, no. 2 (April 3, 2017): 141–64, <https://doi.org/10.1080/14662043.2017.1283476>.

⁹⁹ The Carter Center, *Observing the 2001 Guyana Elections*, 13.

violence continued for weeks, but the PNC/R and PPP/C failed to reconcile differences prior to the 2006 election.

7. Guyana's Crime Wave and Abuses of Power

Still reeling from the 2001 political and social tensions, a 2002 prison break sparked a crime wave lasted through the 2006 election.¹⁰⁰ Petty crime and gang activity increased, and 420 people were killed between the years 2002 and 2006.¹⁰¹ These criminals kidnapped a United States diplomat, conducted several high-profile assassinations of government officials, and killed 30 officers. Accusations of excessive use of force by police and military during apprehension, further emboldened violent offenses.¹⁰² Making matters more complicated, two government Ministers were investigated for interacting with a known drug lord, who stated upon capture that the government had sanctioned “phantom squads” to conduct extrajudicial killings in order to combat the rise in crime.¹⁰³ The PPP/C and PNC/R, seeking resolution, established an Ethnic Relations Committee and appointed a commission to investigate the accusation of human rights violations by the Guyanese security forces. While no credible evidence indicated that the Ministers or the government was complicit in the sanctioning of phantom squads, the Minister of Home Affairs, Mr. Gajaj, resigned his office in 2005 due to the controversy.¹⁰⁴ The terror of phantom squads, lawless criminals, and perception of governmental corruption created doubt that the PPP/C government was accountable or transparent.

8. Intra-Party Coalitions

In the 2006 election the PPP/C and the PNC/R were joined by a new political party that was formed by the disaffected members of the PPP/C, PNC/R, and WPA, called the

¹⁰⁰ Wilson and Arthur, “History: Guyana,” 3.

¹⁰¹ Stabroek News, “Prison-Break Carnage: A Stabroek News Investigation,” November 18, 2019, <https://www.stabroeknews.com/2019/11/18/news/guyana/prison-break-carnage-february-2002-september-2006/>.

¹⁰² Hinds, *Ethno-Politics and Power Sharing in Guyana*, 25.

¹⁰³ Stabroek News, “Prison-Break Carnage.”

¹⁰⁴ Wilson and Arthur, “History: Guyana,” 3.

Alliance for Change (AFC). This reform-driven multi-ethnic party secured five seats in the National Assembly, which disrupted Guyana's political competition.¹⁰⁵ The PNC/R lost two seats due to AFC's participation and had no ally in parliament due their inability to create a coalition amongst minority parties. As a result, the PPP/C gained a fourth consecutive victory with the post-election environment remaining peaceful, as noted by the international observers.

The continuation of criminal violence stirred ethnic tensions in 2008 and the PPP/C government was condemned by its constituency for being ineffective at guaranteeing security.¹⁰⁶ Afro-Guyanese criticized the ethnic favoritism shown by the PPP/C government, limiting opposition voices from the state-owned radio station, using racially divisive language, and suspending the license of an opposition-owned TV show.¹⁰⁷ However, racially-divisive rhetoric was also employed by the opposition party to demonize its opponent and excite its base.¹⁰⁸ While the PPP/C continued to ignore opposition voices and lose support from its base, the PNC/R succeeded in gaining the support of multiple minor political parties and they ran as a unified campaign organization called A Partnership for National Unity (APNU). AFC also continued to increase its support; however, it did not join the APNU coalition or pledge support to the PPP/C.¹⁰⁹

The results of the 2011 election were 32 of 65 seats going to the PPP/C, 26 seats to APNU, and seven seats to AFC. Combined, the APNU and AFC had a one-seat majority in the National Assembly, but since they did not run under a single ticket, the two parties could not nominate the President.¹¹⁰ This allows the PPP/C's new party leader, Donald

¹⁰⁵ Hinds, *Ethno-Politics and Power Sharing in Guyana*, 25.

¹⁰⁶ Wilson and Arthur, "History: Guyana," 4.

¹⁰⁷ Hinds, *Ethno-Politics and Power Sharing in Guyana*, 26.

¹⁰⁸ Organization of American States, "General and Regional Elections in Guyana November 28, 2011," Electoral Observation Mission Final Report (Washington, D.C.: OAS, 2011), 15, https://www.oas.org/es/sap/deco/moe_informe/Guyana2012.pdf.

¹⁰⁹ Wilson and Arthur, "History: Guyana," 4.

¹¹⁰ Organization of American States, "General and Regional Elections in Guyana November 28, 2011," 5.

Ramotar, to become president; however, the PPP/C had to contend with a parliamentary coalition between APNU and AFC. Observers from the Organization of American States (OAS) accredited the lack of violence in the 2011 campaign to GECOM's consensus-building efforts.¹¹¹ Before the election, GECOM instituted codes of conduct to which all parties agreed. These rules implored all parties to "refrain from abusive, destructive, or violent behavior; respect the media; and accept the results of the November 28th elections."¹¹² The OAS noted these rules did not include enforcement procedures; however, these constraints helped to mitigate the levels of violence experienced in previous elections.

The APNU and AFC worked together in the National Assembly and passed several bills, including a bill calling for local elections, overdue since 1998. However, most bills sat unsigned on the President's desk.¹¹³ The PPP/C also tried to put forth several infrastructure plans, including a hydroelectric project, a new hospital, and an expansion of the Cheddi Jagan International Airport; however, the opposition blocked these schemes in the National Assembly.¹¹⁴ Due to the political stalemate, the APNU and AFC voted on an amendment to decrease the 2012 budget; however, in 2014, the High Court decided that the budget amendment was unconstitutional, and the National Assembly could only approve or deny a budget, not change it after implementation.¹¹⁵ The PPP/C government, not wanting the budget to be vetoed, put forth a budget with some cuts desired by the APNU and AFC. However, the PPP/C violated the budget when the finance minister allocated \$22.5 million (USD) to fund the party's projects, including an expansion to the

¹¹¹ Organization of American States, 15.

¹¹² Organization of American States, 15.

¹¹³ The Carter Center, *2015 General and Regional Elections in Guyana* (Atlanta, GA: The Carter Center, 2015), 17, https://www.cartercenter.org/resources/pdfs/news/peace_publications/election_reports/guyana-2015-final-statement-051717.pdf.

¹¹⁴ The Carter Center, 18.

¹¹⁵ Stabroek News, "Court Issues Final Ruling in Favour of Gov't on Budget Cuts," January 29, 2014, <https://www.stabroeknews.com/2014/01/29/news/guyana/court-rules-favour-govt-budget-cuts/>.

Cheddi Jagan International Airport, without the National Assembly's approval.¹¹⁶ The PPP/C's disregard for the agreed budget caused the AFC, led by former PPP/C member Moses Nagamootoo, to file a no-confidence motion.¹¹⁷ The motion, if passed, would have led to fresh general elections. However, to counter this no-confidence motion, President Ramotar used the constitutional power of proroguing to suspend parliament in November of 2014. Three months later, the President dissolved the National Assembly to make way for new elections in May 2015.

The no motion ordeal and parliamentary suspension increased tensions throughout the 2015 campaign period. Both parties campaigned under similar themes including the use of ethnic politics to divide the population by citing historical records of marginalization and the potential threat of violence with the other party in power. To ensure an individual party majority, the APNU and AFC campaigned on a single ticket as the government of national unity, APNU+AFC. The APNU nominated David Granger as President and the AFC leader Nagamootoo as Prime Minister and the coalition agreed to the allocation of cabinet seats: 60% APNU and 40% AFC.¹¹⁸ The policy priorities championed by the APNU+AFC were to investigate the PPP/C under allegations of corruption, hold local government elections, and reform the constitution to improve power-sharing, enhance checks and balances, and reduce presidential powers.¹¹⁹

The 2015 election was noted by international observers as peaceful.¹²⁰ After three days of tabulation, the APNU+AFC was declared the winner. The PPP/C requested a recount based on rejected ballots, vote totals exceeding the number of eligible voters, errors on the poll statements, and the belief that GECOM had received fraudulent polls. However,

¹¹⁶ Girish Gupta, "Guyana in Political Crisis after Suspension of Parliament," Reuters, November 17, 2014, <https://www.reuters.com/article/uk-guyana-politics/guyana-in-political-crisis-after-suspension-of-parliament-idUKKCN0J127C20141117>.

¹¹⁷ Stabroek News, "AFC Submits No-Confidence Motion," August 7, 2014, <https://www.stabroeknews.com/2014/08/07/news/guyana/afc-submits-confidence-motion/>.

¹¹⁸ The Carter Center, *2015 General and Regional Elections in Guyana*, 18–19.

¹¹⁹ The Carter Center, 19.

¹²⁰ The Carter Center, 46.

GECOM declared APNU+AFC's victory on May 16 without a recount. The APNU+AFC coalition had secured 33 of 65 seats, and Granger was sworn in as President. The PPP/C denounced the results and submitted an election petition that demanded a nationwide recount. The APNU+AFC victory ended nearly two and a half decades of PPP/C rule. Four days later, ExxonMobil announced the discovered oil in Guyana.

9. Summary

Guyana's history leading up to oil discovery is rife with social and political tensions that stem from deep cleavages going back centuries in the ethnically diverse country. Marred by scars of slavery and indentured servitude, Guyana's two ethnic majority populations developed in relative separation due to their perception of cultural differences, inherited or imagined, in the colonial era. During their bid for independence, they formed ethno-centric parties with similar ideological platforms but clashed over limited resources, opportunities, and power. Each ethnocentric party ruled over two decades tainted by ethnic favoritism, political violence, corruption, lack of accountability, and disenfranchisement caused by the winner-take-all constitution. Reconciliation attempts failed, and prevailing prejudices persisted, delaying national unity, economic development, and growth. This brief history demonstrates the genesis of Guyana's weak institutional capacity and political environment and finds that issues usually tied to the political and intrastate conflict mechanism of the resources curse existed well before Guyana discovered oil.

B. SECTION 2: POST-OIL DISCOVERY SOCIAL AND POLITICAL EVENTS

ExxonMobil, and its partners, made the initial oil discovery in the Stabroek offshore block after spudding its first viable oil well on 5 May 2015.¹²¹ ExxonMobil calculated that the quantity of recoverable oil at this site was 350 million barrels of oil; however, after the 24 additional discoveries by December 2021, the calculated recoverable amount exceeded 10 billion barrels, and it is believed the amount discovered will reach 25 billion barrels of

¹²¹ ExxonMobil Corporation, "ExxonMobil Announces Significant Oil Discovery Offshore Guyana," 20 May 15, <https://corporate.exxonmobil.com:443/locations/guyana/news-releases/exxonmobil-announces-significant-oil-discovery-offshore-guyana>.

oil.¹²² Guyana began producing oil after receiving its first Floating Production, Storage, and Offloading Vessel (FPSO) in December 2019. The FPSO was designed to produce 250,000 bpd, but during the first two years, the average yield was 94,000 bpd. As of 31 December 2021, Guyana has earned \$607,626,570 from the associated oil rents, royalties, and profit sharing in the oil sector and invested all oil revenues into the Natural Resource Fund (NRF), established in January 2019.¹²³ Guyana's second FPSO will begin extracting oil in February 2022, and it has approved the construction of two additional FPSOs, which are scheduled to begin oil production in 2023 and 2025. These discoveries made Guyana the second wealthiest country in the world, in terms of oil reserves per capita and drastically changed Guyana's economic outlook. Within four years, Guyana converted into a regional oil exporter. In the coming decades, it will be one of the largest exporters of oil in Latin America and the Caribbean.

However, the optimism surrounding Guyana's economic future intersected with the polarized political reality in Guyana. Between the discovery of oil and 31 December 2021, several noteworthy political events that appear to be manifestations of the resource curse transpired. These events include: the aftermath of the 2015 election and allegations of governmental corruption and influence of external forces on Guyanese politics; the 2016 renegotiation of the 1999 Petroleum Agreement between Guyana and ExxonMobil; the controversy surrounding the events of the 2016 election. These incidents cover the spectrum of political and institutional effects and chart a path that can be considered the beginning of the resource curse.

1. 2015 Post-election Controversy

The 2015 Guyanese general elections took place on 11 May. APNU+AFC was declared the victor on 16 May. This delayed announcement came after the GECOM

¹²² OilNOW, "Guyana Government Applauds '25 Viable Discoveries', Says Local Content Remains Key," October 7, 2021, <https://oilnow.gy/featured/guyana-government-applauds-25-viable-discoveries-says-local-content-remains-key/>.

¹²³ Bank of Guyana, *Guyana—Natural Resource Fund Summary of Financial Position and Performance* (Georgetown, Guyana: Ministry of Finance, 2021), https://bankofguyana.org.gy/bog/images/accounts_budgeting/natural_resource_fund/monthly/nrf-december2021-monthly.pdf.

rejected the request for a full general recount by the PPP/C, though a partial recount was conducted. Additionally, Exxon publicly acknowledged the oil discovery on 20 May, 15 days after the first viable well was detected.¹²⁴ In the months that followed, the election results, as well as the timing of the press release, conjured speculation of malign intentions to rig the outcome of the election for the benefit of international stakeholders with economic interests in Guyana's oil. If true, these allegations would indicate the presence of the political mechanisms of the resource curse in Guyana, including rent seeking, corruption of government officials, and the weakening of democratic institutions, at the time of oil discovery. However, upon review of an independent election report conducted by the Carter Center and leveraging Guyana's historical political discourse in Chapter I, this thesis concludes these allegations presented partial truths to create a politically advantageous narrative to challenge the results of the election without any substantial evidence to corroborate the accusations of fraud, election rigging, or collaboration between Guyanese government officials and international stakeholders.

First, the Carter Center addressed the four irregularities presented by the PPP/C as reasons for their desire for a recount and subsequent election petition.¹²⁵ The first irregularity was fabricated poll statements, which GECOM identified and removed, causing the delay in vote tabulation but no effect on election results. The second irregularity was a claim made by the PPP/C that 22 of the poll statements counted in the Region 4 tabulation differed from the poll statements their agents received at the individual polling station. However, GECOM found no discrepancies between the poll statements in the Region 4 tabulation and those in the PPP/C possession. The third irregularity was 4,043 rejected ballots. The Carter Center could not determine the validity of each discounted ballot; however, it was the lowest number of rejected ballots in 25 years. The final accusation of abnormality was that the total number of votes exceeded the total number of electors. This claim was patently false as the final number of votes cast was 416,055, and the official number of registered voters was 570,787. Each of the PPP/C claims was

¹²⁴ ExxonMobil Corporation, "ExxonMobil Announces Significant Oil Discovery Offshore Guyana."

¹²⁵ The Carter Center, *2015 General and Regional Elections in Guyana*, 49–50.

negated by data within the report and disproved the claim that the outcome of the 2015 election was attributed to fraud.

Second, the timing of ExxonMobil's official oil discovery press release is separate from Guyana's election results. Guyana's Minister of Natural Resources, Robert Persaud, acknowledged that ExxonMobil encountered hydrocarbons on 8 May; however, it was still too early to tell if the find was commercially viable. The determination of economic viability was granted to the contractor under the 1999 Petroleum Agreement, and there are no time constraints on discovery and disclosure.¹²⁶ Furthermore, following the Minister's announcement, the PPP/C ran an election campaign advertisement on 9 May heralding the discovery of oil, citing it as a reason to vote for the PPP/C.¹²⁷ Therefore, this thesis concludes this incident does not indicate the manifestation of the resource curse; it is more simply a continuation of the habitual political discourse of narrative-driven contestation in Guyanese elections.

2. Petroleum Agreement Renegotiation

In 2016, the APNU+AFC renegotiated the 1999 Petroleum Agreement signed between the PPP/C lead government and ExxonMobil. The closed-door process provoked a debate and, to the opposition, exhibited an attempt by the current regime to use policy to position itself for political and financial advantage over the opposition. The agreement by itself does not allude to the resource curse; however, the APNU+AFC government renegotiated without input from the rest of parliament and failed to publish the updated contract upon signing. This created the perception of corruption since the previous contract was public knowledge. Once the contract was made available to the public, there were only a few changes to the terms of the agreement. It can be debated whether Guyana received a fair deal as a country with proven oil reserves. A firestorm of accusations of corruption

¹²⁶ Guyana Chronicle, "Offshore Guyana... Esso Exploration Strikes Oil!—No Confirmation Yet If It Is Available in Commercial Quantity," May 8, 2015, sec. News, <https://guyanachronicle.com/2015/05/08/offshore-guyana-esso-exploration-strikes-oil-no-confirmation-yet-if-it-is-available-in-commercial-quantity/>.

¹²⁷ *PPP/C AD: Oil in Guyana*, video, 2015, <https://www.youtube.com/watch?v=B7rjFU7B0ME>.

came after it was discovered that the APNU+AFC government received an \$18 million contract signing bonus but did not inform the public, especially when paired with the fact that many of the provisions in the agreement were favorable towards the oil companies.¹²⁸

a. 1999 Petroleum Agreement

Guyana's first petroleum prospecting license and the petroleum agreement went into effect on 14 June 1999.¹²⁹ The license granted Esso Exploration and Production Guyana Limited (ESSO), an affiliate of ExxonMobil, the right to explore a 60,000 square kilometer block in Guyana's territorial waters. It designated the annual license rental charge that scaled from \$120,000 for the first two years to \$180,000 for the third and fourth years and \$240,000 per year for the remainder of the contract.¹³⁰ It established the royalty amount and the production sharing agreement (PSA) between the ESSO and Guyana. The royalty amount was 1% of all crude oil produced and sold. The PSA allocated a 50/50 split of profit oil. Profit oil was defined as the remaining balance of crude oil in any month after royalties and recoverable contract costs were recuperated by the contractor (i.e., costs related to exploration, development, operation, service, and administration). The recoverable contract cost was not to exceed 75% of cost oil, or the total value of crude oil: that is, produced and sold in any month. Any excess recoverable contract costs carried over to the subsequent month or months.

b. 2016 Petroleum Agreement

Guyana's 2016 petroleum agreement went into effect on 27 June 2016, replacing the 1999 agreement; however, the agreement was only made public on 28 December 2017

¹²⁸ Stabroek News, "Gov't Deception on Exxon Signing Bonus a Shock," December 9, 2017, <https://www.stabroeknews.com/2017/12/09/news/guyana/govt-deception-on-exxon-signing-bonus-a-shock/>.

¹²⁹ Ministry of Natural Resources, *Petroleum Prospecting Licence and Petroleum Agreement* (Georgetown, Guyana: Government of Guyana, 1999), 1–98, <https://resourcecontracts.org/countries/gy>.

¹³⁰ Ministry of Natural Resources, 39.

after a public push for the Government of Guyana to increase transparency.¹³¹ The government cited its ongoing territorial dispute with Venezuela as the reason delaying the release of pertinent contract details. After publishing the contract, officials stated that they fulfilled their commitment to transparency.¹³² Nonetheless, the closed-door negotiation, delay in publication, and the terms of the agreement invited criticism.

The 2016 agreement outlined the partnership of ESSO, Chinese National Offshore Oil Corporation (CNOOC) Nexen Petroleum Guyana Limited, and Hess Guyana Exploration Limited as the contractors for oil extraction in the Stabroek block. ExxonMobil maintained a 45% interest in the block, while Hess and CNOOC held a 30 and 25% stake after acquiring the shares held by Royal Dutch Shell in 2014.¹³³ The agreement increased the annual license rental charges paid to Guyana to \$1,000,000 per year for the extent of the agreement. It increased the royalty of all petroleum sold from 1% to 2% while maintaining the 50/50 PSA established in the 1999 agreement.¹³⁴ It increased the contractors' required spending on training for Guyanese workers in the oil sector from \$30,000 to \$300,000 annually. While the agreement did not elaborate on a specified quantity of Guyanese labor that had to be utilized, it obligated the contractors to develop a plan with the Minister of Natural Resources to employ qualified Guyanese workers. While these changes were minimal and, in several cases, improved upon the expected returns in comparison to the previous agreement, a review conducted by a Guyanese national

¹³¹ Ministry of Natural Resources, *Petroleum Agreement Government of Guyana—Esso, Nexen, and Hess* (Georgetown, Guyana: Government of Guyana, 2016), <https://dpi.gov.gy/wp-content/uploads/2019/07/Petroleum-Agreement-Esso-Cnooc-Hess-Guyana-Ltd..pdf>.

¹³² Kaieteur News, “At Long Last! Exxon Contract to Be Made Public within Days—Govt.,” December 1, 2017, <https://www.kaieteurnews.com/2017/12/01/at-long-last-exxon-contract-to-be-made-public-within-days-govt/>.

¹³³ ExxonMobil Corporation, “ExxonMobil Announces Significant Oil Discovery Offshore Guyana.”

¹³⁴ Ministry of Natural Resources, *Petroleum Agreement Government of Guyana—Esso, Nexen, and Hess*.

publication comparing the Guyana 2016 Petroleum Agreement with that of 130 other publicly-available oil contracts concluded that Guyana received an inequitable deal.¹³⁵

Finally, one of the more controversial revelations before the public release of the new agreement on 28 December 2017 was the APNU+AFC government's admission of receipt of a signing bonus of \$18 million. Christopher Ram first reported this in an article on 27 October 2017.¹³⁶ While signing bonuses are not uncommon with new oil agreements, the failure to divulge this information caused significant concerns among the opposition and the public, who accused the APNU+AFC government of corruption. However, these accusations dissolved after it was also discovered that of the \$18 million the APNU+AFC received, \$15 million was invested in international interest accruing accounts and set aside to pay the legal fees related to the border dispute with Venezuela in the International Court of Justice.¹³⁷ The other \$3 million was invested in the Bank of Guyana and allocated for training and capacity building. However, the allocation of the signing bonus gave credence to the APNU+AFC excuse for not wanting to disclose the terms of the agreement.

The suspicious actions and timing surrounding the Petroleum Agreement created a perception of corruption, weakening institutions, and collaboration with oil companies that sought to gain access to oil in exchange for rents that would net the incumbent government financial and political advantages over their opponents. However, this thesis concludes that the facts of these events did not match the narratives pushed by the media and political opposition nor do they indicate the presence of the resource curse.

¹³⁵ Kiana Wilburg, "Extensive Review of 130 Oil Contracts Exposes Inferiority of Guyana & ExxonMobil's PSA," *Kaieteur News*, July 21, 2019, <https://www.kaieteurnews.com/2019/07/21/extensive-review-of-130-oil-contracts-exposes-inferiority-of-guyana-exxonmobil-psa/>.

¹³⁶ Christopher Ram, "Every Man, Woman and Child in Guyana Must Become Oil-Minded," *Stabroek News*, October 27, 2017, <https://www.stabroeknews.com/2017/10/27/features/the-road-to-first-oil/every-man-woman-and-child-in-guyana-must-become-oil-minded-9/>.

¹³⁷ Denis Chabrol, "ExxonMobil Signing Bonus Transferred Overseas to Earn Interest- Finance Minister," *Demerara Waves Online News*, April 13, 2018, <https://demerarawaves.com/2018/04/13/exxonmobil-signing-bonus-transferred-overseas-to-earn-interest-finance-minister/>.

3. The 2020 Election

The 2020 election in Guyana was a test of Guyana's democratic stability, institutions, and political process, especially since it would determine which political party would gain control over the first windfall of oil revenues. The catalyst for the 2020 election was a no confidence motion in the National Assembly on 21 December 2018 against the Granger administration's handling of the 2016 Petroleum Agreement.¹³⁸ The motion occurred after a member of parliament from AFC, Charrandas Persaud, crossed the aisle and voted against the APNU+AFC coalition leadership. The APNU challenged Persaud's vote; however, his defection upset the coalition parties' precarious 33–32 majority and set into motion a new national election.

Granger's administration fought the no confidence ruling in the Caribbean Court of Justice (CCJ), but the motion was validated on 18 June 2019.¹³⁹ After fighting for several months over updating the voter registration lists, the APNU+AFC announced in September 2019 that the election would take place in March 2020, far greater than the 90 days allotted by the constitution. A controversial election ensued, with both sides declaring fraud, accusing each other of corruption, antagonizing ethnic tensions, and sowing fear that the other party would distribute the oil wealth based on ethnic favoritism. The stakes were high as the parties were competing for control of Guyana's government and the deciding voice in policy decisions for the tsunami of oil revenues anticipated in the fall of that year.

International observers noted that the election was conducted without any major incidents, but there was a lack of transparency during tabulation in District 4.¹⁴⁰ These violations of transparency included: GECOM and government officials threatening to

¹³⁸ Clifford Krauss, "Guyana's Government Falls in No-Confidence Vote," *New York Times*, December 22, 2018, sec. World, <https://www.nytimes.com/2018/12/22/world/americas/guyana-government-falls.html>.

¹³⁹ Economist Intelligence Unit, "CCJ Deems No-Confidence Motion Valid," June 20, 2019, <https://country.eiu.com/article.aspx?articleid=518136235&Country=Guyana&topic=Politics&subtopic=Forecast&subsubtopic=Political+stability>.

¹⁴⁰ The Carter Center, *2020 General and Regional Elections in Guyana* (Atlanta, GA: The Carter Center, 2020), 115, https://www.cartercenter.org/resources/pdfs/news/peace_publications/election_reports/guyana/guyana-2020-election-final-report.pdf.

revoke observer credentials; a bomb threat on a tallying center, which was an assumed ploy to clear the building of observers; the termination of centralized tabulation by GECOM; and an attempt to report results as an APNU+AFC victory without verification. These matters were brought forth in court and an injunction to halt tabulation was declared. Eventually, both parties approved a recount supervised by a delegation from CARICOM, though the legal coordination for the supervision process created delays. Then on 16 March, the government issued emergency measures to protect against the COVID-19 outbreak.

These measures forced many observers, including the CARICOM delegation, to vacate Guyana due to travel restrictions and airspace closures. However, the CARICOM delegation returned in May and the process for a total recount began on 6 May. The recount concluded on 8 June 2020 and revealed that the PPP/C had won with 51.1% of the votes and the APNU+AFC had 47.7%, which was counter to the results announced in March.¹⁴¹ With two different winners from two separate tabulations, the GECOM debated for nearly two months about which results should be used for declaring the winner of the election. However, after months of stalling, a peaceful transition of power occurred with the PPP/C taking office on 2 August 2020.

The political saga in the 2020 election highlights several aspects of the resource curse but mainly focuses on corruption and institutional weakness. However, while facets of this event displayed significant hurdles to a smooth political process in Guyana, democratic checks and balances ultimately prevented oversteps in power and constraints on government transparency and accountability. These processes clearly need improvement, but the adverse effects of the resource curse evidently have yet to erode Guyana's democratic process.

4. Summary

The post-discovery period includes several events with characteristics that appear to be related to the political and institutional mechanisms of the resource curse. These

¹⁴¹ Wilson and Arthur, "History: Guyana," 5.

include issues of corruption, rent-seeking, lack of transparency and accountability, political scrutiny, weakening institutions, and democratic backsliding. This thesis' analysis revealed that many of the effects that could be attributed to the political mechanisms of the resource curse can also be explained or rationalized by other causal factors, such as misleading information or narratives. However, some of the resource curse mechanisms—specifically suspicion of corruption and reduction in transparency—temporarily brought to a standstill Guyana's development, planning, and political management of its newfound wealth in the post-discovery period.

C. SECTION 3: MITIGATION OF THE RESOURCE CURSE

The adverse political and institutional effects attributed to the resource curse are present in Guyana; however, it is difficult to assess whether the discovery of oil or the historical modus operandi of Guyanese politics caused the post-oil discovery political and institutional turmoil. What can be assessed are measures and policies that Guyana has adopted to mitigate the adverse effects often attributed to the resource curse, which would be detrimental to the country's development, regardless of their proximate cause. This final section will outline the ways Guyana's democracy, institutional capacity, and checks and balances have improved. It will discuss how the lack of dependency on oil rents and the increase in taxation contributed to Guyana's resiliency against the resource curse. It examines steps taken by the government to reduce corruption and rent seeking and to improve transparency. Finally, it incorporates an assessment of the intra-state conflict mechanisms of the resource curse, concluding that this strain of the resource curse is unlikely to manifest itself in Guyana.

1. Democracy and Institutions in Guyana

The 2015 and 2020 national and regional elections, discussed in Section 2, emphasized the fragility of the democratic process in Guyana. These elections highlighted the need for democratic process improvement and increased transparency, but ultimately the results indicated that Guyana's democratic process is working. In both cases, the contestation led to slanderous accusations and perceptions of corruption, but given time,

the tenants of the constitution were upheld, and the country progressed with a peaceful transition of power.

Besides highlighting their negative effects, the literature suggests resource curse's political and institutional mechanisms can also positively affect democracy. One positive effect is that Guyana is more likely to remain a democracy because it was a democracy before the oil discovery. Democracies place far more constraints on executive power and have legislative bodies, such as parliament, that ensure checks and balances remain in place. Although Guyana is rife with vitriol, the political environment maintains an equilibrium of power as the two major parties meticulously monitor adherence to democratic practices. This is in their best interest and that of the country because it limits power imbalances that could arise if the party in power is unscrupulous: for example, by attempting to gain more political power by operating outside the rule of law.

Another indicator that Guyana has strengthened its democracy is the reinstatement of local elections. These elections have been overdue since 1997. The 2015 campaign promise to conduct local elections was carried out by the APNU+AFC government on 18 March 2016.¹⁴² The push for local elections is a step forward in the pursuit of a more accessible, fair, and open democratic system in Guyana. While it is clear the democratic process in Guyana is imperfect, its principal adherence to the constitution and promotion of democracy are important factors mitigating the effects of the resource curse.

2. Dependency on Oil Rents and Taxation

An expected result of the resource curse is the government's dependency on oil rents. In Guyana's case, it has only been two years since oil production began, but in this time, not a single dollar of revenue from oil rents, royalties, or production sharing has been spent. This is primarily because of the 2019 no confidence motion placed the APNU+AFC government in a caretaker role, so it could not approve use of the Natural Resource Funds. Spending was further limited in 2020 by the election delays and party transition, and in

¹⁴² Stabroek News, "Guyana Local Government Elections Results 2016," March 19, 2016, <https://www.stabroeknews.com/2016/03/19/news/guyana/guyana-local-government-elections-results-2016/>.

2021 with the second NRF Act. Guyana has not been able to access the oil revenues and therefore, has not become dependent on them. This is more based on coincidence rather than policy, but as discussed in Chapter III, this allowed time for the government to improve upon the NRF Act, which significantly strengthened Guyana's resilience versus the dependency on rents.

Additionally, another expected indicator of the resource curse is that governments will reduce taxes to keep the citizenry content. Meanwhile, they will conduct deals without scrutiny to line their pockets or maintain control of power because the reduction in taxes diminishes the people's desire to participate in political discourse and voice their concerns regarding the actions of the government: thus, weakening democracy. However, again this did not occur in Guyana. Every year in the post-discovery periods, except for 2020 due to COVID-19, Guyana experienced an increase in government tax revenue, due to incremental increases in taxes and improvement in collection methods. The tax revenues recovered in 2015 was GYD 161,710 million, while the amount recovered in 2021 was GYD 266,223 million.¹⁴³ This indicates that both administrations did not create patronage networks by reducing taxes.

3. Corruption and Transparency

Corruption is an important theme that needs to be addressed in Guyanese politics. The minimization of corruption is paramount to Guyana's future economic and political success because corruption is, in the opinion of the author, the most significant contributor to the resource curse. Corruption is at the heart of almost every political and institutional mechanism because those in power use corrupt practices against people and institutions to gain control of the wealth of natural resources to maintain power. Nevertheless, corruption can be mitigated and minimized if Guyana pushes for transparency and accountability.

¹⁴³ Bank of Guyana, *Annual Reports 2010–2021* (Georgetown, Guyana: Ministry of Finance, 2021), <https://bankofguyana.org.gy/bog/publications/annual-reports/bog-reports>.

There is one policy implemented by Guyana that enhanced its transparency and accountability. Guyana's primary shift towards transparency in the oil sector occurred when it joined the Extractive Industries Transparency Initiative (EITI) on 25 October 2017.¹⁴⁴ EITI promotes openness and accountability concerning the management of natural resources. Guyana's membership in this organization indicated its commitment to meeting the standards set forth by the EITI, including the disclosure of contracts and government revenues related to the extractive sector, enhancement of social and economic development, and improvements to transparency and government accountability.¹⁴⁵ This initiative promoted transparency and led to the publication of the 2016 Petroleum Agreement in 2017 and commitment of Guyana to publish all future oil contracts. Thereby reducing the possibility of rent-seeking.

To highlight Guyana's progress toward reducing corruption, it is worth noting that its Corruption Perception Index (CPI) has increased by 10 points, from 29 in 2015 to 39 in 2021.¹⁴⁶ CPI score is calculated using 13 different indicators to determine the level of public sector corruption. The scale measures 0 to 100, where 0 reflects the highest levels of corruption and 100 is free of corruption. The average CPI of 180 countries is 43; however, what is most important is that Guyana has significantly reduced the level of perceived public corruption since its oil discovery. Guyana's policies and index reveals a willingness to improve its transparency and accountability and curb the effects of corruption that can exacerbate the resource curse.

4. Assessment of the Possibility of Intrastate Conflict

To determine Guyana's risk of becoming embattled in intrastate conflict, this thesis examine the variables connected with the probability of civil wars. First, countries with

¹⁴⁴ Extractive Industries Transparency Initiative, "Guyana: Stakeholders Agree to Use EITI to Promote Transparency," October 25, 2017, <https://eiti.org/news/guyana-stakeholders-agree-use-eiti-promote-transparency>.

¹⁴⁵ Guyana Extractive Industries Transparency Initiative, *Guyana 2019 EITI Report* (Georgetown, Guyana: GYEITI, 2022), 11, <https://eiti.org/documents/guyana-2019-eiti-report>.

¹⁴⁶ Transparency International, "2021 Corruption Perceptions Index—Explore the Results," January 25, 2022, <https://www.transparency.org/en/cpi/2021>.

low GDP per capita are at higher risk of intrastate conflict; however, as discussed in Chapter III, Guyana's GDP per capita has increased significantly since oil discovery from \$5,400 to \$10,000 in seven years. Generally, the larger the population, the higher the risk for conflict; however, Guyana only has 800,000 people. The location of the country's resource also affects the chance of violent outbreaks; all of Guyana's oil is offshore, further reducing the possibility of conflict. The only variable of intrastate conflict that raises cause for concern is the historic ethnic-based cleavages in Guyana. A study by Collier and Hoeffler discovered that a polarized society had a 50% greater probability of intrastate conflict. However, this must be taken in context with the other variable mentioned. While Guyana's political discourse has included ethnic tropes, the levels of ethnic violence in Guyana do not match this divisive image. Therefore, this thesis concludes that intrastate conflict is extremely unlikely.

D. SECTION 4: CONCLUSION

Guyana's political history plays a significant role in the processes carried out in the post-oil period. The ethnic tensions and animosity that developed in the country started well before the discovery of natural resource abundance. The post-oil period contains several examples that, on the surface, appear to be manifestations of the resource curse. There are real or perceived instances of corruption, accusations of collusion and rent seeking, and many examples of the fragility of Guyanese democracy. Guyana's democracy was tested several times, but each time the democratic processes, however inefficient, steered the country toward an outcome based on established democratic principle. During the post-discovery period, attempts by the government to misuse its political power were thwarted, corruption was reduced, and transparency increased. This thesis concludes that Guyana's susceptibility to the political and institutional mechanisms of the resource curse is minimal and was actively mitigated by the government during the post-discovery period.

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III. MACROECONOMIC EFFECTS OF THE RESOURCE CURSE

The economic benefits that the Guyanese people could receive from their oil discovery are predicated on how the Government of Guyana mitigates the macroeconomic effects of the resource curse. Substantial evidence indicates that developing countries experience adverse economic impacts from resource windfall. These economic challenges include the Dutch Disease, which is appreciation in real exchange rates manifested through the spending effect and resource movement effect, resulting in direct and indirect deindustrialization; enclave tendencies of capital intensive enterprises, which create few forward and backward linkages in the local economy; reduction in government savings and increased government debt; boom-bust cycles caused by volatility, which are exacerbated by an overreliance on windfall revenues and failure of governments to implement countercyclical policies; and the failure of the government to create conditions for the public and private investment necessary to diversify the economy and not become overly reliant on the booming sector.

Succumbing to the adverse economic effects of the resource curse is not inevitable, as demonstrated by resource-rich countries of Botswana, Chile, and Norway.¹⁴⁷ These countries, and several others, made prudent decisions that effectively manage and minimize the economic effects of the resource curse, creating positive economic results generated by their resource wealth. For Guyana to overcome the economic challenges of the resource curse, it must engage in similar practices.

This chapter assess Guyana's ability to avoid the economic components of the resource curse. To do so, it outlines Guyana's pre-oil discovery economic baseline, using data from 2010 to 2014 (Section 1). The chapter then compares this baseline with Guyana's

¹⁴⁷ Sean Durns, "Four Countries That Beat the Resource Curse," Global Risk Insights, April 22, 2014, <https://globalriskinsights.com/2014/04/four-countries-that-beat-the-resource-curse/>.

economic performance in the post-oil discovery period, 2015–2021 (Section 2). One limitation of this analysis is that fewer than eight years have passed since oil was discovered and fewer than four since oil production began in December 2019. While available data for assessing Guyana’s post-discovery performance is limited, it can still be analyzed to indicate resource curse onset, trends, and specific areas to monitor in the coming years. To compensate for this shortcoming, the chapter will also assess the precautionary economic measures undertaken by Guyana between its oil discovery in 2015 and December 2021 to determine whether these policies adequately address the various economic challenges associated with the resource curse (Section 3).

A. SECTION 1: PRE-OIL DISCOVERY BASELINE, 2010–2014

1. National Wealth and Growth

The economic strand of the resource curse highlights the potential adverse effects of resource abundance on the wealth and growth of resource rich countries. This chapter uses GDP, GDP growth, GDP per capita, population, and unemployment as wealth and economic growth measures. The GDP-related indicators will be used to determine Guyana’s baseline economic performance. Population and unemployment data will be used to determine whether Guyana is generating economic opportunities for its people.

Before oil was discovered, Guyana was experiencing considerable economic growth. In 2005, it was reclassified from a “low-income country” on the World Bank’s development scale to a “lower-middle income country.”¹⁴⁸ In 2008, it was reclassified as an “upper-middle income country.” Economic progress continued during the pre-oil discovery period, from 2010 to 2014. A robust increase in GDP occurred between 2010 to 2012, from 3.4 to 4.1 billion USD (see Figure 1). Guyana’s GDP then leveled off for the

¹⁴⁸ The World Bank Database, “GNI per Capita, Atlas Method (Current US\$)—Guyana,” accessed January 26, 2022, <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?end=2020&locations=GY&start=1966>. Note: definitions for low, lower-middle, and upper-middle income countries can be accessed through <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>.

rest of the pre-discovery period. Figure 2 depicts the annual percentage growth in Guyana’s GDP. GDP growth remained positive; however, the intensity of growth rose and fell between 2010 and 2014. Figure 3 shows the growth in GDP per capita, which increased steadily from \$4600 in 2010 to \$5500 in 2013, then slightly declined in 2014 to \$5400.

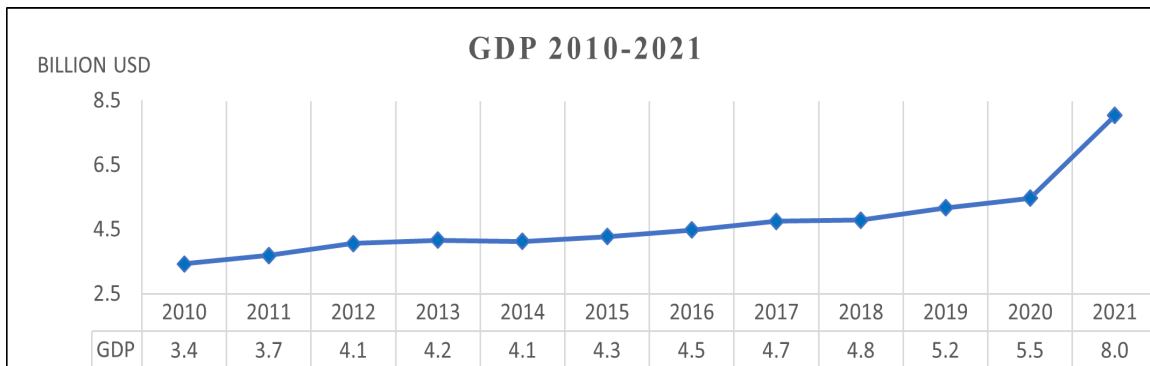


Figure 1. Guyana GDP (current USD), 2010–2021.¹⁴⁹

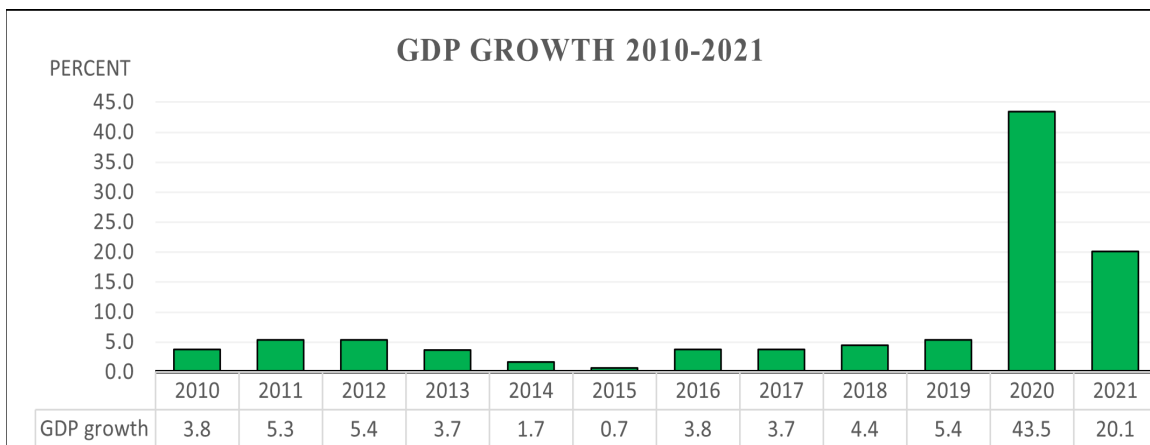


Figure 2. Guyana’s GDP Growth (annual %), 2010–2021.¹⁵⁰

¹⁴⁹ Adapted from The World Bank Database, “GDP (Current US\$)—Guyana,” accessed February 21, 2022, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&locations=GY&start=2000>.

¹⁵⁰ Adapted from The World Bank Database, “GDP Growth (Annual %)—Guyana,” accessed January 26, 2022, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=GY>.

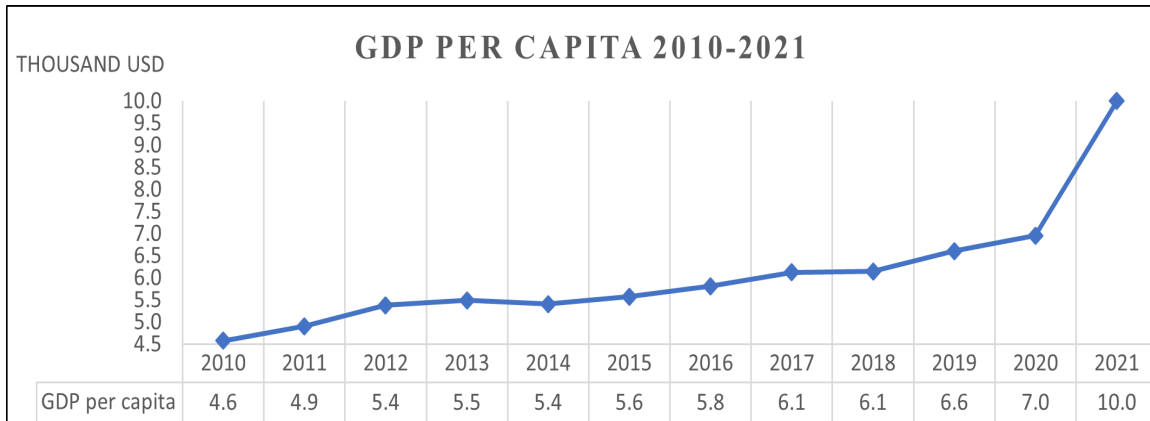


Figure 3. Guyana’s GDP per Capita (current USD), 2010–2021.¹⁵¹

Guyana’s population slightly grew from 747,932 to 751,115, roughly 0.4% from 2010 to 2014, however, during this time had two years of negative population growth (Figure 4). An estimated 30,000 Guyanese emigrated annually from 2010 to 2014, continuing Guyana’s historic trend of emigration.¹⁵² Guyana’s unemployment also rose during this period, from 11.8 % in 2010 to 12.9% in 2014 (Figure 5). The increase in unemployment, stagnation of population, and level of emigration, combined with the increase in GDP per capita indicates that the Government of Guyana was unable to create economic conditions that benefit most of its population during the pre-discovery period.

¹⁵¹ Adapted from The World Bank Database, “GDP per Capita (Current US\$)—Guyana,” accessed January 26, 2022, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2020&locations=GY&start=1966>.

¹⁵² Michael Matera, Linnea Sandin, and Maripaz Alvarez, *The Guyanese Diaspora* (Washington, DC: Center for Strategic and International Studies, 2020), 1, https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/201019_Matera_The_Guyanese_Diaspora.pdf.

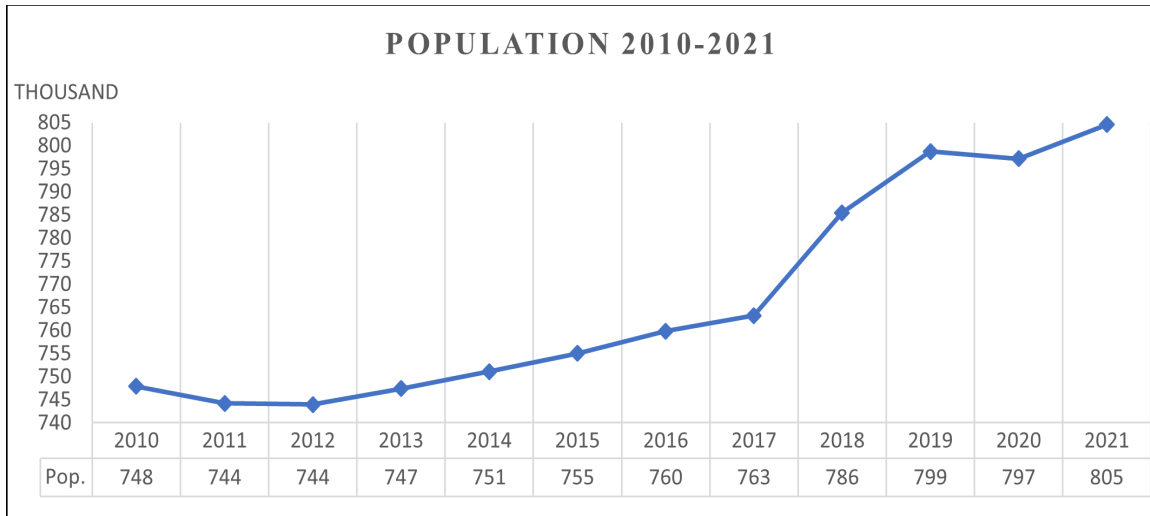


Figure 4. Guyana's Population (thousands), 2010–2021.¹⁵³

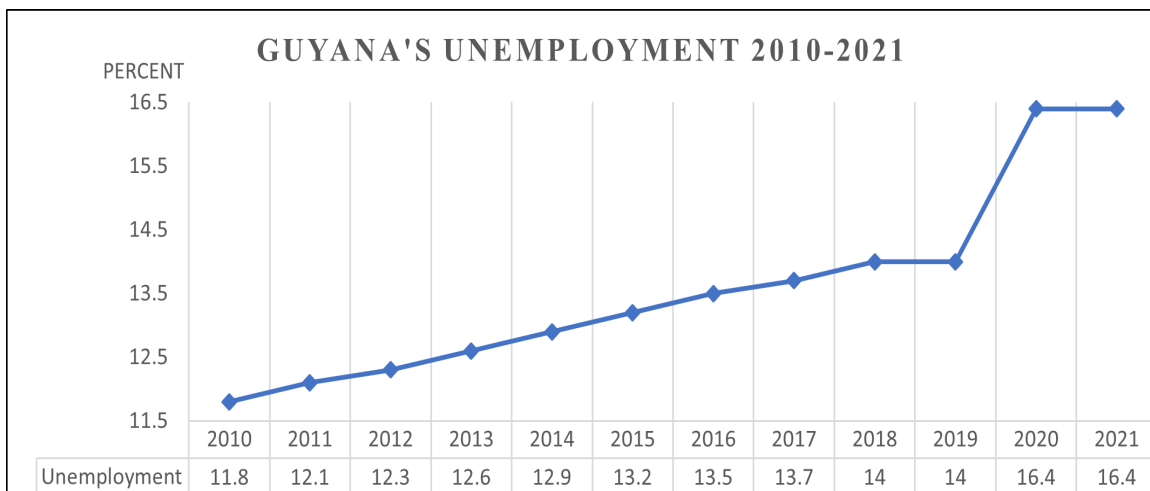


Figure 5. Guyana's Unemployment (%) 2010–2021¹⁵⁴

¹⁵³ Adapted from The World Bank Database, "Population, Total—Guyana," accessed January 26, 2022, <https://data.worldbank.org/indicator/SP.POP.TOTL?end=2020&locations=GY&start=1966>.

¹⁵⁴ Adapted from The World Bank Database, "Unemployment, Total (% of Total Labor Force) (Modeled ILO Estimate)," accessed February 22, 2022, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>.

2. Inflation and the Real Effective Exchange Rate

Inflation and exchange rate are two economic indicators of the onset of the Dutch Disease. Guyana maintains a soft peg exchange rate policy and manages inflation by strengthening or weakening the Guyana Dollar (GYD) in relation to the U.S. Dollar (USD). It therefore has some capacity to use monetary policy to mitigate the effects of the Dutch Disease. Figure 6 shows that inflation declined in Guyana between 2010 and 2014, falling from 4.5% to 1.2%. Guyana's exchange rate depreciated marginally, from 202.60 to 206.50 GYD per 1 USD from 2010 to 2014. This depreciation helped reduce inflation.¹⁵⁵

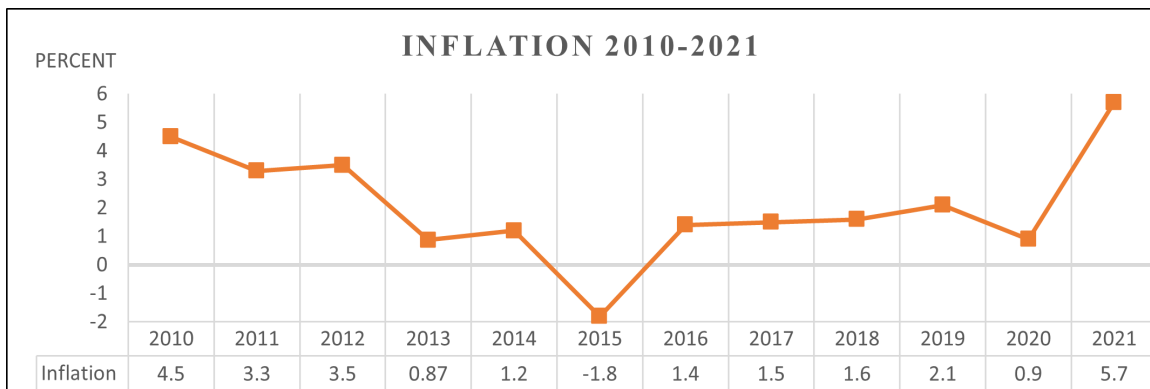


Figure 6. Guyana's Inflation (annual %), 2010–2021.¹⁵⁶

The Real Effective Exchange Rate (REER) measures the competitiveness of a country's exports on the world market by comparing the exchange rate to a trade-weighted basket of currencies. Guyana's REER is indexed at 100 for 2010. It was broadly consistent during the pre-discovery period, declining from 100 in 2010 to 98.5 by 2014, indicating that Guyanese exports became marginally more competitive during this pre-oil discovery period (Figure 7). A rising number would suggest that Guyana's exports are becoming more expensive and, therefore, less competitive in world markets, indicating the onset of the Dutch Disease.

¹⁵⁵ Bank of Guyana, *Annual Reports 2010–2021*, 2014, 57.

¹⁵⁶ Adapted from Bank of Guyana, *Annual Reports 2010–2021*.

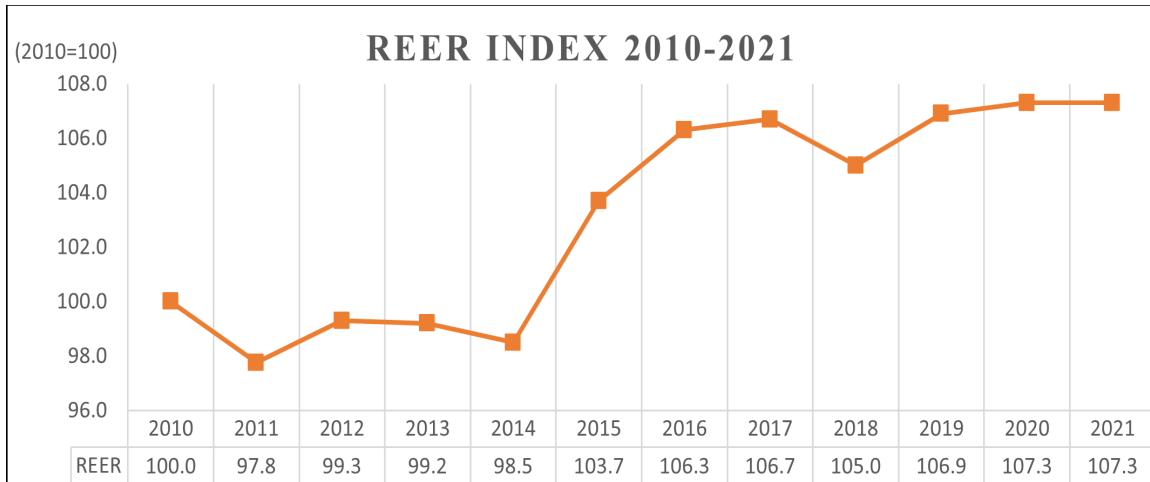


Figure 7. Guyana's Real Effective Exchange Rate Index, 2010–2021.¹⁵⁷

3. Sectoral Economic Diversity

Guyana's geography, location, size, population density, colonial legacy, and political history limited its economic diversification even before oil was discovered. Oil production can exacerbate this economic challenge by encouraging investments to become more concentrated in the energy sector, thereby reducing investments in other sectors. However, deliberate efforts to maintain or increase economic diversification can help resource-rich countries mitigate this economic component of the resource curse. Comparing Guyana's sectoral distribution in the pre- and post-discovery periods will reveal whether oil is causing a crowding-out effect in other economic sectors.

Even before oil was discovered, Guyana's exports were overwhelmingly primary commodities, a legacy of the extractive colonial era. Guyana's top five export commodities

¹⁵⁷ Adapted from The World Bank Database, "Real Effective Exchange Rate Index (2010 = 100)—Guyana," accessed February 7, 2023, <https://data.worldbank.org/indicator/PX.REX.REER?end=2020&locations=GY&start=2000>. Note: (2010 = 100)

in 2014 were gold (39.7% of export earnings), rice (18.2%), bauxite (9.85%), sugar (7.48%), and timber (3.62%).¹⁵⁸ Guyana's primary commodity outputs include rice, sugar, fish, shrimp, poultry, and timber in the agricultural sector. As a percentage of GDP, the agriculture sector experienced a modest decline from 2010 to 2014, dropping from 30% of Guyana's economy to 26.2% (Figure 8). However, the agricultural sector's GDP annual growth rate remained positive (Figure 9). Guyana's agriculture sector experienced constant growth, but at a slower rate than other economic sectors during this period.

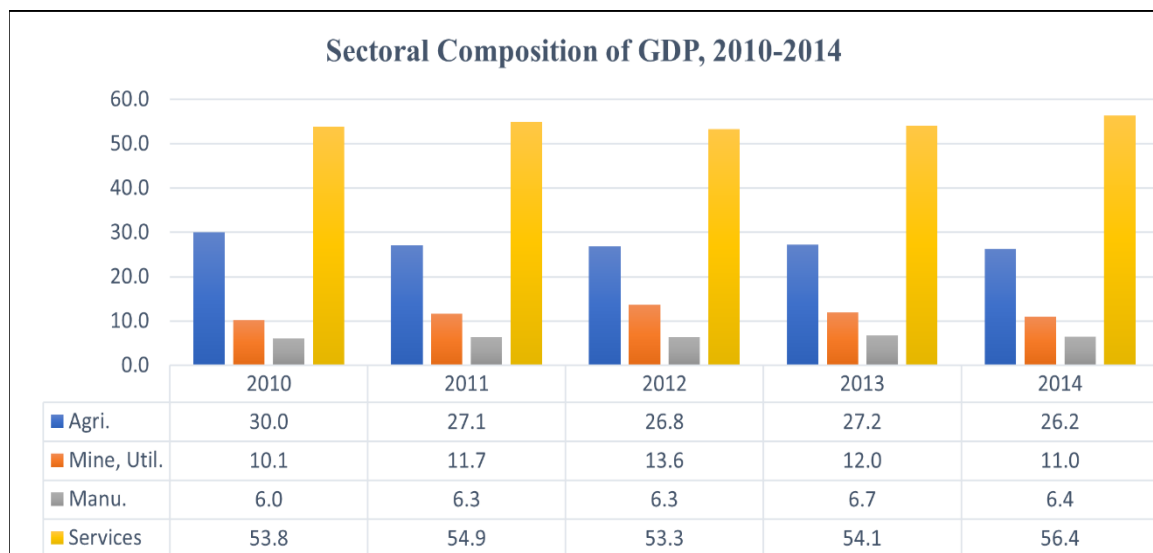


Figure 8. Guyana's Sectoral Distribution (% GDP), 2010–2014).¹⁵⁹

¹⁵⁸ Observatory of Economic Complexity, "Guyana (GUY) Exports, Imports, and Trade Partners," The Observatory of Economic Complexity, accessed January 27, 2022, <https://oec.world/en/profile/country/guy?compareExports0=comparisonOption5&tradeScaleSelector1=tradeScale0&yearSelector1=exportGrowthYear12&yearSelector2=importGrowthYear25>.

¹⁵⁹ Adapted from United Nations Statistics Division, (Basic Data Selection Guyana 2010–2021; accessed February 8, 2023), <https://unstats.un.org/unsd/snaama/Basic>.

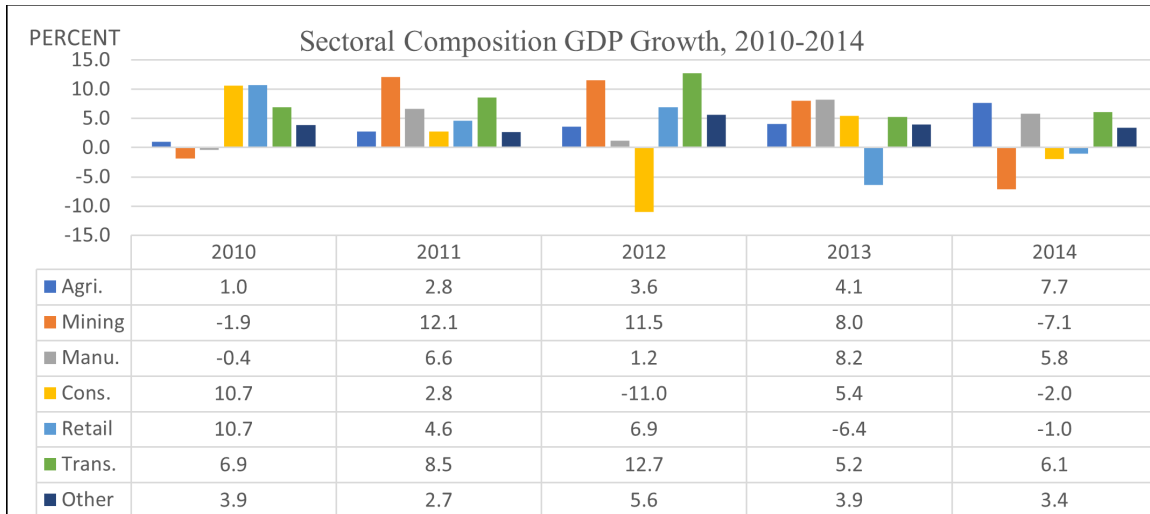


Figure 9. Guyana's Sectoral Growth (annual %), 2010–2014.¹⁶⁰

Over the period, Guyana's service sector increased its share of the country's GDP from 53.8% in 2010 to 56.4% of GDP in 2014 (Figure 8). Figure 9 divides the service sector into sub-sectors, showing the level of growth experienced by each. It reveals that some experienced negative growth during this period. Construction declined in 2012 due to reduced public expenditure on roads, schools, and other infrastructure works. Retail declined in 2013 due to reduced demand for imports; however, growth in other service sector components compensated for these temporary drops.

Before oil production began, mining and manufacturing made up the smallest shares of Guyana's economy: 11% and 6.4%, respectively, in 2014 (Figure 8). During the 2010–2014 period, mining's contribution to Guyana's GDP growth varied substantially due to the market fluctuations in the prices of gold and aluminum and the varying production levels of each (Figure 9). However, even when growth was negative, these

¹⁶⁰ Adapted from United Nations Statistics Division, (Basic Data Selection Guyana 2010–2021; accessed February 8, 2023), <https://unstats.un.org/unsd/snaama/Basic>. Note: Specific breakdown of the sectoral composition indicators: Agri. includes agriculture, hunting, forestry, fishing; Mining includes mining, manufacturing, and utilities activities; Manu. is manufacturing only; The service sector is broken into sub-sectors which include Cons., Retail, Trans., and Other; Cons. is construction; Retail includes retail trade, wholesale, restaurants, and hotels; Trans. includes transportation, storage, and communication; other is other service activities.

minerals still accounted for 50% of the value of Guyana's exports. Manufacturing increased its share of Guyana's GDP between 2010 and 2014, which be attributed to two factors. First, as rice production increased, there was more rice to process. Second, the sector grew due to the greater output of liquid pharmaceuticals and non-alcoholic beverages.¹⁶¹ However, the manufacturing sector in Guyana remained very small and its contributions to the country's exports are minimal.

4. Government Debt

An economic component of the resource curse is that, when governments expect to collect a windfall of oil revenue, they often incur substantial debts. This may seem counterintuitive since their income increases; however, countries that engage in boom-based borrowing often experience debt crises if their commodity's price volatility prevents them from servicing their debt. A more specific component of this economic mechanism is what Cust and Mihalyi refer to as the "presource curse."¹⁶² The presource curse is indicated by excessive public borrowing during the post-discovery pre-production years. The government rationalizes borrowing based on the expected resource revenues; however, these estimates are often overly confident. This mechanism is exacerbated by the length of time it takes to initiate oil production, especially if an energy project fails to produce.

This chapter examines the central government's debt as a percentage of GDP, which is its debt-to-GDP ratio, including external and domestic debt (Figure 10). This indicator can be used to identify debt trends. In Guyana, the central government's total debt declined dramatically between 2010 and 2014, from 53.1% to 38.7% of GDP (Figure 10). However, looking exclusively at Guyana's external debt, which measures how much the country borrowed internationally, reveals a different dynamic. This rose significantly between 2010 and 2012: from \$1.04 billion in 2010 to \$1.34 billion in 2012; however, it had declined to \$1.21 billion by 2014 (Figure 11). The divergence between the

¹⁶¹ Bank of Guyana, *Annual Reports 2010–2021*, 2014 Annual Report, 141.

¹⁶² James Frederick Cust and David Mihalyi, "Evidence for a Presource Curse? Oil Discoveries, Elevated Expectations, and Growth Disappointments" (SSRN Scholarly Paper, Rochester, NY, July 10, 2017), <https://papers.ssrn.com/abstract=3006214>.

government's total debt-to-GDP ratio and its increase in external debt can be explained by the decrease in domestic debt and the increase in GDP over this period.



Figure 10. Guyana's Central Government Debt (% GDP), 2010–2021.¹⁶³

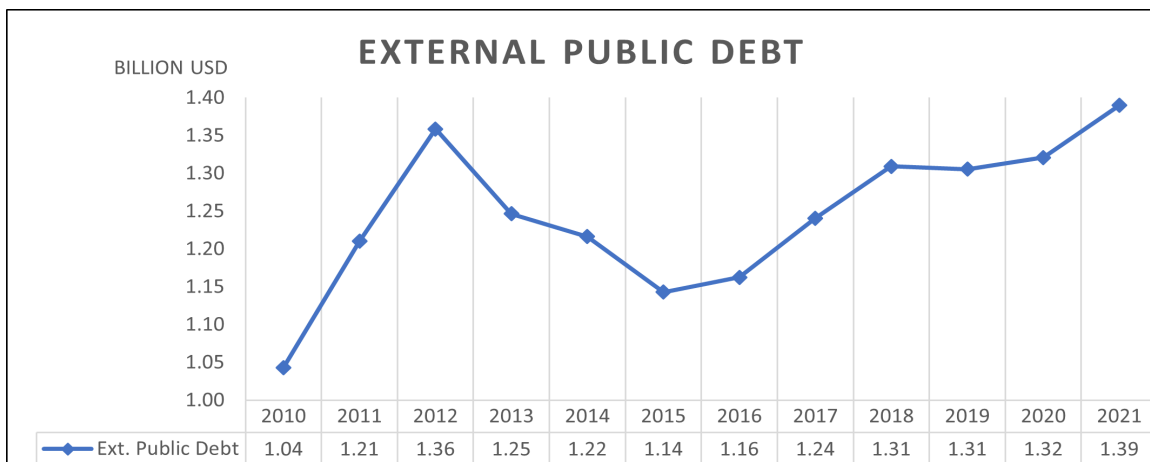


Figure 11. Guyana's External Public Debt (thousand USD), 2010–2021.¹⁶⁴

¹⁶³ Adapted from International Monetary Fund, (Global Debt Database Central Government Debt; accessed February 9, 2022), https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD.

¹⁶⁴ Adapted from Bank of Guyana, *Annual Reports 2010–2021*.

5. Public Investment and Consumption

Public investment and consumption are indicators of a government's fiscal priorities and can facilitate resilience against the resource curse. Atkinson and Hamilton observe that governments that invest natural resource revenues in public goods and services avoid the pitfalls of the resource curse, while governments that consume their proceeds, particularly by increasing public wages and salaries, experience the adverse effects of the resource curse.¹⁶⁵

Public investment is an investment in physical infrastructure (e.g., governmental buildings, roads, etc.) and soft infrastructure (e.g., public services, research, improvement to governmental processes, etc.) that will deliver a productive use beyond one year.¹⁶⁶ Public consumption is a governmental expenditure (e.g., government employees wages and salaries, consumption of fixed capital)¹⁶⁷

Between 2010 and 2014, Guyana's public investment fell slightly, from 60.6 billion GYD to 56.6 billion GYD (Figure 12). This indicates that the government reduced its emphasis on public projects. Figure 12 also displays public consumption, which rose dramatically between 2010 and 2014: from 69.6 billion GYD to 121.6 billion. This growth was caused by increases in public sector salaries and pensions, growing between 5% and 8% per year, indicating the government's desire to compensate employees.¹⁶⁸ The difference between public investment and consumption expanded from 8.9 billion GYD in 2010 to 50.9 billion GYD in 2014.

¹⁶⁵ Atkinson and Hamilton, "Savings, Growth and the Resource Curse Hypothesis," 1804.

¹⁶⁶ Organization of Economic Development, *Recommendation of the Council on Effective Public Investment Across Levels of Government* (Paris, France: OECD, 2014), 4, <https://www.oecd.org/regional/regionaldevelopment/Principles-Public-Investment.pdf>.

¹⁶⁷ Bureau of Economic Analysis, "Government Consumption Expenditures," accessed February 9, 2022, <https://www.bea.gov/help/glossary/government-consumption-expenditures>.

¹⁶⁸ Bank of Guyana, *Annual Reports 2010–2021*, 2010–14.

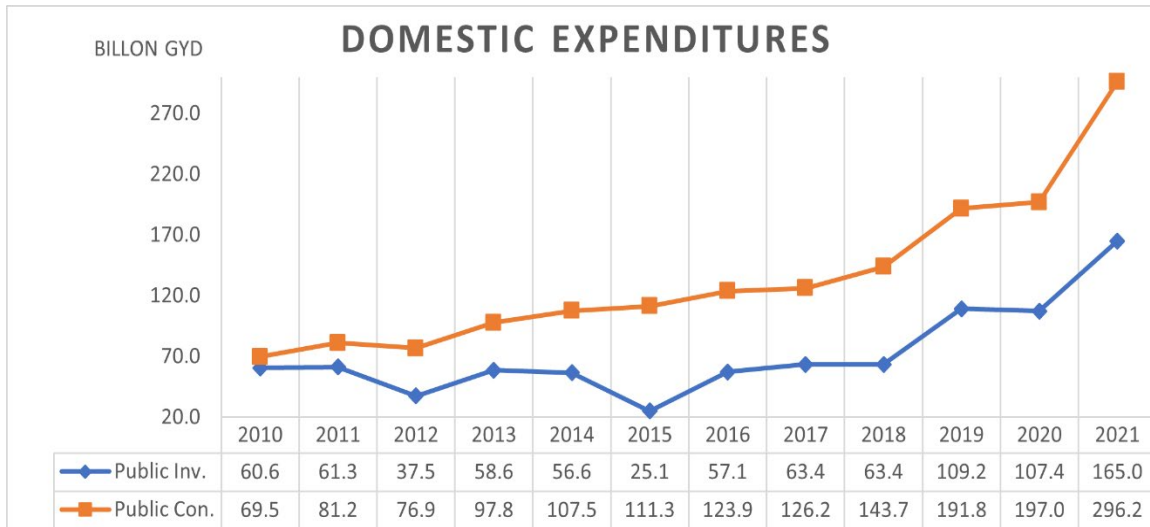


Figure 12. Guyana’s Domestic Expenditures, Public Investment and Public Consumption (billion GYD), 2010–2021.¹⁶⁹

6. Private Fixed Investment and Foreign Direct Investment

The resource curse often creates an environment in the non-booming sectors that is not conducive to private and foreign investment. This chapter examines Private Fixed Investment (PFI) and Foreign Direct Investment (FDI) to assess investor confidence. PFI measures the willingness of domestic businesses, non-profits, and households to invest in creating, improving, or replacing equipment, structures, or intellectual property that can improve the productive capacities of goods and services, including residential and non-residential investment.¹⁷⁰ Guyana’s PFI was broadly consistent from 2010 to 2013, then increased substantially in 2014, rising from 57.4 billion GYD to 125.7 billion GYD (Figure 13). The increase was driven by private domestic investments in the agriculture, manufacturing, and services sectors, most notably the construction sub-sector.¹⁷¹ FDI in Guyana rose from \$198 million in 2010 to \$255 million in 2014 (Figure 14).

¹⁶⁹ Adapted from Bank of Guyana, *Annual Reports 2010–2021*.

¹⁷⁰ Bureau of Economic Analysis, “Fixed Investment,” accessed February 9, 2022, <https://www.bea.gov/help/glossary/fixed-investment>.

¹⁷¹ Bank of Guyana, *Annual Reports 2010–2021*, 2014 Annual Report, 13.

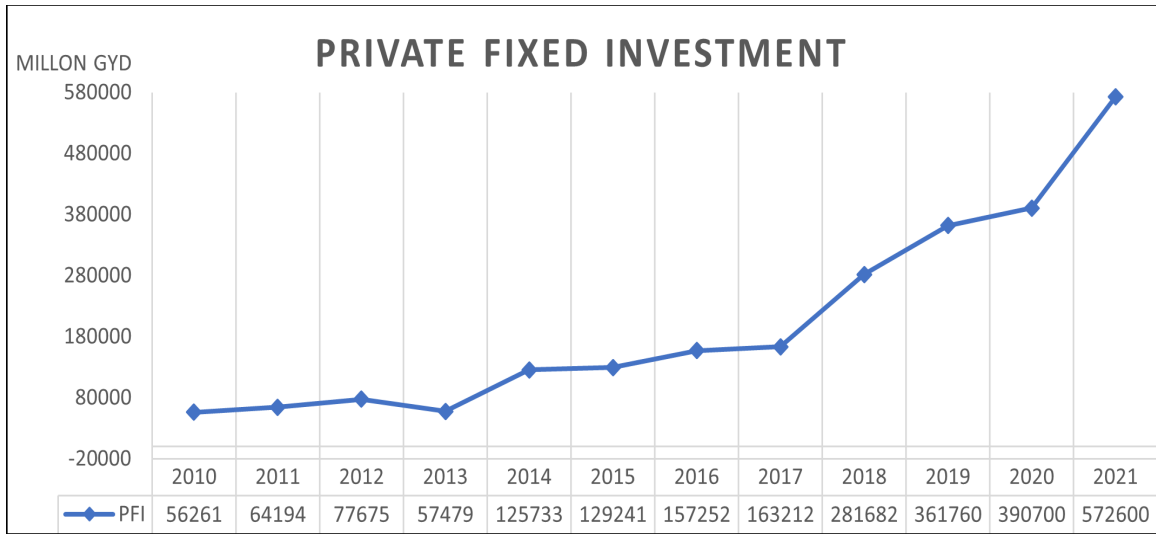


Figure 13. Guyana's Private Fixed Investment (million GYD), 2010–2021.¹⁷²

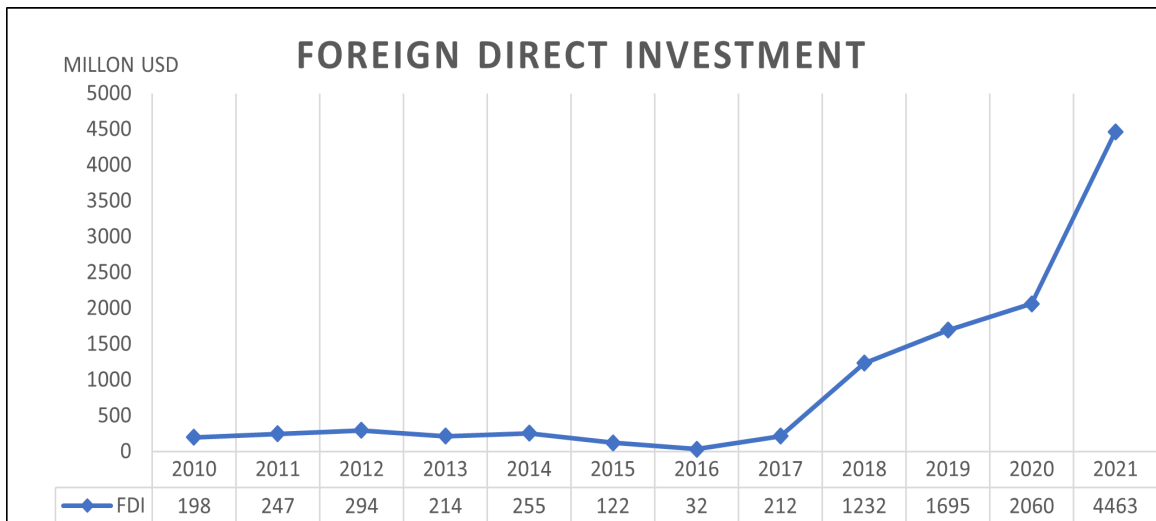


Figure 14. Guyana's FDI (million USD), 2010–2021.¹⁷³

¹⁷² Adapted from Bank of Guyana, *Annual Reports 2010–2021*.

¹⁷³ Adapted from Bank of Guyana.

B. SECTION 2: POST-OIL DISCOVERY PERIOD, 2015–2020

1. National Wealth and Growth

Guyana's economic growth has increased in the post-discovery period on all three GDP-related measures. Guyana's GDP rose from 4.1 billion USD in 2014 to 5.5 billion USD in 2020 and climbed significantly to 8.0 billion USD in 2021 (Figure 1). Guyana's GDP growth remained positive; however, it was inconsistent. The growth rate averaged 3.6% from 2015 to 2019, which was lower than the country's growth rate from 2010–2014 at 3.98% (Figure 2). However, it jumped to 43.5% in 2020 and continued significant growth in 2021 at 20.1% (Figure 2). The significant increase in 2020 reflected the beginning of oil production in December 2019. Guyana's GDP per capita continued its relatively steady positive climb, gradually increasing from \$5,400 in 2014 to \$7,000 in 2020; however, two years after oil extraction began, GDP per capita swelled to \$10,000 in 2021 (Figure 3). These figures indicate that Guyana's oil discovery did not initially provoke growth; instead, growth slowed. However, after oil production began, GDP, GDP growth, and GDP per capita increased significantly.

Guyana's population grew significantly during the post-discovery period, from 751,115 people in 2014 to 804,576 in 2020 (Figure 4). The population growth rate increased from a 0.1% annual average for 2010–2014 to 1.0% for 2015–2021. Considering that the birth rate per 1000 people reduced from 21 to 20 from 2014 to 2021, it can be concluded that Guyana experienced a reduction in emigration, an influx of immigrants, a return of the Guyanese diaspora, or some combination of these factors.¹⁷⁴ Regardless of which dynamic is driving the change, Guyana evidently became a more attractive place to live, most likely due to the perception of increasing economic opportunities in the country.

Guyana's unemployment rate also continued to rise in the post-discovery period: from 12.9% in 2014 to 16.4% in 2021 (Figure 5). It held steady at 14% between 2018 and 2019, which was the first time in over a decade that Guyana arrested its climbing

¹⁷⁴ The World Bank Database, "Birth Rate, Crude (per 1,000 People)—Guyana," accessed March 12, 2023, <https://data.worldbank.org/indicator/SP.DYN.CBRT.IN?locations=GY>.

unemployment. However, in 2020, unemployment reached its highest level in over a decade: 16.4%. This was primarily due to COVID-19's effects on the manufacturing and services sectors. Guyana did not recover to its pre-COVID-19 unemployment rate in 2021, remaining at 16.4%.

Guyana's rising unemployment could be interpreted as a symptom of the economic resource curse. However, there are two reasons to suspect that this figure is not directly connected to the resource curse. First, the offshore oil and gas industry requires highly skilled labor. As a result, it offers minimal job opportunities for Guyanese workers who are not trained for this industry, so employment in the oil sector will not have much impact on the country's unemployment rate. Second, the oil industry has enclave tendencies, so the extracting companies have minimal engagement with the local economy. Consequently, the industry does not create many jobs, even in the adjacent manufacturing or services sectors. A reduction in unemployment likely indicates that the non-booming sectors or sectors with a supporting role in resource extraction (e.g., food services, transportation, maintenance, etc.) are creating job opportunities, not specifically the booming sector. The stagnation in 2018 and 2019 indicates that employment opportunity was created for unskilled or trained laborers in resource extraction; however, the rapid increase in unemployment experienced in 2019 is an exogenous factor related to COVID-19 and not the mechanisms of the resource curse.

In addition to the minimum resource movement effect expected with oil extraction, Corden observes that a large labor surplus lessens the Dutch Disease's impacts.¹⁷⁵ More specifically, a large labor surplus reduces the negative impact of the resource movement effect because it assumes full employment. This means that if the initial condition was full employment, when labor shifts to the booming sector, there is a direct reduction labor available to non-booming sectors. However, this effect is negated with a large labor surplus because labor is readily available and not captured by the booming sector. Therefore, the intensity of the Dutch Disease via the movement of labor into the booming sector will be

¹⁷⁵ Corden, "Booming Sector and Dutch Disease Economics," 369.

minimized because Guyana initial condition was a large available labor pool. Additionally, because offshore resource extraction is a specialized and capital-intensive industry, direct shifts in investment away from the non-booming sector, or direct deindustrialization, will also be minimized; however, Guyana will still experience the resource movement of investments into supporting sectors of resource extraction, or indirect deindustrialization.

2. Inflation and the Real Effective Exchange Rate

Between 2014 and 2021, inflation rose from 1.2% to 5.7 % (Figure 6). The average rate from 2015–2020 (.95%) was lower than the average 2010–2014 rate (2.6 %). However, in 2021, Guyana’s inflation ramped up from 0.9% in 2020 to 5.7% (Figure 6). While this metric could indicate the onset of the resource curse, there are two factors worth noting. First, Guyana did not spend any revenue from the extraction of oil in 2020 or 2021, which was instead funneled into a Natural Resource Fund. This policy helped to limit inflation. Guyana’s inflation was approximately double the global average in 2021 (3.5%) and far lower than that of some countries in its region (i.e., Suriname’s inflation in 2021 was 59.1% for 2021).¹⁷⁶ This comparison raises the question of whether Guyana’s inflation was driven by its oil boom or exogenous factors.

Guyana’s post-oil discovery exchange rate depreciated from 206.50 in 2014 to 208.50 in 2021.¹⁷⁷ This trajectory is not consistent with the Dutch Disease. However, Guyana’s REER index increased from 98.5 in 2014 to 107.3 in 2021 (Figure 7), indicating that Guyana’s exports became less competitive in the post-oil period than in the pre-oil period. The appreciation in REER is an expected result of the Dutch Disease.

¹⁷⁶ The World Bank Database, “Inflation, Consumer Prices (Annual %)—Suriname, World | Data,” accessed March 12, 2023, <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=SR-1W>.

¹⁷⁷ Bank of Guyana, *Annual Reports 2010–2021*, 2020 Annual Report, 129.

3. Sectoral Economic Diversity

Oil production will increase the share of Guyana's export earnings that come from the extractive industries. However, export data are unavailable for 2020 and 2021, and the 2019 data is misleading. It shows that, in 2019, three of Guyana's top five export commodities were related to manufacturing and that Guyana experienced a significant increase in manufacturing export earnings, with special-purpose ships making up 27.1% of export earnings, shipping containers 12.8%, and excavation machinery 7.43%.¹⁷⁸ This is misleading because it appears that Guyana's manufacturing sector is booming, which would negate the stated effects of the resource curse. Yet the value-added in the sector was extremely minimal. Guyana imported oil rigs, pipes, floats, and other equipment for oil and mineral extraction, assembled them in-country, and "re-exported" the assembled equipment to the foreign companies that used it for oil exploration and extraction in Guyana. Accordingly, although Guyana was collecting substantial amounts of export earnings from "manufacturing," it was spending almost equivalent amounts of money to import this equipment. This indicates that the apparent growth within the manufacturing sector in 2019 was an anomaly.

After resource discovery, the agriculture sector in developing countries is often susceptible to the spending effect and resource movement effect of the Dutch Disease. However, by comparing the agricultural sector's pre-oil period growth against the relative decline of the post-discovery period, a conclusion can be reached that the resource curse is causing this sector's contraction. However, as will be discussed, many external factors have significantly contributed to this sector's decline while some agriculture commodities

¹⁷⁸ Observatory of Economic Complexity, "Guyana (GUY) Exports, Imports, and Trade Partners."

experienced growth. This does not entirely rule out the crowding out effect of the Dutch Disease, but it indicates the agriculture sector is trying to economically diversify.

Guyana's agriculture sector as a percentage of GDP continued the negative trend set by the previous period, falling from 26.2% in 2014 to 19.5% in 2021. (Figure 15).¹⁷⁹ Although GDP growth in the agriculture sector remained positive, the average growth rate declined from a 3.84% in 2010–2014 to 2.44% in 2015–2021 (Figure 16). While this gradual decline could indicate the onset of the resource curse there are alternative explanations to the reduction in the agricultural growth rate and sectoral composition seen during this period, specifically during 2016 and 2019.

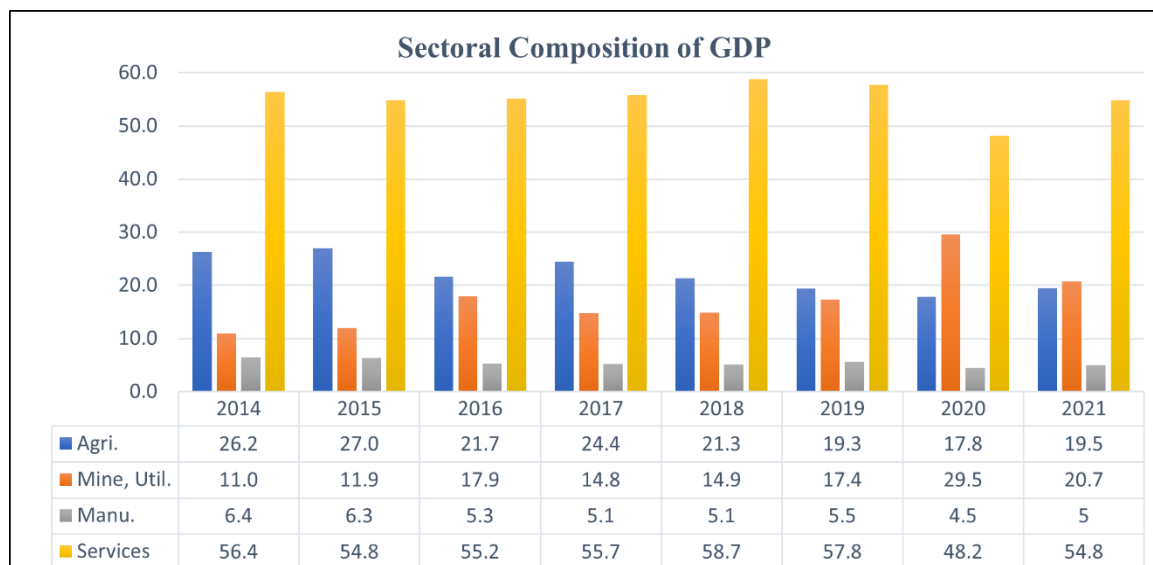


Figure 15. Guyana's Sectoral Distribution (% GDP), 2014–2021.¹⁸⁰

¹⁷⁹ Observatory of Economic Complexity.

¹⁸⁰ Adapted from United Nations Statistics Division, (Basic Data Selection Guyana 2010–2021)

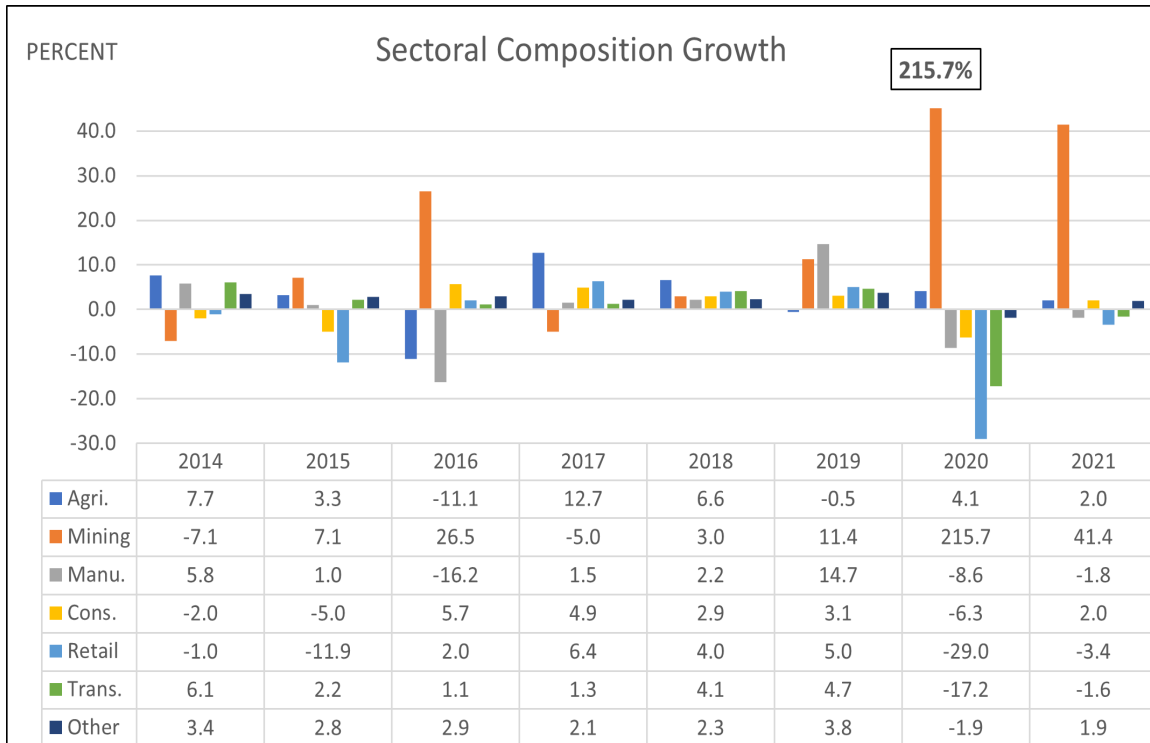


Figure 16. Guyana's Sectoral Composition Growth (annual %), 2015–2021.¹⁸¹

First, Guyana's reduction in agriculture sector growth, specifically the negative 11% GDP growth in 2016, was caused by two specific factors. In 2009, Guyana signed on to PetroCaribe, an annually renewable agreement with Venezuela to barter Guyanese rice for Venezuelan oil. PetroCaribe allowed Guyana to receive 20% higher than market prices for its rice, guaranteed an export market, and increased its energy security.¹⁸² However, border

¹⁸¹ Adapted from United Nations Statistics Division. Note: Mining growth exceeds graph limits of -30 to 45%. Specific breakdown of the Sectoral Composition indicators: Agri. includes agriculture, hunting, forestry, fishing; Mining includes mining, manufacturing, and utilities; Manu. is manufacturing; The service sector is broken into sub-sectors which include Cons., Retail, Trans., and Other; Cons. is construction; Retail includes retail trade, wholesale, restaurants, and hotels; Trans. includes transportation, storage, and communication; other is other service activities.

¹⁸² Mark D. Wener, Roger Rogers, and Dillon Clarke, *Guyana's PetroCaribe Rice Compensation Scheme Has Ended: Assessment and Policy Implications*, IDB Technical Note; 930 (Washington, DC: Inter-American Development Bank, 2016), <https://publications.iadb.org/publications/english/document/Guyana-PetroCaribe-Rice-Compensation-Scheme-Has-Ended-Assessment-and-Policy-Implications.pdf>.

tensions between the two countries flared when Guyana began exploring for oil in its Exclusive Economic Zone (EEZ).

After oil was discovered in 2015, Venezuela reignited its border dispute with Guyana, claiming sovereignty over two-thirds of its territory, including the adjacent territorial waters. Venezuela also denied Guyana's request to renew the PetroCaribe agreement. This caused a severe decline in Guyana's agriculture sector in 2016. Venezuela renewed the contract in 2019 after experiencing food shortages; however, the territorial dispute persists, and the agricultural industry remains vulnerable to Venezuela's political whims.

Second, the decline in 2019 was caused by the abrupt failure of the sugar industry. Guyana's state-owned enterprise (SOE), the Guyana Sugar Company (GUYSUCO), suffered financial troubles due to drastic declines in revenue from 123 million USD in 2011 to 27 million USD in 2019. In a 2021 economic review of Guyana, Mark Wilson noted that production fell by a cumulative 60.1% in 2015 to 2019.¹⁸³ Lower prices of sugar, inefficient operations, labor unrest, mechanical failures in the factories, and poor weather caused significant quantities of sugar cane to be left unharvested.

The final figure examined for the agricultural sector is the breakdown of agricultural commodity GDP. The first years of oil revenues increased the mining sector's share of Guyana's GDP from 11.0% in 2014, to 17.4% in 2020 and 29.5% in 2021 (Figure 15). As a result, other sectors' shares of Guyana's GDP declined. If examined by itself, the reduction of agriculture sectoral composition suggests the onset of the crowding out associated with the resource curse. However, examining revenue trends, it is less clear that this effect is taking place. Income from several commodities, including sugar, fishing, timber, and rice experienced some contraction during this period, but others, including livestock, expanded considerably during the post-oil period (Figure 17). Growth within the agriculture sub-sector is counter to what is expected with the crowding out effect of the resource curse. These trends will need to be examined over a more extended period of time

¹⁸³ Mark Wilson, "Economy (Guyana)," Europa World Online, April 29, 2021, <http://www.europaworld.com/entry/gy.ec>.

to generate a more accurate assessment; however, at this point, the evidence for a crowding out effect is ambiguous.

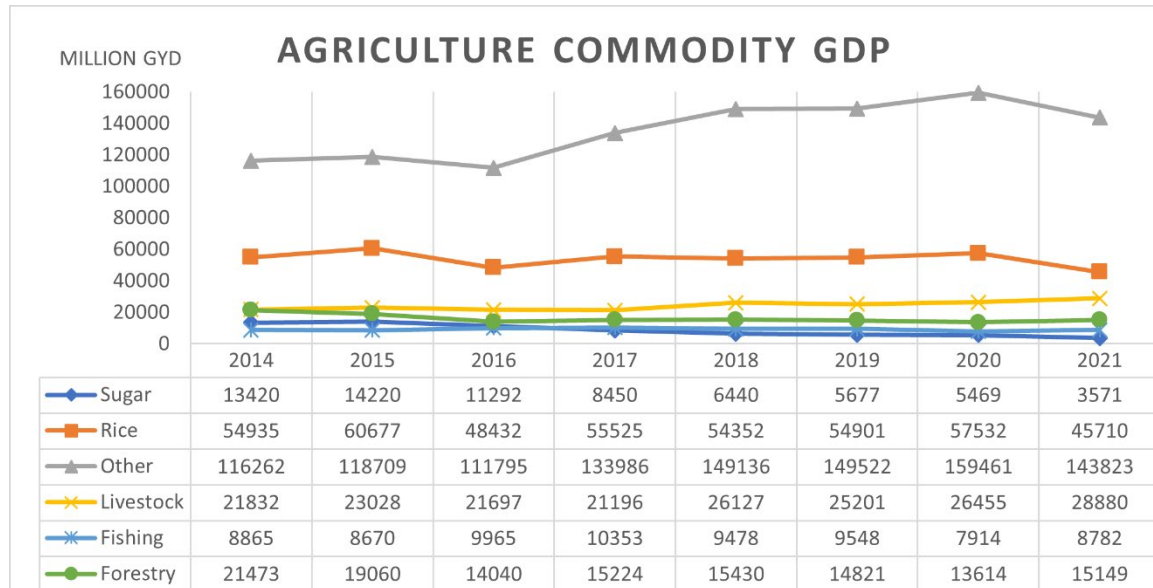


Figure 17. Guyana's Agriculture Sector GDP at 2012 Constant Basic Prices (million GYD), 2014–2021.¹⁸⁴

Services' share of Guyana's GDP was inconsistent throughout the post-discovery period. It fell only mildly between 2014 and 2021: from 56.4% to 54.8% (Figure 15). But it fluctuated significantly throughout the post-discovery period, with a high of 58.7% in 2018 and a low of 48.2% in 2020. (Figure 15). Two factors drove the overall reduction in services' contribution to the economy. First, as observed for the agricultural sector, oil revenues increased the mining sector's percentage of GDP, causing other sectors' relative contributions to decline. Second, the service sector contracted significantly in 2020 due to COVID-19, then recovered in 2021. The decline is therefore difficult to attribute to the resource curse.

¹⁸⁴ Adapted from Bank of Guyana, *Annual Reports 2010–2021*, 2020 Annual Report, 161.

The mining sector's share of GDP rose significantly during the post-discovery period (Figure 15). Between 2014 and 2021, it rose from 11.0% to 20.7%. However, this trajectory was also uneven. Mining's share rose to 17.9% in 2016 but then dipped to 14.8% in 2017. It stagnated in 2018 but rose to 17.4% by 2019. It then jumped to 29.5% of GDP in 2020. This increase in mining's share of Guyana's GDP correlates with the beginning of oil revenues, as well as the reduction of other sectors, due to COVID-19 policies.

The mining sector's growth in the post-discovery period was positive, often dramatically so. The sector grew by 26.5% in 2016 when it grew 26.5 %, 2020, 215.7% in 2020, and 40.1% in 2021 (Figure 16). The 2016 upsurge in Guyana's GDP growth rate was primarily due to gold declarations by domestic and foreign companies. The 2020 and 2021 jumps can be explained by oil revenue.

Meanwhile, the manufacturing sector's share of Guyana's GDP continuously declined in the post-discovery period: from 6.4% in 2014 to 5% in 2021 (Figure 15). GDP growth in this sector was negative in the post-discovery period. The average GDP growth rate in the post-discovery period was -1.03% per year, compared to the positive 4.4% growth in the pre-oil period (Figure 16). The constant decline of the manufacturing industry aligns with the expected result of the resource curse.

4. Government Debt

By 2021, Guyana's central government debt as a percentage of GDP increased to 42.9%, compared to 38.7% at the end of the pre-oil period in 2014 (Figure 10). External Public debt also increased from 1.22 billion USD in 2014 to 1.39 billion USD in 2021; however, this did not significantly exceed the pre-oil discovery external public debt zenith—1.34 billion USD in 2012 (Figure 11). Additionally, examining the post-discovery but pre-production period (2015-2019), when central government debt rose from 42.2% to 43.9%, it appears that Guyana engaged in some of the boom-based borrowing often associated with resource discoveries, known as the “presource curse.”

Compared to oil-producing countries with high debt-to-GDP ratios, such as Angola with 86.4% or Trinidad and Tobago with 58.9% (2021), Guyana is better positioned at

42.9% to mitigate the effects of resources curse.¹⁸⁵ However, primary commodity producing countries that have fared better at warding off the negative effects of the resource curse have lower debt-to-GDP ratios: for example, Chile with 36.2%, Botswana with 20.2%, and Norway with 15.7% (2021).¹⁸⁶ Guyana's low debt-to-GDP ratio means that it has an initial fiscal condition that puts it at an advantage at warding off the negative effects of the resource curse.

5. Public Investment and Consumption

Guyana's public investment and consumption both continued to expand during the post-discovery period. Guyana's public investment increased from 56.6 billion GYD in 2014 to 165.0 billion GYD in 2021 (Figure 12). Guyana's public consumption also grew, from 107.5 billion GYD in 2014 to 296.2 billion GYD in 2021 (Figure 12). The gap between these indicators also increased from 50.9 billion GYD in 2014 to 131.6 billion GYD (Figure 12). This is a potential red flag for future economic underperformance because it indicates that the government is increasing its spending without necessarily generating an increase in public goods and services.

The government may also be exhibiting transparency issues. The Bank of Guyana's Annual Budget Reports from 2015 to 2021 provided less clarity about changes in public servants' wages and salaries than the 2010–2014 reports. Only the 2015 budget report identified the specific amount by which public servants' salary increased.¹⁸⁷ The 2016–2021 reports only stated that public consumption expenditures had increased due to “employment costs, goods & services and transfer payments to various government services.”¹⁸⁸

¹⁸⁵ International Monetary Fund Datamapper, (Global Debt Database—Central Government Debt; accessed February 9, 2023), https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD.

¹⁸⁶ International Monetary Fund Datamapper.

¹⁸⁷ Bank of Guyana, *Annual Reports 2010–2021*, 2015 Annual Report, 13.

¹⁸⁸ Bank of Guyana, 2020 Annual Report, 17.

This lack of consistency in reporting government salaries and pensions raises concerns about possible concealment of financial data; however, these concerns are more specific to the institutional strand of the resource curse. There is a tendency for governments to use resource revenues to develop patronage networks through the expansion of public sector employment. To combat this aspect of the resource curse or dispel the negative perception these irregularities invoke, Guyana's Central Bank should provide consistency, transparency, and accountability in public expenditure reporting to dispel perceptions of corruption, rent-seeking, and patronage.

6. Private Fixed Investment and Foreign Direct Investment

Guyana's PFI increased significantly in the post-discovery period, relative to the pre-oil period (Figure 13). PFI identifies the domestic willingness to create, improve, or replace structures, equipment, and intellectual property which can improve the productive capacities of goods and services. PFI rose from 125.7 billion GYD in 2014 to 572.6 billion GYD in 2020 (Figure 13). Investment increased primarily in telecommunications, housing, distribution, non-fuel mining, services, and the oil and gas sub-sector.¹⁸⁹ This increase in PFI could build Guyana's domestic infrastructure and help diversify the local economy if substantial amounts of it are invested outside the oil sector.

FDI declined at the beginning of the post-discovery period, from \$255 million in 2014 to \$212 million in 2017 (Figure 14). However, it grew 2,105% between 2017 and 2021: from \$212 million to \$4,463 million (Figure 14). This significant increase in FDI is related to the oil and gas sector: specifically, the FDI in the two Floating, Production, Storage, and Offloading (FPSO) vessels needed for resource extraction and their supporting requirements. The enormous rise in FDI means money is flowing into the country. However, it primarily concentrates on the extractive sector's development and the sectors that support it. Investment in the capital-intensive extractive sector provides few

¹⁸⁹ Bank of Guyana, 2020 Annual Report, 17.

jobs and often provides minimal economic benefit to the host nation's other industries or services due to enclave tendencies.¹⁹⁰

If Guyana wants to capitalize on the booming oil industry, it needs to create policies that expand the benefits from the massive investment. This could include establishing local content requirements for the extractive sector, which compels foreign oil companies to utilize domestic industries and services. It could also invest in infrastructure projects to help local businesses develop more cheaply and bring their products to market more rapidly. This would improve Guyana's local capacity, industrial growth, economic diversification, and increase tax revenues. If the government does not take these steps, it will only receive natural resource revenue from taxes, royalties, and profit-sharing related to the extractive industry, which could contribute to corruption and rent-seeking associated with the institutional strand of the resource curse.

7. Summary of Sections 1 and 2

Several points can be made when comparing Guyana's pre-oil discovery economic baseline to the post-oil discovery period. First, Guyana's national wealth and growth have benefited from oil discovery, but the GOG has not been able to generate economic opportunities for every Guyanese. Indicators like drastic population growth and change in GDP per capita nonetheless indicate people's confidence in Guyana's future and the potential for economic opportunity. Second, Guyana has been unable to prevent the exchange rate appreciation, which will become a more significant problem when the GOG begins to utilize the Natural Resource Fund, unless this is mitigated by monetary policy. Third, the crowding out effect of the Dutch Disease is not apparent. Several sectors of the economy experienced growth, contrary to the expected effects of the resource curse. In addition, most of Guyana's negative economic trends can be attributed to other factors. Fourth, Guyana's relatively low debt-to-GDP ratio indicates its fiscal policies largely avoided the presource curse by avoided extensive boom-based external borrowing. Fifth,

¹⁹⁰ Elizabeth Asiedu, "Foreign Direct Investment, Natural Resources and Institutions" (working paper, International Growth Center, 2013), 20, <https://www.theigc.org/sites/default/files/2014/09/Asiedu-2013-Working-Paper.pdf>.

Guyana's public investment and consumption indicate the need for more transparency and fiscal discipline to prevent aspects the institutional strand of the resource curse from taking hold. Finally, the significant increase in PFI and FDI indicates high confidence in investing in Guyana, including outside of the extractive sector. Still, Guyana must strive to capitalize and capture as much benefit from resource extraction as possible to generate maximum benefit for its people.

C. SECTION 3: POLICIES THAT COUNTER THE ECONOMIC MECHANISMS OF THE RESOURCES CURSE

The remainder of the chapter will discuss the policies that the GOG established between 2015 and December 2021 to strengthen its resilience against the economic mechanisms of the resource curse. It is important to note that there is no recommended one-size-fits-all economic policy solution to avoid the resource curse. Countries recognized as success stories did not have the same initial economic conditions as Guyana, nor did they get it right all the time. Still, there were several commonalities within the policies they employed.¹⁹¹ These commonalities include development strategies geared towards opening and developing export-oriented markets; a deliberate push towards economic diversification to minimize the impact of resource revenue volatility; a focus on increasing private sector investment, encouraging domestic competition and avoiding protectionism; promotion of agricultural sector growth; the use of stabilization funds with links to national development strategies and national budget; and exchange rate policies that tackle appreciation.¹⁹²

Guyana has already implemented several economic policies that have been successful in other resource abundant countries. These policies include a national development strategy based on wealth management, a Natural Resource Fund (NRF) to protect against commodity price volatility, and a Local Content Policy (LCP) to facilitate domestic capacity expansion.

¹⁹¹ Paul J. Stevens, "'Resource Curse' and How to Avoid It," *The Journal of Energy and Development* 31, no. 1 (2005): 15, <http://www.jstor.org/stable/24812676>.

¹⁹² Stevens, 16.

1. The Evolution of Guyana's National Development Strategy

When oil was discovered in 2015, Guyana's national economic development strategy was the *Low Carbon Development Strategy* (LCDS) put in place by the Jagdeo administration in 2009.¹⁹³ It focused on reducing deforestation and developing alternative energy sources for Guyana, including solar, wind, and hydrological, to help fight climate change after the Kyoto Protocol entered into force in 2005.¹⁹⁴ The GOG recognized the vital role of its standing forest in combating climate change and created the LCDS to minimize the exploitation of its vast forest and to collect financial incentives offered by the UN through the Reduced Emissions from Deforestation and forest Degradation (REDD+) scheme. Since then, the GOG has been committed to this environmental stance in its national development.

Guyana's national development strategy changed in 2019 when the Granger administration replaced the LCDS with the *Green State Development Strategy: Vision 2040* (GSDS).¹⁹⁵ This policy was based on UN Sustainable Development Goals, articulated in the UN's 2030 *Agenda for Sustainable Development*.¹⁹⁶ The difference between the LCDS and GSDS was the GSDS leveraged the realization that the production and revenue of oil had the potential to generate significant growth and development not foreseen at the inception of the LCDS. The GSDS emphasized three main goals: managing natural resource wealth, supporting economic resilience, and building human capital and institutional capacity, though it still maintained Guyana's commitment to low-carbon development.

¹⁹³ Jocelyn Dow, Vanda Radzik, and Duncan Macqueen, *Independent Review of the Stakeholder Consultation Process for Guyana's Low Carbon Development Strategy (LCDS)* (Georgetown, Guyana: International Institute for Environment and Development, 2009), 16, <https://www.iied.org/sites/default/files/pdfs/migrate/G02590.pdf>.

¹⁹⁴ Dow, Radzik, and Macqueen, 16.

¹⁹⁵ Department of Environment, *Green State Development Strategy: Vision 2040* (Georgetown, Guyana: Government of Guyana, 2019), <https://faolex.fao.org/docs/pdf/guy199315.pdf>.

¹⁹⁶ United Nations Department of Economic and Social Affairs, *Transforming Our World: The 2030 Agenda for Sustainable Development* (New York, NY: United Nations Publications, 2015), <https://sdgs.un.org/publications/transforming-our-world-2030-agenda-sustainable-development-17981>.

Several GSDS developmental objectives were based on the premise that prudently managed and invested oil windfall revenues could help Guyana modernize traditional economic sectors.¹⁹⁷ These sectors included sugar, forestry, and fisheries. It could bolster high growth sectors, such as rice and non-fuel mineral mining. It also could develop future value-added sectors, including business process outsourcing, tourism, and agro-processing. The GSDS also proposed investment in large-scale infrastructure projects, such as roads, bridges, transportation, communications, ICT, and energy projects, to encourage further private and foreign investment through low-cost energy, accessibility, and openness. The fact that Guyana experienced significant increases in PFI and FDI during the inception and application of the GSDS suggests that it improved investor confidence and the economic outlook for Guyana's future.

The national development strategy reverted to the LSDS in May 2021 after the PPP/C took office in August 2020. The PPP/C cited several reasons for the change. However, the main complaint was APNU+AFC's purported oil industry mismanagement, including allowing oil companies to flare excess gas—specifically, 14 billion cubic feet from the Liza-1 project—and the failure of the government to adhere to its REDD+ commitment.¹⁹⁸ This violation was in direct opposition to Guyana's environmental sustainability pledge. In October 2021, The PPP/C released a draft *Extended LSDS* for national consultation, which revised the LCDS to account for the oil revenue. The *Extended LSDS* will be tabled in the National Assembly in February 2022. The *Extended LSDS* draft combines the two national development strategies, but it focuses more on mitigating the environmental impacts of Guyana's national development while still gaining the economic benefits of oil and gas exploitation.¹⁹⁹

¹⁹⁷ Department of Environment, *Green State Development Strategy: Vision 2040*.

¹⁹⁸ Department of Public Information, "Guyana Re-Establishes Leadership on the Environment," May 19, 2021, <https://dpi.gov.gy/guyana-re-establishes-leadership-on-the-environment/>.

¹⁹⁹ Office of the President of Guyana, *Guyana's Low Carbon Development Strategy 2030* (Georgetown, Guyana: Government of Guyana, 2022), <https://lcds.gov.gy/wp-content/uploads/2022/08/Guyanas-Low-Carbon-Development-Strategy-2030.pdf>.

Determining whether the Extended LCDS' new low-carbon economy, forest climate services, and clean energy will lead to resilience against the economic mechanisms of the resource curse is difficult. The resource curse literature has yet to explore the effects of environmentally conscious economic policy decisions and their ability to defeat the resource curse. However, it is apparent that these morally and socially conscious environmental policy decisions are becoming more popular globally, which may increase the foreign and domestic level of interest and confidence in the development of Guyana. This shows that Guyana is willing to work with other countries and international organizations to solve global environmental problems while creating lasting results for its country. This is doubly important in the context of the uncertainty of the global energy market and the need for western nations, especially the United States, to have reliable international partners to provide energy needs. However, it is difficult to tell whether Guyana's environmentally based economic policy decision is causing it to sacrifice, or at the very least handicap, its national development to combat climate change while developed nations continue to exceed their global commitments.

The evolution of the national development strategy nonetheless appears to harness the Hartwick Rule's essence. The Hartwick Rule advocates for the investment of resource revenues in buildings, roads, and other public goods to eventually make up for the declining and finite reserves of the natural resource. The NDS is focused on offsetting the decline of its oil reserves by investing its oil wealth in the accumulation of human and physical capital through education, infrastructure, and non-oil sector development. If this strategy is effectively implemented, when the oil is depleted, Guyana's new stock of assets, such as a highly educated and skilled population, reliable energy, roads, transportation, newly connected markets, and a diversified economy, will enable the country to transition smoothly to a post-oil context.

2. National Resource Fund

Two major impediments to economic growth in resource rich countries are policies that fail to counteract the price volatility of the resource and prudently manage the revenues

generated by that resource.²⁰⁰ One policy step that countries can take to combat these challenges is establishing a Sovereign Wealth Fund (SWF). When the fund is financed from the sale of extracted natural resources, the term SWF can be used interchangeably with the term Natural Resource Fund (NRF). Establishing an NRF is an internationally recognized practice for securing natural resource wealth and provides several macroeconomic, social, and political benefits.

An NRF provides a mechanism for saving resource revenues, mitigating the Dutch Disease, and lessening the impact of price volatility. First, it allows underdeveloped countries with the limited absorptive capacity to effectively manage natural resource revenues by sterilizing capital inflows through saving and investing in foreign markets.²⁰¹ Economic absorptive capacity in underdeveloped countries is often constrained by a lack of the necessary technologies, processes, labor, skills, education, and enterprises to initially utilize windfall revenue effectively.²⁰² A country that saves resource revenues in an NRF can invest in foreign activities and generate wealth through interest accrual. It allows the country time to improve its absorptive capacity by pragmatically allocating funds to projects that expand its economic and human productive capacities. The process of capital sterilization also minimizes the shock of exchange rate appreciation by preventing the domestic economy from being inundated with foreign currency, thus, curtailing inflation and mitigating the economic effects of the Dutch Disease.²⁰³

The NRF can help stabilize the economy during unexpected deficits and prevent boom-bust cycles often created by the government's unrealistic budget, overspending, or wildly unpredictable global markets conditions triggered by natural disasters, global pandemics, or wars.²⁰⁴ Countries that save and invest resource wealth when revenues are

²⁰⁰ Ross, *The Oil Curse*, 204.

²⁰¹ National Resource Governance Institute, *Managing the Public Trust: How to Make Natural Resource Funds Work for Citizens* (New York, N.Y.: Columbia Center on Sustainable Investment, 2014), 14, <https://resourcegovernance.org/natural-resource-funds>.

²⁰² National Resource Governance Institute, 14.

²⁰³ National Resource Governance Institute, 14.

²⁰⁴ National Resource Governance Institute, 13.

high have a surplus when commodity prices randomly fall. Saving and investment also allow for the distribution of natural resource wealth across generations. Generational wealth can be achieved through financing and the development of public goods, including roads, schools, and hospitals as noted by the Hartwick Rule.²⁰⁵ Additionally, as the fund accrues interest, future generations will have wealth after the resource depletes or, in the case of oil, is replaced by some other means of energy. It helps improve present and future economic and human capital and increase economic and human capacities.

On the political side, an NRF can help to improve transparency and accountability.²⁰⁶ An NRF can limit politicians' discretionary spending and patronage by being an avenue to allocate revenues and manage the funds reliably and responsibly. The governments can use the NRF to earmark specific development projects that increase public goods or as a direct way to provide natural resource benefits to the people through direct cash transfers. The NRFs can also protect the country's natural resource wealth from corruption and mismanagement by legislating disclosure requirements and allowing public oversight.²⁰⁷ Finally, it enables the country to achieve greater political autonomy. If the country experiences unexpected economic crises, it can finance itself through the NRF rather than borrow from international or private banks, limiting the need to increase its external debt services and avoiding the limitations.

These economic, social, and political benefits can only be realized if the country develops and implements an NRF according to the SWF Generally Accepted Principles and Practices (GAPP), also called the Santiago Principles.²⁰⁸ The Santiago Principles

²⁰⁵ G. B. Asheim, W. Buchholz, and CAAM Withagen, "The Hartwick Rule: Myths and Facts," *Environmental & Resource Economics*, Environmental & Resource Economics, 25, no. 2 (2003): 129–50, <https://doi.org/10.1023/A:1023909217989>.

²⁰⁶ National Resource Governance Institute, *Managing the Public Trust: How to Make Natural Resource Funds Work for Citizens*, 15.

²⁰⁷ National Resource Governance Institute, 15.

²⁰⁸ International Working Group of Sovereign Wealth Funds, "Sovereign Wealth Funds Generally Accepted Principles and Practices "Santiago Principles" (working paper, International Monetary Fund, October 2008), https://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf.

consist of 24 voluntary guidelines established by the International Working Group (IWG) of SWF to meet these four objectives set forth by the IWG:

- To help maintain a stable global financial system and free flow of capital and investment;
- To comply with all applicable regulatory and disclosure requirements in the countries in which they invest;
- To invest on the basis of economic and financial risk and return-related considerations; and
- To have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.²⁰⁹

These principles are internationally recognized as best practices. However, it is up to the home country to adhere to them to ensure the operational effectiveness of the NRF.

In 2019, the GOG created the first iteration of its SWF via the *Natural Resource Fund (NRF) Act 2019*.²¹⁰ Guyana's fund is a special-purpose SWF whose principal source of financing is oil revenues. The purpose of the NRF 2019 was to “manage the natural resource wealth of Guyana for the present and future benefit of the people and for sustainable development of the country.”²¹¹ To accomplish its purpose, the NRF 2019 had four objectives which included:

- ensure that volatility in natural resource revenues do not lead to volatile public spending;
- ensure that natural resource revenues do not lead to a loss of Guyana's economic competitiveness;
- fairly transferring natural resource wealth across generations to ensure future generations benefit from natural resource wealth; and
- using natural resource wealth to finance national development priorities including any initiatives aimed at realising an inclusive green economy.²¹²

²⁰⁹ International Working Group of Sovereign Wealth Funds, 4.

²¹⁰ Ministry of Finance, *Guyana Act No. 12 of 2019 Natural Resource Fund Act 2019* (Georgetown, Guyana: Government of Guyana, 2019), 4, https://finance.gov.gy/wp-content/uploads/2021/03/NRF-Act_2019.pdf.

²¹¹ Ministry of Finance, 4.

²¹² Ministry of Finance, 8.

To meet these objectives, the NRF 2019 established rules for public oversight, management, deposits, withdrawals, approval for utilization, investment, accounting, reporting, auditing, confidentiality, penalties for offenses, and other regulatory measures.²¹³ Public oversight of the fund was to be conducted by a 22-member oversight committee that would monitor and evaluate GOG's compliance with rules outlined in NRF. The Public Accountability and Oversight Committee (PAOC) nominees were NRF 2019-mandated appointments from specific regions, commissions, associations, institutes, organizations, and councils. The PAOC was a non-governmental affiliated body meant to ensure management and utilization of the funds were following the "principles of transparency, good governance and international best practices, including the Santiago Principles."²¹⁴ The NRF established the Minister of Finance as the overall manager and the Bank of Guyana as the operational manager of the SWF fund. It also established a slew of regulations for investment advisors and committee requirements in keeping with international norms.

The 2019 NRF also established deposit and withdrawal rules.²¹⁵ Deposit requirements were relatively simple. Deposits were mandated for petroleum revenues, including royalties; profit sharing for oil and gas; income tax, corporate income tax, capital gains tax, property tax, or petroleum income tax on individuals or corporations undertaking production operations; and signature, discovery, and production bonuses.²¹⁶ It also left open the possibility of allowing excess mining and forestry revenues to be deposited. Excess mining and forestry revenues are revenues based on the price or level of production of the relevant commodity exceeding the long-term average of price or level of production, or both. These excessive revenues are only optional for deposits.

The GOG can only withdraw funds from the NRF for two financing purposes and for no more than the maximum amount approved by the National Assembly for that fiscal

²¹³ Ministry of Finance, *Guyana Act No. 12 of 2019 Natural Resource Fund Act 2019*.

²¹⁴ Ministry of Finance, 9.

²¹⁵ Ministry of Finance, *Guyana Act No. 12 of 2019 Natural Resource Fund Act 2019*.

²¹⁶ Ministry of Finance, 23.

year.²¹⁷ The two financing purposes are “national development priorities including initiative aimed at realizing an inclusive green economy; and essential projects directly related to ameliorating the effect of a major natural disaster.”²¹⁸

Determining the maximum amount to be withdrawn is based on three figures: the Economically Sustainable Amount, the Fiscally Sustainable Amount, and the Emergency Financing requirements. The Economically Sustainable Amount is recommended by a Macroeconomic Committee but determined by the Minister of Finance. The Fiscally Sustainable Amount is determined solely by the Minister of Finance. Emergency Financing is determined by evaluating financing required to improve public conditions following a major natural disaster in the current year or two preceding fiscal years. Still, it is not to exceed the amount calculated by the first two figures. The calculation for the maximum amount is determined by separately adding the Emergency Financing requirement to the first two figures. Then the lowest of the two figures is presented as the maximum withdrawal figure in the National Assembly for approval. Several components are considered to determine the economically and fiscally sustainable amounts; however, the main takeaway from the withdrawal process is that the Minister of Finance plays a significant role in determining the maximum amount for withdrawal.

Finally, the 2019 NRF set the ground rules for investments, accounting, reporting, auditing, and penalties for offenses.²¹⁹ The NRF is mandated to invest in specific eligible assets classes, established minimum requirements for safe investments, and investments for long-term savings. Accounting mandated that the Bank of Guyana conform to international financial norms, including reporting, internal auditing, and external auditing requirements. Offenses for the mismanagement of the SWF include publishing misinformation, failure to publish information, hindering external auditors, and disclosing confidential information. Penalties for these offenses range from three to five years in prison and five to ten million GYD.

²¹⁷ Ministry of Finance, *Guyana Act No. 12 of 2019 Natural Resource Fund Act 2019*.

²¹⁸ Ministry of Finance, 23.

²¹⁹ Ministry of Finance, *Guyana Act No. 12 of 2019 Natural Resource Fund Act 2019*.

The NRF Act of 2019 established the legal framework and economic mechanism necessary to transparently manage petroleum revenues and mitigate several challenges caused by the resource curse; however, the NRF 2019 was also shrouded in political controversy.²²⁰ The NRF 2019 was enacted by the APNU+AFC majority government in January of 2019. It was a policy developed through three years of national consultation. Still, it was signed into law following a vote of no confidence in the APNU+AFC government led by President Granger in December 2018. This motion effectively put the Granger administration in a caretaker role until the next election. While the NRF 2019 approval created a mechanism necessary for managing oil revenues for the sale of the first oil lift in March 2020, the APNU+AFC's caretaker status led the opposition to question the legitimacy of the bill.

After the 2020 election, the Ali administration and the PPP/C majority government developed an updated NRF. The PPP/C led government enacted the *NRF 2021* on 30 December 2021.²²¹ The purpose and objectives of the 2021 NRF remained the same. However, in addition to addressing the bill's legitimacy concerns, the PPP/C believed there were several deficiencies with the NRF 2019.

First, the *NRF 2021* reduced the 22-member PAOC to a 9-member committee. The purpose of reducing members was to increase the efficiency of the PAOC.²²² The new PAOC condensed the specific organizational nominations and created a more generalized representative requirements list, including three from the religious community, two from the private sector, two from organized labor, and one from the professions. One of these nominees would be appointed as the PAOC chairperson by the President.

²²⁰ Ministry of Finance.

²²¹ Ministry of Finance, *Guyana Act No. 19 of 2021 Natural Resource Fund Act of 2021* (Georgetown, Guyana: Government of Guyana, 2021), <https://finance.gov.gy/wp-content/uploads/2021/03/NRF-Act.pdf>.

²²² Ministry of Finance, 94.

Second, 2021 NRF also created a Board of Directors as the funds managing body versus having the Minister of Finance as the sole fund manager.²²³ The 2021 NRF transferred the Minister of Finance's responsibilities as the overall manager of the fund to the Board of Directors. The NRF's Board of Directors consists of a minimum of three to a maximum of five members, including at least one appointed by the President, one by the National Assembly, and one by the private sector.

Finally, while deposit requirements and rationales for withdrawal remained the same, the NRF 2021 reduced the withdrawal process's complexity.²²⁴ It changed the maximum amount for withdrawal calculations to improve transparency, accountability, and public understanding. First, the macroeconomic committee established to recommend the economically sustainable amount was dissolved. Calculations are no longer based on amounts determined and put forth for approval by the fund manager. The withdrawal amount is based on a scheduled annual ceiling. The schedule is based on a percentage of deposited amounts. The schedule allows for 100% of the first 500 million USD, 75% of the second, 50% of the third, 25% of the fourth, 5% of the fifth, and 3% of any amount in excess of the first 2,500 million USD.²²⁵

When the NRF 2021 was enacted, not a cent of the NRF had been spent. The account held 607,646,570 USD.²²⁶ Therefore, based on the new schedule set forth in the NRF 2021, the fiscal year 2022 annual ceiling for withdrawal would be authorized up to the total amount in the NRF account; however, sets an annual ceiling for the fiscal year 2023 and beyond requiring greater amount of funds to remain in the account each year.²²⁷ This new schedule for withdrawal provides a few advantages. First, it simplifies the anticipated withdrawal amounts, which facilitates short- and medium-term financial

²²³ Ministry of Finance, *Guyana Act No. 19 of 2021 Natural Resource Fund Act of 2021*.

²²⁴ Ministry of Finance.

²²⁵ Ministry of Finance, 115.

²²⁶ Bank of Guyana, *Guyana—Natural Resource Fund Summary of Financial Position and Performance*.

²²⁷ Ministry of Finance, *Guyana Act No. 19 of 2021 Natural Resource Fund Act of 2021*.

planning for national development projects. Second, it provides access to these funds to kick start public goods investments and development. Third, the annual caps ensure the GOG is held accountable for these figures for annual withdrawals by the PAOC. Finally, the schedule ensures that portions of the deposits remain within the NRF account for investment to meet its intergenerational wealth objective.

While the NRF 2021 provided legitimacy and improved on several aspects of the first bill, there are still two areas of transparency and accountability that were not addressed.²²⁸ First, the NRF 2021 does not mandate that current or future mining or forestry resource revenues, including excess revenues, be deposited and utilized in the same manner as petroleum revenues. This leaves open governmental transparency and accountability issues when dealing with non-oil sectors. Secondly, there is ambiguity in the nomination of the Board of Directors if the President chooses to have more than the minimum three members. The bill does not state who nominates these other members, and this could create political issues if nominations fall to the political party president in power.

Sovereign wealth funds are internationally recognized for securing natural resource wealth and providing several macroeconomic, political, and social benefits. The establishment of the NRF Act of 2019 and its replacement, the NRF Act of 2021, were solid steps toward mitigating the effects of the resource curse. However, they must be coupled with good governance, strong institutions, and public oversight to ensure maximum effectiveness in fighting the resource curse.

3. Local Content Policy

An adverse economic mechanism that is not specifically addressed by Guyana's development plan or by the sovereign wealth fund is enclave tendencies created by extractive industries. These tendencies include limited forward and backward linkages with the host nation's economy, which constrains the socio-economic benefits the country can receive from its resource extraction. With the discovery of oil, many Guyanese may desire high-paying jobs in the newly created energy sector or the ability to supply local goods to

²²⁸ Ministry of Finance.

this sector. However, the oil industry, especially offshore, is uniquely specialized, and these companies need highly trained, educated, and skilled workers, which Guyana currently does not have. Additionally, since the oil industry in Guyana is currently dominated by foreign companies with primarily foreign workers, the indirect economic benefits, including wages and demand for goods, rarely reach the shores of the host nation, as these employees repatriate their income and purchase foreign goods and services. Therefore, the GOG has decided to counteract these effects of the resource curse by implementing a Local Content Policy (LCP).

The primary objective of a LCP is to “develop and support local manufacturing and service provision through backward, forward and sideways linkages along the value chain.”²²⁹ LCPs have been implemented in other resource rich countries, including Ghana and Kenya, to capture a more significant share of the revenues from oil and gas productions.²³⁰ To accomplish this, LCPs encourage or require foreign extractive industries to engage with the host nation’s economy for locally sourced inputs, often with specific percentages required from several countries’ economic sectors. Quotas for employment are also legislated by the host nation and include training and skill development, which are essential to creating opportunities for employment in the energy sector.

LCPs also create jobs indirectly by ensuring the local population can compete for contracts and provide inputs for the oil and gas sector. The added value of mandating foreign and domestic economic cooperation includes creating jobs in local communities, developing local enterprises and businesses, and stimulating capacity development and innovation. All the country’s sectors can experience the benefits of this oil wealth. The

²²⁹ Jesse Salah Ovadia, “The Role of Local Content Policies in Natural Resource-Based Development,” in *Österreichische Entwicklungspolitik 2015. Rohstoffe Und Entwicklung*, ed. Österreichische Forschungsförderung für Internationale Entwicklung (ÖFSE) (Wien, Austria: Sudwind-Verlag, 2015), 37, <https://www.oefse.at/publikationen/oesterreichische-entwicklungspolitik/detail-oesterr-entwicklungspolitik/publication/show/Publication/Rohstoffe-und-Entwicklung/>.

²³⁰ Kennedy Chege, “Designing Local Content Frameworks in the Oil, Gas and Mining Sectors in Africa: Principles and Guidelines,” *Mineral Law in Africa*, February 11, 2020, <http://www.mlia.uct.ac.za/news/designing-local-content-frameworks-oil-gas-and-mining-sectors-africa-principles-and-guidelines>.

agriculture sector can supply foodstuffs for the oil industry. The manufacturing sector can supply goods, equipment, and other industrial requirements. The service sector can supply transportation, legal, and accounting services. Small and medium-sized enterprises can use these contracts to grow their business through increased demand and employ more people, which strengthens economic growth and reduces unemployment. Economic diversification can also be addressed if the government can target specific areas for growth and entrepreneurs invest in developing local capacity to meet the requirement, knowing that they will be able to capitalize on the LCP requirements.

LCPs can also help sustain domestic economic productivity when commodity prices fall. As long as extraction continues to some degree, the extractive industries' contractual engagements with local producers and workers continue to provide some economic benefits through contractually obligated activities with local businesses. These requirements also ensure that some revenue from natural resource exploitation is reinvested in the host country's domestic economy rather than repatriated to the oil company's home country.

However, like SWFs, LCPs require good governance to ensure these policies do not exclude segments of society or only enrich local elites.²³¹ Government corruption, overreach, and patronage could cause excessive requirements for specific goods and services or establish contracts based on favoritism. Government officials could be enticed by local companies or be engaged in specific enterprises that could benefit from government mandated contracts and seek to exploit them. Therefore, mandates need to set clear guidelines for domestic contract competition and quality assurance of goods and services provided to ensure a transparent and accountable process for domestic and foreign companies.

Guyana's LCP, or the *Local Content Act, Act No. 18 of 2021*, referred to as the LCA, was passed in December 2021. The LCA was designed to mandate the application of local content criteria on individuals and firms engaged in petroleum operations or related

²³¹ Ovadia, "The Role of Local Content Policies in Natural Resource-Based Development," 38.

activities; prioritize Guyanese companies and citizens in the procurement of goods and services for the oil sector; facilitate local capacity development; establish guidelines for the participation, supervision, co-ordination, investigations, monitoring and evaluation of local content in Guyana; and promote competition and innovation in domestic industries to enhance the socio-economic development of Guyana.²³²

The LCA applies to all operations and activities in the petroleum sector, and local content must be implemented by every contractor, sub-contractor, or licensee. Guyana's LCA defines local content as "the monetary value of inputs from the supply of goods, or the provisions of services, by Guyanese nationals or Guyanese companies and includes local capacity development."²³³ The Minister of Natural Resources is responsible for the adherence to the LCA and approves all Local Content Master Plans (LCMP) submitted by relevant parties.

All contractors and licensees must submit an LCMP to the Minister of Natural Resources for approval within four months of this act coming into operation or their being granted a license, receiving a transfer of license, or entering a petroleum agreement to conduct operations. These guidelines apply to sub-contractors entering into agreements with other sub-contractors, contractors, and licensees. The contents of the LCMPs must include sub-plans for employment, procurement, capacity development, quality and quantity criteria for required supply of goods and the provision of services, and an estimate of the value of local content to be acquired and delivered and rendered for Guyana.²³⁴ Contractors and licensees are also responsible for providing a local content report identifying its compliance with the minimum local content levels.

The minimum local content levels are stipulated in the LCA (Figure 18 and 19). These minimum local content levels cover 40 specific sectors with varying degrees of

²³² Ministry of Natural Resources, *Guyana Act No. 18 of 2021 Local Content Act 2021* (Georgetown, Guyana: Government of Guyana, 2021), 126, <https://www.parliament.gov.gy/publications/acts-of-parliament/local-content-act-2021-no.-18-of-2021>.

²³³ Ministry of Natural Resources, 127.

²³⁴ Ministry of Natural Resources, 134.

Guyanese business and Guyanese nationals for involvement within these sectors. However, the goal of the LCA is to ensure that contractors, sub-contractors, and licensees comply with set minimums to ensure “maximum participation of Guyanese nationals and companies supplying goods or providing services in the Guyanese petroleum sector; and local capacity development.”²³⁵

Sectors and Sub-sector for Guyanese Businesses	End of 2022
1. Rental of Office Space	90%
2. Accommodation Services (apartments and houses)	90%
3. Equipment Rental (crane and other heavy-duty machinery)	50%
4. Surveying	75%
5. Pipe Welding – onshore	25%
6. Pipe Sand Blasting and Coating – onshore	30%
7. Construction Work for Buildings – onshore	50%
8. Structural Fabrication (cutting, bending, and assembling of steel products) – onshore	30%
9. Waste Management (disposal, and waste transport services) – Non-hazardous Waste	75%
10. Waste Management (disposal, and waste transport services) – Hazardous waste	25%
11. Storage Services (warehousing)	60%
12. Janitorial and Laundry Services	90%
13. Catering Services	90%
14. Food Supply	75%
15. Administrative Support and Facilities Management Services	75%

Figure 18. Part I: Minimum Local Content Levels for Sectors and Sub-sector for Guyanese Businesses.²³⁶

²³⁵ Ministry of Natural Resources, 144.

²³⁶ Source: Ministry of Natural Resources, 143–44.

Sectors and Sub-sector for Guyanese Businesses	End of 2022
16. Immigration Support Services	100%
17. Work Permit, Visa Applications, Visa on Arrival, and In-Water Activity Permit	100%
18. Lay Down Yard Facility	90%
19. Customs Brokerage Services	100%
20. Export Packaging/Crating, Preservation, and Inspection	50%
21. Pest Control Exterminator Services	95%
22. Cargo Management/Monitoring	75%
23. Ship & Rig Chandlery Services	25%
24. Borehole Testing Services	20%
25. Environmental Services and Studies	25%
26. Transportation Services	
a. Trucking	75%
b. Ground Transportation – movement of personnel	100%
27. Metrology Services	10%
28. Ventilation (private, commercial, industrial)	70%
29. Industrial Cleaning Services – onshore	75%
30. Security Services	95%
31. ICT - network installation, support services	20%
32. Manpower and Crewing Services	50%
33. Dredging Services	10%
34. Local Insurance Services	100%
35. Local and Accounting Services	90%
36. Local Legal Services	90%
37. Medical Services	25%
38. Aviation Support Services	20%
39. Engineering and Machining	5%
40. Local Marketing and Advertising Services (public relations)	75%

Figure 19. Part II: Minimum Local Content Levels for Sectors and Sub-sector for Guyanese Businesses.²³⁷

²³⁷ Source: Ministry of Natural Resources, 143–44.

The LCA is crucial for ensuring that Guyana and its citizens receive the maximum benefit of its newfound wealth by mandating Guyanese involvement in the petroleum sector. It theoretically does not mean that companies will have to sacrifice the quality of products or services. Still, it does mean contractors, sub-contractors, and licensees must create a plan to engage in the local economy. The expectation is that, over time, this will develop local capacity, create an educated and experienced workforce, and generate more opportunities for Guyanese businesses and national to get their foot into the door instead of being on the sidelines of the oil revenue windfall. It will help reduce unemployment and create economic growth as Guyanese begin to capitalize on higher paying jobs and spend and invest their wealth in the local economy. The LCA helps Guyana fight the enclave tendencies of the extractive industry and the resource curse by ensuring maximum economic benefits to the people of Guyana.

4. Summary

The strategy and policies Guyana has implemented and adjusted since its oil discovery are positive measures necessary to defend against the resource curse. Guyana's Extended Low Carbon Development Strategy balances its commitment to fighting climate change while still producing a plan to maximize the benefits of oil production through targeted public good investment and local capacity development. Guyana's Natural Resource Fund provides a transparent and accountable mechanism for saving and investing its wealth while preventing many of the ail associated with the Dutch Disease. Finally, its LCP ensures that Guyanese workers and business can take part in the petroleum sector while fighting against the extractive tendencies of the oil sector. However, these policies have evolved and continue to evolve and must be constantly monitored and evaluated to avoid the resource curse's macroeconomic effects.

D. CONCLUSION

Can Guyana avoid the resource curse? This thesis concludes that Guyana, though still vulnerable to some mechanisms, has implemented a robust series of policies, plans, procedures, and initiatives that mitigate many adverse effects of the resource curse and,

therefore, can avoid the resource curse. While it cannot prevent all adverse effects, Guyana has shown its willingness to identify its various political, economic, and societal vulnerabilities and address them with various new policies to prevent them from becoming insurmountable problems. While this thesis is not assessing with certainty that Guyana will escape the resource curse, it does conclude that Guyana has the ability, like several other resource abundant countries, to see its newly discovered resource generate significant political, economic, and social benefits. This assessment is based on the following evidence.

First, Guyana has maintained its democratic principles and strengthened its political processes. Though controversy permeated the 2015 and 2020 elections, the democratic process and results were upheld, which is significant because countries that maintain democratic principles are more resilient to the resource curse. This is because democracies are accountable to the people, and the continuous engagement of the people will ensure government utilizes its newfound wealth to benefit the entire population, not just the elites. Traditional levels of political violence and divisive rhetoric have also seen a notable decline due to efforts to increase political harmony among the ethnically polarized parties. Additionally, for the first time since 1992, local elections were conducted.

Second, reducing corruption is essential to mitigating the resource curse, and in Guyana, the perception of corruption was reduced over the post-oil discovery period. This reduction can be attributed to the application of the rules set forth by the Extractive Industries Transparency Initiative (EITI), the publication of all oil contracts, and the implementation of laws regarding the use of the Natural Resource Fund. These endeavors constrain the possibility of the misuse of oil revenues by minimizing opportunities for rent-seeking, political patronage, and budget mismanagement.

Third, this thesis concludes it is doubtful that the Guyanese will engage in intrastate violence to seize the resource wealth for a single group of people. This assessment is based on the lack of conditions contributing to internal conflict onset in other resource abundant countries. These conditions include a large population, low GDP per capita, and oil located in conflict zones, which are not factors in Guyana. Guyana does have a history of ethnic

tensions and fractionalization, but this thesis concludes it alone is not sufficient to trigger a civil war; however, Guyana should continue to listen to and lift all voices within the Guyanese community to prevent ethnic tension from becoming political violence in a country with political parties rooted in ethnic biases.

Finally, while the manifestation of several economic mechanisms of the resource is challenging to avoid altogether, Guyana has taken significant steps to reduce its economic impact. Guyana has implemented a national development strategy based on wealth management. This strategy provides the public with a roadmap of the government's vision and can be used as an accountability measure if the government fails to reach its destination. The implementation of the Natural Resource Fund (NRF) will help Guyana protect itself against commodity price volatility while providing it the ability to finance necessary development projects and build generational wealth. The legislation of a Local Content Policy (LCP) will reduce the enclave tendency of the extractive oil and gas industry and facilitate domestic capacity expansion. This expansion will contribute to domestic growth and, with persistence, economic diversification.

This thesis maintains a positive outlook for Guyana's future based on its actions since oil discovery; however, as stated, the country cannot prevent all mechanisms from developing and taking root in the country. Guyana will have to continue to evaluate its economic and monetary policy to help manage its inflation, appreciation in exchange rates, and debt. It must continue to expose corruption and advocate for transparency in politics and business. Guyana is already seeing substantial foreign direct investment, and reducing corrupt political and business practices will ensure maximum fairness and benefit to the local population and domestic enterprises. Guyana will need to continue to pursue incentives for diversification without nationalizing or creating dependence on government revenues to bolster nascent industries. If Guyana continues to self-assess, implement, and expand upon the political, economic, and social policies, plans, and initiatives that it has adopted since the oil discovery, then it can avoid the resource curse.

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