



## *Long-term Investment Considerations for Guyana*

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It was British philosopher Francis Bacon who stated that one man's folly is the fortune of another. In the case of Guyana, it is not one man but an entire nation blessed with exquisite timing in light of its oil developments vis-à-vis the current economic and political state of the world. The 2019 pandemic followed by the war in Ukraine and the sky-rocketing oil and gas prices are bringing home the bacon (no pun intended) for this country of 786,000—a number only slightly larger than the population of Seattle.

While global net-zero ambitions are still in the cards, the urgent need to find new oil and gas supplies will keep Guyana in the spotlight for the foreseeable future. The nation expects to earn \$1 billion in revenue from oil production to be injected into its 2022 budget; however, the crucible for the nation is the where-when-how to invest the money. It is, to say the least, an inevitable question.

Before answering that question, it is important to note that most resource-rich countries are prone to the “Dutch disease,” a condition by which money pours into the country as investment and income from the commodity (oil, in this case) and results in currency appreciation, a drop in export competitiveness in other sectors, and an increase in unemployment. So-called “petro nations” experience it to greater and lesser degrees.

Contemporary history illustrates that oil, gas and mineral-rich countries tend to be more authoritarian, prone to conflict and less economically stable than countries without these assets. In

the first instance, democratic governments are more responsive to their citizens and dependent upon citizen taxation rather than the largesse from natural resources. As for conflict, natural resources provoke and sustain internal conflicts in a contest to control those resources. Iraq, Libya, Angola, and the Democratic Republic of the Congo are prime examples of petro-aggression. Inefficient spending and borrowing, triggered by resource abundance are illustrated by Mexico, Nigeria and Venezuela in the 1980s.

Perhaps the most prominent example of Dutch disease in the Western Hemisphere is Venezuela. This failed state—it is fair to call it that—became so dependent on oil that this commodity today accounts for 99% of the country's export earnings and 25% of its GDP. Although rich in natural resources—mining (bauxite in particular) and agriculture--the country chose not to diversify its economy. From the second half of the 20<sup>th</sup> century to the present time corruption and mismanagement have drastically lowered Venezuela's global production rankings from 3<sup>rd</sup> in 1965 to 25<sup>th</sup> today.

Can Dutch disease be avoided? Certainly. Norway is the preeminent example. One important measure Norway took, when facing the Dutch disease pitfall, was to establish a sovereign wealth fund in 1990, currently valued at \$1.4 trillion, the largest in the world. The purpose of this fund was to manage the large oil and gas revenues, invest in economic growth through industry diversification, and finance the welfare of future generations by investing in foreign assets. Fortunately, Guyana followed this model early and formed the Natural Resource Fund in 2019, which currently accounts for around \$600 million.

Another example of an oil-rich economy diversifying economically is Qatar, now one of the richest countries in the world. The nation set its ambitions to become a regional and global hub for education, technology, and research for the next generations by building its Education City in Doha. This impressive “innovation city” has the mission to train its own people but also attract international talent and investors to fuel its post-oil era economy. Even though Qatar has a longer than Guyana history in the oil and gas game, one thing in common is that both countries have a small population and seek to bet on their own people as the main human resource in projecting their economies forward.

Canada, Chile and Botswana are other resource-rich countries that got it right, instituting a mix of measures. In the case of Canada, strict regulation and oversight along with royalties, taxation, permits and licensing delegated to the provinces comprised the path to success in beating the resource curse. In Chile the course of action entailed a high degree of transparency, with the provision of information on both operations and revenues published regularly by the Ministry of Finance. As for Botswana, the nation pursued a three-pronged strategy: economic diversification, building a strong internal market (consumer and industrial), and the investment of surplus revenues,

For Guyana, looking beyond oil, there are investment opportunities around renewable energy projects. Apart from being the land of many waterfalls, including the Kaieteur waterfall, one of the most powerful in the world (4 times higher than the Niagara); the mountainous and coastal areas are all in Guyana's favor to be used for the development of hydro and wind energy projects. The rehabilitation of the once largest drainage and irrigation project in South America, the Amaila Falls Hydro Project, projected to be finalized by 2026, will be a great next step for Guyana's transition to a low-carbon economy supporting electrification, competitiveness, and sustainability of other industries as the manufacturing.

As noted in a recent empirical study reported by the World Bank, economic diversification in resource-rich countries is an imperative, especially in light of volatile commodity prices and the low employment potential of extractive sectors.<sup>1</sup>

A transparent and business-friendly environment will attract both local and foreign investment to build a strong economy in the region, potentially making Guyana a hub for business services, technology, and energy in the Caribbean and a reliable commercial partner for the world. Light manufacturing, business processing services, stone and glass, agriculture, and eco-tourism are especially promising industries for the country.

It is no exaggeration to say the stars are aligned for Guyana.

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<sup>1</sup> A. Lashitew, M. Ross, and E. Werker, "What Drives Successful Economic Diversification in Resource-Rich Countries?", *The World Bank Research Observer*, 36, 2, August 2021: 164-196.

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