

Avoiding Dutch Disease and the Resource Curse

What is Dutch Disease?

- In 1959, the Netherlands discovered a large natural gas field.
 - 2.8 trillion cubic metres - Great News!
- Exports increased 👍
- There was an influx of foreign currency 👍
- The guilder became stronger 👍

BUT

What is Dutch Disease?

- Non-oil exports became more expensive
 - other tradeable sectors became less competitive in international markets e.g. manufacturing and farming.
- Investments in other industries fell.

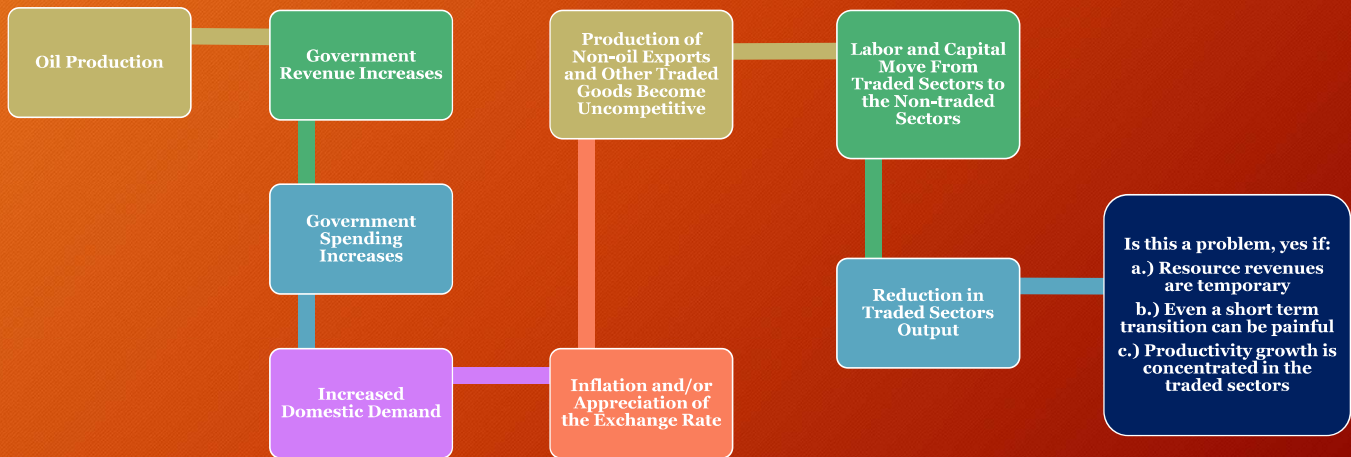
Overall
Economy

Petroleum
Industry

What happened in the Netherlands?

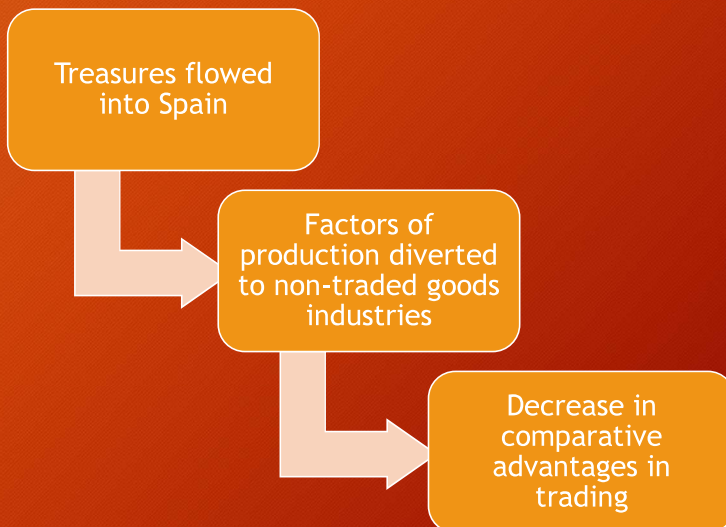
- They became overreliant on natural gas resource.
- They ignored domestic industries and markets in favour of exports of natural gas.
- They were unable to manage the exchange rate and prices.

Dutch Disease Mechanism



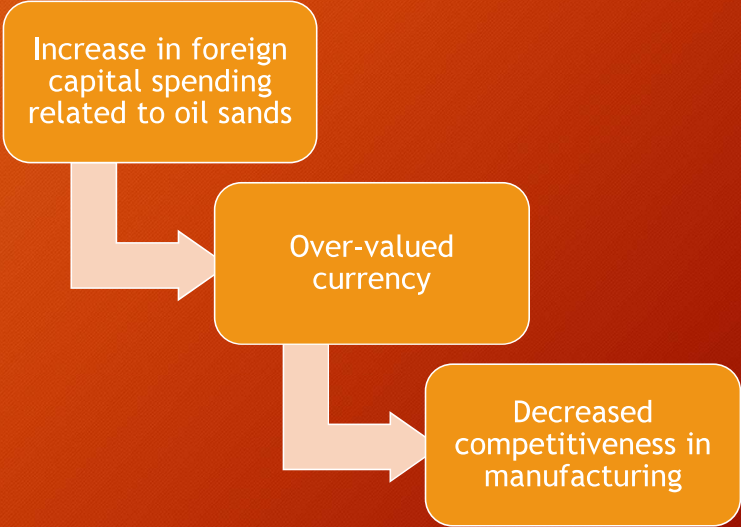
Example

- 16th Century Spain



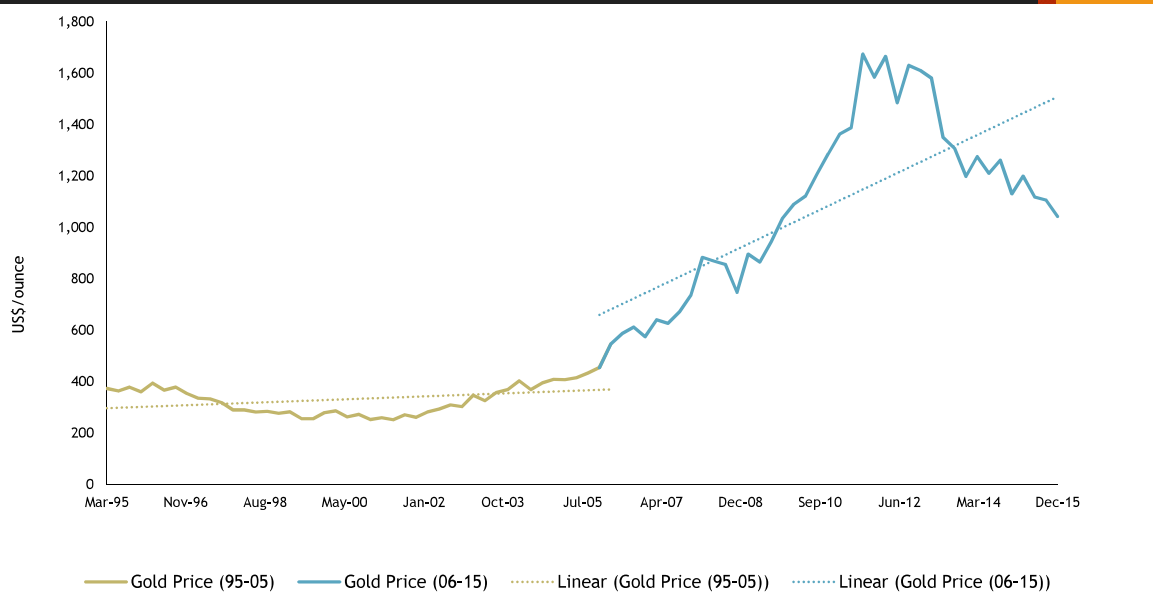
Example

- 21st Century Canada



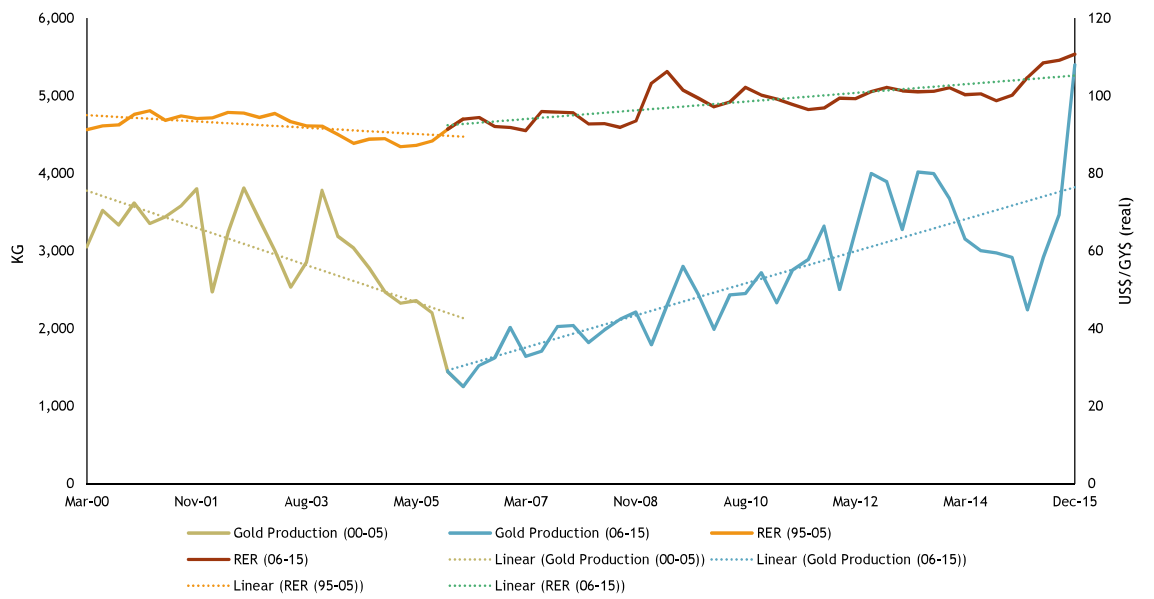
Example

- Guyana?



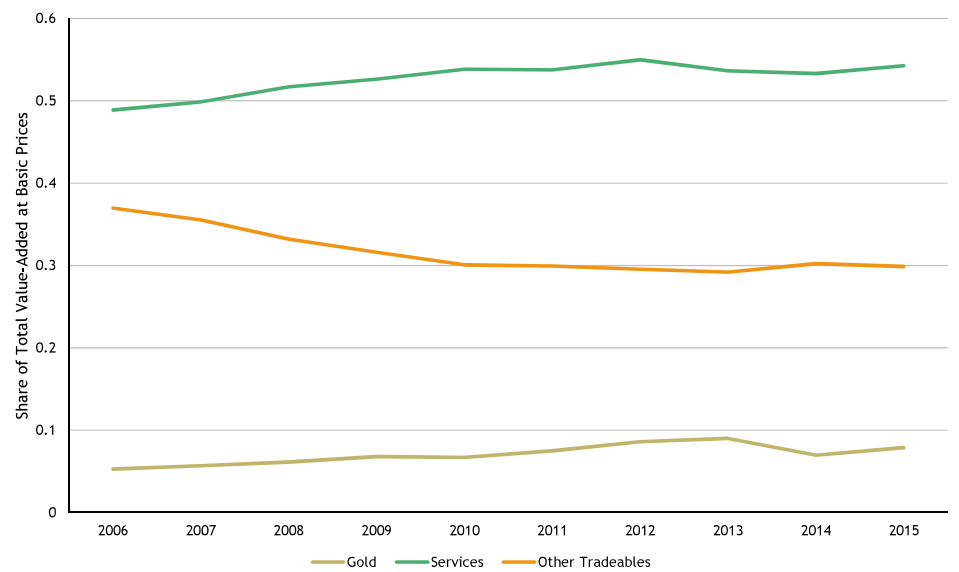
Example

- Guyana?



Example

- Guyana?
- Gold
 - increased by 49%
- Services
 - Increased by 11%
- Other tradeable
 - Decreased by 19%



What can we do?

- Establish a SWF and spending rules to ensure that export earnings from Petroleum only enter the economy at a rate at which the economy can absorb these resources.
- Scale investment in a constant manner to allow for the economy's productive capacity to increase
- Ensure value for money in investments
- Consider the potential impact of investments on other productive sectors
 - Seek to maximize positive spillovers
- Increase efforts to improve the competitiveness of traded sectors and diversify the export base, e.g.
 - Decreased cost of electricity
 - Decreased cost of doing business
 - Decreased post-harvest loss
 - Increased human capital