



## Tiny Guyana could soon become one of the world's giant oil exporters

The South American country needs to spend its windfall wisely

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You have probably heard of the resource curse, when a country is overwhelmed by a windfall from selling commodities. The tiny state of Guyana, on the north-east corner of the Amazon, is about to become one of the most extreme cases of recent times.

In 2015, 11bn barrels of proven oil reserves were discovered off its coast, with a present value of over half a trillion dollars. A country with 800,000 people, roughly as many as the English city of Nottingham, would become the world's newest **petrostate**. Production is rising and could reach 1.2m barrels a day by 2028, or 1.1% of global supply. **If so, Guyana will soon produce more oil per person than any country in the world.**

The boom is part of a renaissance in a zone of offshore oil production, which may stretch as far as Brazilian waters, and which is reviving Latin America's role in world energy markets. The taxes and levies that Guyana's government will get from oil could reach **\$16bn a year in 2036, double the size of the**



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**pre-oil economy.** The hope is that this will transform the lives of Guyana's people.

Change would certainly be welcome. **The country is poor. Life expectancy is low by regional standards and corruption is a problem.** Although Guyana is a democracy, it is deeply divided, as two ethnically orientated parties compete for power: the largely Indo-Guyanese People's Progressive Party and the Afro-Guyanese People's National Congress Reform. And even as it is the first petrostate created during the energy transition, Guyana is vulnerable to climate change. Georgetown, its minuscule, sleepy capital city, is barely above sea-level.

**Guyana is getting some things right.** Whereas other countries in Latin America have created flabby national oil champions, **it has worked with foreign companies operating at the technological frontier.** A consortium led by ExxonMobil, the world's biggest non-state oil firm, has overseen exploration and development—the best way to get oil out greenly and cheaply. **Another wise move was to set up a sovereign-wealth fund,** as many other resource-rich countries have. The goal is to insulate the economy from the inflationary booms and budget-crushing busts of the commodity cycle and also to save money for when the bounty runs dry.

Yet there is still a huge question over how Guyana should, and will, spend its oil bonanza. At one extreme, all the resources could be routed through the government and its fund. That creates a risk of graft and of the erosion of good government. Because oil revenues break the link between taxpayers and public services, politicians in oil-producing countries may feel less accountable to voters. If power comes with the chance to get rich by stealing from the state, the competition for office can become violent.

Another option is to distribute the oil rents direct to the population. That puts power in the hands of the people but with a potential pay-out of over \$10,000 per person each year, it is sure to trigger a consumption-and-import binge. This would destabilise an economy that has only limited infrastructure and minimal productive capacity. Hard choices are bedevilled by divisive politics.

→ **The government and opposition are already at loggerheads over the cash.**



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**To make the most of its windfall, Guyana should aim to accomplish two things:**

- 1) The first is to strive for a **bipartisan consensus over its fiscal strategy**. The ideal path would be for the government to save a share of revenues through the sovereign-wealth fund and to build up infrastructure, including roads, schools, health care and climate protection. As better infrastructure helps citizens educate their children, improve the quality of their homes and start or expand businesses, the state should gradually increase the sums released directly to people.
- 2) Second, the government **should seek more international scrutiny of its finances**. In 2020 it tightened the law that governs the wealth fund, to make it more transparent. That was welcome. **But it should go further by requiring some international oversight**, even if just an auditor, to examine its inner workings.

Plenty of countries, from Equatorial Guinea to Brunei, have squandered their natural endowments. Even if oil eventually fades away, a fresh boom in the green metals used in electric vehicles and other clean-energy technologies is likely to create a new set of countries that face the resource curse.

**The ultimate example of how not to do it is just over the border from Guyana. Neighbouring Venezuela** was once the world's second-biggest oil producer, but is now in ruins and run by a despot (whose government has tried to claim Guyana's bounty as its own). As Guyana grapples with how to make the most of hitting the jackpot, there is no better reminder of what is at stake.

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