Guyana in 2025: The Confluence of a Possible Dénouement of Its Centuries-Long Territorial Dispute and Its Newfound Oil Wealth

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In recent years Guyana has been featured in the news disproportionally. This paper begins with a short overview of the country's vital statistics, followed by a brief review of Guyana's political and economic pre- and post-independence history, incorporating a synopsis of its longstanding territorial dispute with its neighbor, Venezuela. The paper highlights Guyana's recent recognition as a potentially large oil-producing nation, whose economy since 2020 has recorded the highest growth rate in the world. In 2023, real Gross Domestic Product (GDP) increased by 33%. With the government committed to deploying the country's newfound wealth towards modernizing the economy and increasing living standards for all its citizens, Guyana's vulnerability to the "Dutch disease" and the "resource curse" are discussed along with the technical support provided by the International Monetary Fund and the World Bank who are assisting with the country's development program.

Keywords: Guyana, oil and gas deposits, economic development, Venezuela

INTRODUCTION

Guyana, until recently, played only a cameo role on the world stage until offshore oil deposits were discovered by Exxon Mobil in 2015. Readers of a certain age may recall what was arguably the last time Guyana was "front page" news in the world's leading news media when, in 1978, 918 people died at the Jonestown mass murder-suicide led by cult leader Jim Jones at his remote settlement in the northwest of the country.

This paper begins with a summary of the vital statistics of Guyana, followed by a short review of the main political and economic events—pre- and post-independence (1966)—that also incorporates a synopsis of the centuries-long territorial dispute with neighboring Venezuela, including the latter's recent threats to annex Guyana's resource-rich Essequibo region. The fortuitous discovery of massive off-shore oil deposits by oil-major Exxon Mobil about a decade ago, in part, revived Venezuela's territorial claim—that is not frivolous—on Guyana's mineral-rich province especially in light of the stressed political and economic climate in Venezuela. This is followed by a review of Guyana's plans to mobilize and deploy its newfound oil wealth towards economic development and improved living standards for its population that could be restrained by several mostly domestic, environmentally-based issues. Finally, some caveats from the major international organizations such as the International Monetary Fund (IMF) and the World Bank (WB) regarding the use of this oil revenue over the coming decades are discussed to help ensure that Guyana avoids some well-known financial and economic pitfalls such as the "Dutch disease" and the "resource curse" that often afflict countries attempting to manage wealth windfalls that accompany sudden surges in commercially viable resource endowments.

Despite the agreement articulated at the close of the November 2023 United Nations Climate Change Conference in Dubai (COP 28) that signaled the "'beginning of the end' of the fossil fuel era", Guyana plans to become a major oil producer and to mobilize its newfound wealth to increase living standards over the next 40 years. The planned development of its hydrocarbon endowments over the coming decades will need to be reconciled with the challenges—both domestic and foreign—of global warming and climate change and, most critically, on the outcome of Guyana's territorial dispute with Venezuela that is now before the International Court of Justice (ICJ).

VITAL STATISTICS

Guyana borders Venezuela on the northwest, Brazil to the south, Suriname to the east, and the Atlantic Ocean to the northeast. (Please click on the following link: https://www.cia.gov/the-world-factbook/static/maps/GY-map.jpg). The country is situated between 1 and 9 degrees latitude north of the equator and is the third smallest country in South America, after Suriname and Uruguay. Guyana, slightly smaller than Idaho and almost twice the size of Tennessee, has a population of about 780,000 people—approximately the population of Seattle, Washington—is one of the least densely populated countries on earth. About 90% of the population lives on the narrow and fertile marshy plain along a coastal strip on the Atlantic coast (the low coastal plain) that ranges from a width of 16 to 64 km (10 to 40 mi) inland and makes up approximately 10% of the nation's total land area (Guyana, 2024).

A white sand belt further inland (the hilly sand and clay region) contains most of Guyana's mineral deposits, and the forested highland region in the southern part of the country has large, dense, and unspoiled rain forests, some parts of which are almost inaccessible by humans. Almost 80% of Guyana is covered by forests, and, as a result, the country has one of the highest levels of biodiversity in the world. The value of preserving this high level of biodiversity has not escaped the international community: "In 2012, Guyana received a $45 million reward from Norway for its rainforest protection efforts. This stems from a 2009 agreement between the nations for a total of $250 million for protecting and maintaining the natural habitat. Thus far the country has received $115 million of the total grant" (Guyana, 2024).

Guyana's ethnic composition is approximately 43% East Indian (or Indo-Guyanese)—descendants of indentured laborers who migrated from India; 30% African origin—the descendants of enslaved people brought primarily from West African areas that today form part of modern-day Ghana, Nigeria and Senegal; 20% mixed; and about 11% Amerindian. More than 55% of Guyana's citizens live outside the country, making its emigration rate among the highest in the world. As a result, Guyana is one of the largest recipients of remittances relative to GDP among Latin American and Caribbean countries, and these remittances provide a vital source of income for most citizens (Central Intelligence Agency (CIA World Factbook, 2024). The pervasive emigration of skilled workers deprives Guyana of professionals in healthcare and other key sectors. More than 80% of Guyanese nationals with tertiary level educations have emigrated, resulting in a textbook example of a country suffering a "brain drain". Less than 3 percent of the population is college educated (Bahadur, 2024). The growth rate of the population in 2023 was 0.28%. According to the World Bank, almost half Guyana is population still lives on less than $5.50 per person a day, the World Bank's poverty line (Smyth & Daniels, 2024).

While the urbanization rate in South America is above 80%, Guyana, at 27%, is the least urbanized country on the continent (World Bank, Urbanization). Life expectancy in 2023 was 72.2 years, compared with 80.8 years in the United States (CIA World Factbook, 2024). Hydrocarbons increasingly drive the economy and, as mentioned above, the country is heavily forested and its forest coverage is being leveraged in carbon credit offsets to encourage preservation. In addition to hydrocarbons, the country has large bauxite and gold resources.

In 2022, according to the World Bank, 12% of the labor force was employed in agriculture, 25% in industry, and about 63% in services (World Bank, Employment). Guyana's principal agricultural products are rice, sugar cane, coconuts, and pumpkins, and its industrial activities include bauxite, rice milling, timber, textiles, and gold mining, in addition to the recent development of the hydrocarbon sector. The discovery of over 11 billion barrels of oil reserves off the coast of Guyana since 2015 is the largest addition to global oil reserves since the 1970s. Since commercial production of oil began in 2019, Guyana has been one of the countries with the most improved ranking in the Human Development Index (Guyana, 2024).

A SUMMARY OF GUYANA'S POLITICAL AND ECONOMIC HISTORY

Before European colonization the territory incorporating Guyana was populated by nine indigenous tribes. Unsurprisingly, Christopher Columbus is credited with "discovering" Guyana which he reportedly sighted during his third voyage in 1498, though the Dutch are credited with establishing the first European colonies, beginning in 1581. In the early 17th century the Dutch established large coastal plantations to grow sugar cane that were manned by labor brought to the New World through the infamous Atlantic slave trade.

An unintended consequence of the ongoing intra-European wars during the 18th and 19th centuries—this time between the Dutch Republic and France in 1795—resulted in the *British* assuming control of this territory the following year. After the 1814 London Convention was signed by the Dutch and the English, three colonies (Demerara-Essequibo and Berbice) were ceded to Britain, which were unified in 1831 to form British Guiana.

European planters dominated the local economy, and their influence over the economy continued even after these lands were ceded to the British in 1814. Upon emancipation in 1838 almost all of the former slaves abandoned the plantations, and Indians were brought to the country under indenture contracts from 1838 until the end of that system in 1917.

However, since achieving independence from Spain in 1824, Venezuela has maintained its claim to the land area west of the Essequibo River as its territory: "Simón Bolívar wrote to the British government warning against the Berbice and Demerara settlers settling on land which the Venezuelans, as assumed heirs of Spanish claims on the area dating to the 16th century, claimed was theirs" (Guyana, 2024).

The origin of this two-century territorial dispute is, to say the least, muddled, arguably because of "sloppy" diplomacy. From the above-mentioned Anglo-Dutch Treaty of 1814, the British inherited Dutch territory which included lands between the Courantyne and Orinoco rivers, with most of these lands situated west of the Essequibo River, which flows between these two rivers. All three rivers empty into the Atlantic Ocean. The Courantyne River is the current demarcated border between Guyana and Suriname (or pre-independence Dutch Guiana), and the Orinoco River to the west partially forms Venezuela's border with Colombia. "Dutch sovereignty over these settlements was recognized in 1648 by Spain with the Peace of Münster, which stated under Article 5 that the Dutch would retain all of the *'lordships, cities, castles, fortresses, trades and lands in the... West Indies'* under their possession at the time" (Guyana, 2024). However—and this is the root cause of the dispute—the treaty did not specify the boundary between Spanish Guiana and Dutch Guiana.

The northwestern border of the Essequibo region follows the 1905 border as established by the British-Venezuelan Mixed Boundary Commission, by the 1899 international tribunal ruling that the land belonged to Great Britain. (Students of European history will recall that British power and influence in the world was approaching its high point at the end of the 19th century, which may have influenced the tribunal's decision). Venezuela seeks to abrogate the legal borders, maintaining that the Essequibo River is the international boundary. The river separates the rest of Guyana to the east from the Essequibo region which lies west of the river.

After achieving independence in 1966, Guyana officially became a member of the British Commonwealth of Nations in 1970. Despite its diverse population (and perhaps because of it), Guyana is the only mainland South American country whose official language is English. Since independence Guyana's two main political parties reflected the two largest ethnic groups: the People's National Congress (Afro-Guyanese) and the People's Progressive Party (Indo-Guyanese). Forbes Burnham, who served as Premier from 1964-1980, was an authoritarian and Afro-centric politician. Unsurprisingly, since he was instrumental in forging a new country over so many years, he was considered a very controversial figure.

To his supporters he was a “great leader”; “a brilliant man, a futuristic thinker, a man of honour, having integrity and a high degree of discipline”; “the author of social cohesion and architect of national unity”; and to his detractors he was “a deeply divisive chapter in Guyana’s recent history”; an individual who was “corrupt, arbitrary and self-dealing”; and “a dictatorial figure” (Burnham, 2024).

Burnham was determined to unravel the colonial/plantation economy that characterized Guyana when it became independent of Britain: “All the large scale industries such as foreign-owned bauxite mining (Reynolds Metals and Rio Tinto's Alcan) and sugar operations (GuySuCo) were taken over by the government” (Burnham. 2024). While these measures proved to be politically savvy, economic reality was quickly realized. Problems plagued the widespread nationalizations: the resulting political instability led to an exodus of skilled labour, resulting in poor decisions being taken by inexperienced managers who replaced many who left the country, and there was a palpable failure to upgrade and modernize the country’s aging infrastructure.

After Burnham died in 1985 Guyana experienced a number of major changes. By the early 1990s Guyana held its first free and fair elections, which resulted in the opposition Indo-Guyana Peoples Progressive Party winning, and a younger leadership of the party began to take the reins of power that embraced capitalism. Private corporations were again able to bid for Guyana’s vast resources. But corruption, which was endemic in the Burnham era, continued to strangle Guyana, especially with respect to the role played by newly-resident foreign corporations and the environmental footprint they were leaving in Guyana as a result of their increased activities in the resource sector. A number of serious ecological accidents befell Guyana, exemplified by a breached dam at a Canadian-owned gold mine in 1995 that resulted in the release of 400 million gallons of cyanide-laced waste that fouled two major rivers. The next year Guyana had its first environmental protection law and within seven years environmental protocols were enshrined in the nation’s constitution (Bahadur, 2024).

Also in the 1990s Guyana, like many of its Latin American neighbors, became over-extended on foreign debt, which was arranged—some may argue, encouraged—by the leading international agencies such as the International Monetary Fund, the World Bank and the Inter-American Development Bank. During the first decade of the 21st century, through various debt reduction initiatives developed by these three international institutions, Guyana wrote over a billion dollars of debt, including bilateral loans held by Japan, China, and Venezuela (Guyana, 2024).

The Guyana-Venezuela territorial dispute is similar to the “forever” controversy between Argentina and the United Kingdom over the Falkland Islands (Malvinas) since most Argentines, irrespective of their party allegiance, believe that the Malvinas belong to Argentina. Almost all Venezuelans consider the Essequibo region—renamed Guayana Esequiba by Venezuela—to be part of Venezuela because it was contained in the Spanish Empire in the 16th century. The case is before the International Court of Justice (ICJ) in The Hague, where a ruling was expected in late 2024, but this date slipped likely because of the contested out-come of Venezuela’s July 2024 elections. It is important to note that Venezuela does not acknowledge that the ICJ even has jurisdiction over the issue despite the ICJ’s April 2023 affirmation that it has the jurisdiction to rule on the territorial dispute (Glatsky, 2024).

Venezuela’s threats to annex the region followed in the wake of the overwhelming endorsement of its December 2023 referendum—approved by 95% of those voting, but with a low turnout—that, among other issues, asked the electorate if it agreed that the disputed Essequibo region belongs to Venezuela. Opportunistically for Venezuela, the oil-rich Stabroek bloc lies about 120 miles off the coast in the Essequibo region’s territorial waters.

To further complicate the pursuit of a mutually acceptable resolution of this longstanding dispute is the discovery of the rich offshore oil deposit in 2015 and its more recent commercialization in 2019, which is discussed in the next section. This is likely a key ingredient precipitating the threats by Venezuela in late 2023 to annex Guyana’s oil- and mineral-rich province that contains about 70 percent of Guyana’s territory, an area slightly smaller than Florida, that is home to only about 16% of Guyana’s population (Sharp, 2023).

In mid-December 2023 the Maduro government ratcheted up its claims on the disputed region by moving military assets to its coastal border with Guyana and ordered PDVSA, Venezuela’s state-owned oil company, to begin granting operating licenses for exploratory oil and gas mines in the region (The

Economist, 2023). However, most commentators believe President Maduro's actions were designed to bolster domestic support for his re-election in July 2024. As was the case in Argentina in the early 1980s, seeking approval for "foreign adventures" enables the government to deflect criticism regarding the poor performance of the economy over the last decade, with Venezuela experiencing an unparalleled 70% decline in GDP since 2013 (Forero & Vyas, 2024). In addition, the increased political repression has resulted in the emigration of more than 7.7m people, 25% of Venezuela's population (Dubé & Vyas, 2024). For context, a similar percentage decline in population occurred in Ireland "due to hunger and emigration during the potato famine in the 1840s and 1850s" (Twilley, 2024).

To further complicate the issue, add a pinch of geopolitics. Because of the very skewed military profiles of the two countries (Guyana has a defense force of 4,000 while Venezuela has an army of 350,000, the fourth largest in South America); the strained relations between the United States and Venezuela; and the fact that the rich Essequibo deposits are being managed largely by an American-dominated consortium (please see below), the territorial dispute—and any resort to military conflict—is certain to involve the United States at some point (Daniels, 2023). Arguably, since the 1978 Jonestown mass murder-suicide, the most noteworthy international event that has had negative implications for Guyana was Venezuela's December 2023 referendum.

OIL: THE "FAST TRACK" TO PROSPERITY…ALONG WITH SOME "SPEED BUMPS"

This section tracks the timeline of Guyana's emergence as a prospective leading producer and exporter of oil; comments on Guyana's provisional decision regarding membership in the Organization of Petroluem Exporting Countries (OPEC) in light of the government's plan to forge ahead with its development program that directs a large swath of its future oil revenues to modernize the country's physical and social infrastructure; reviews the evolving ownership structure of the consortium extracting Guyana's newfound off-shore deposits; and comments on the possibility of a re-negotiation of the terms of the contract between the government and the oil consortium regarding Guyana's share of the profits from the oil projects.

Also discussed are other issues that may upend or, at least, retard Guyana's ambitious economic development plan: a domestic controversy involving the country's environmental activists, Guyana's government, and the consortium regarding the alleged absence of sufficient environmental safeguards for a natural gas pipeline that would provide cleaner, cheaper, and more reliable electricity for Guyana's population. The activists allege that the consortium is not providing sufficient financial guarantees to Guyana in the event of a significant industrial accident reminiscent of the 2010 British Petroleum (BP) disaster in the Gulf of Mexico.

Although Guyana's history with oil dates back centuries, more recently Exxon Mobil began exploring for oil in Guyana's coastal waters in 2008. The 2015 Liza-1 oil-well discovery in the Stabroek block in Guyana's coastal waters was the first significant offshore oil find. Since 2015 Exxon Mobil and its partners—Hess Corporation and CNOOC, the China National Offshore Oil Corporation (that is majority-owned by the government of the People's Republic of China)—have made more than 30 big finds, with an estimated 11bn oil-equivalent barrels of oil in the block. (Hess Corporation bought Shell Oil Company's stake in the Guyana projects in 2014 after years of exploration resulted in many dry wells). Some oil executives say "they have never seen such a successful find of that scale in their careers and won't again see one like it". Chevron CEO Mike Wirth said "it's the largest discovery in the last decade, a high-quality resource...and it's just got unmatched growth potential" (Vyas & Eaton, 2023).

Exxon Mobil and its partners have approved oil projects worth more than $55bn in Guyana (Smyth & Daniels, 2024). As of early 2024 Guyana increased its crude oil production to 645 thousand barrels a day (tbd) in the Stabroek block (Eaton & Vyas, 2023; Energy Information Agency, 2024). The consortium is planning to increase daily oil output to 1.3mbd by 2027, and, according to some estimates, Guyana could realize $150bn of revenue over the life-time of these oil projects. For context, Guyana's annual national budget is less than $4bn (Smyth & Daniels, 2024). Guyana, a country with less than 800,000 people is on course to becoming a top-20 global oil producer by 2026 (Stott, 2023). Again, for context purposes, Nigeria, a country of more than 225m and the largest oil producer in Africa whose government budget and foreign exchange reserves critically depend on oil revenues, extracts about 1.3 mbd (Okafur, 2024).

Even though commercial exploitation of Guyana's offshore oilfields began only five years ago, OPEC is already courting Guyana to become a member of the oil cartel. Membership in OPEC comes with obligations that include adhering to annual production quotas determined by members' production capacities to ensure that the cartel's targeted oil prices are realized. According to projections by the Paris-based International Energy Agency, global demand for oil and other fossil-fuels is expected to peak around 2030 and decline towards mid-century. Since Guyana is in a "dash" to develop and modernize, the country has tentatively declined membership in OPEC so it can maximize production and cashflow from oil production over the next 25 years (Eaton & Vyas, 2023).

As mentioned above, the first significant discovery of oil in the Stabroek block was made in 2015 by an Exxon Mobil-led consortium that included Hess Corporation and CNOOC. Exxon Mobil holds a 45% stake in the block, Hess Corporation's share is 30%, and CNOOC's interest is 25% (Smyth & Johnston, 2023; Energy Information Agency, 2024). However, the future of this corporate partnership is uncertain since Chevron announced in October 2023 that it will acquire the Hess Corporation. Hess shareholders approved the sale in late May, 2024. The closing date of the acquisition is delayed because Hess's partners claim they have preemption rights over Hess's stake in the block, and they have filed for arbitration of the dispute at the International Chamber of Commerce in Paris (Smyth & Johnston, 2023). The outcome has consequences for both Chevron and Exxon Mobil. If the former loses at the arbitration, the decision will negatively impact Chevron's long-term portfolio of oil assets that could force the company to explore for oil and natural gas in more distant and difficult locations such as Kazakhstan and Namibia. If Exxon Mobil wins the arbitration, it will have a veto over the sale of Hess (Eaton & Morenne, 2024). According to an August 2024 Reuters update on the case, "Chevron CEO Michael Wirth recently dismissed the chance of any compromise with Exxon and CNOOC" (Valle, 2024).

According to the agreed terms of the project, profits are divided equally between the government of Guyana and the consortium after all the consortium's costs are covered by the project's revenues. The government also receives a 2 percent royalty on production from the field, which industry analysts agree is below industry norms for off-shore oil projects. However, "up to three-quarters of revenue go first to cover the consortium's costs…and Guyana also agreed to pay the companies' income and corporation tax from its share of the profits" (Smyth & Johnston, 2023). Once the dust settles over the pending sale of Hess to Chevron, another uncertainty that is likely to appear is an attempt by Guyana to renegotiate its contract with the consortium to improve its share of the profits since many observers, including the IMF, consider the production sharing agreement that was signed by the previous government in 2016 to be overly generous to the companies (Bahadur, 2024). However, reopening a contract will be difficult especially, as one commentator pointed out, because the government will have "to negotiate with a corporation whose cash flow last year was more than three times Guyana's GDP" (Smyth & Daniels, 2024).

Three "speed bumps"—all environmentally-based—have the potential to retard Guyana's program that rapidly expands the development of its off-shore oil deposits (and its by-products) to the end of modernizing the country's infrastructure for the benefit of all its citizens. There is opposition by local climate activists regarding the construction of a 152-mile pipeline to carry ashore natural gas that is released with the extraction of oil as a by-product. The natural gas is currently being flared, emitting greenhouse gasses. With an estimated cost of $2bn, the pipeline would carry the natural gas to a proposed new power plant and to a second plant that would produce cooking gas and fertilizer. If successful, the project would deliver plentiful, reliable, cheap and cleaner energy to a country—desperately in need of energy—whose current supply of power is expensive, dirty, and erratic. In 2023, Guyana averaged a one-hour blackout every four days. The Inter-American Development Bank (IADB) cited "electrical outages as a major risk to doing business" (Bahadur, 2024). While natural gas—often referred to as the "best of a bad bunch"— is a fossil-based fuel, since it is it much cleaner than the heavy fuel Guyana currently uses, is, as in the European Union, intended to serve as a "transition" fuel until renewable energy is more competitive and reliable.

Opposition to the natural gas pipeline project is centered on the allegation that the consortium and the government have compromised environmental governance in Guyana. Opponents of the project claim that

Guyana's Environmental Protection Agency waived the Agency's independent environmental impact assessment for the proposed pipeline project, relying instead on Exxon Mobil's environmental impact study for the project.

The second environmentally-related issue that could dampen Guyana's prospects to become a significant oil producer on the world stage is the dilemma of further increasing oil output as the world pledges to transition away from fossil fuels, in compliance with the 2015 Paris Agreement and the final communique of the 2023 COP28 conference held in Dubai, which for the first time, included a call on governments to speed up the transition away from fossil fuels to renewable energy. In a country where half the people live below the poverty line, can Guyana be expected to succumb to environmental problems for which it not responsible that would slow its economic development program? (Climate Action, United Nations). It is important to note that Canada—the 5th largest oil-producing country and the only G-7 country with higher emissions than in 1990—and Brazil—currently in 10th place and aspiring to become the 4th largest oil-producing country—are following similar paths: maximizing "the value of [their] oil before the world begins phasing it out in earnest" (Monga, 2024; Pooler, 2024).

As mentioned above, the Paris-based International Energy Agency projects that global demand for fossil fuels will peak by 2030 (Plumer, 2023). In addition, because of global warming and climate change, projections also indicate that half of Georgetown will be under water by that year (Bahadur, 2024). To be sure, Guyana bears no responsibility for the century-long advance of global warming and climate change attributed to human activities. Nevertheless, Guyana must implement climate change adaptation and mitigation mechanisms that involve building appropriate infrastructure, which in the case of Guyana would require financing from oil-export revenues or financing that "depends on the kindness of strangers".

Finally, environmental activists allege that government regulators are refusing to hold the consortium accountable for potential off-shore "blowouts" similar to the 2010 BP Deepwater Horizon spill which killed 11 workers, leaked 4mn barrels of oil into the Gulf of Mexico, and cost BP $69bn. A similar event would devastate Guyana and other Caribbean waterways. "In 2023, a High Court decision required Exxon Mobil to provide an 'unlimited' financial guarantee to cover the cost of any spills. Pending an appeal, the consortium agreed to a $2bn guarantee" (Smyth & Daniels, 2024).

To conclude this discussion on the "speed bumps" that might "throw sand into the gears" of Guyana's development engine and slow down the program's progress, readers should not lose sight of the 'game-changing' threat—that is possibly existential for Guyana—posed by Venezuela's threatening machinations discussed in the previous section that could be blessed with international legitimacy in the wake of a favorable decision for Venezuela by the ICJ in The Hague.

TWO ECONOMIC PITFALLS OF NEWFOUND OIL: THE "DUTCH DISEASE' AND THE "RESOURCE CURSE"

The World Bank Group (WB), the International Monetary Fund (IMF), the Inter-American Development Bank (IADB), and the Caribbean Development Bank (CDB) are all collaborating with the government of Guyana in formulating, implementing, and assessing Guyana's development program to the end of improving living standards and reducing poverty rates in the country. World Bank technical support extends beyond the energy sector, and includes civil infrastructure projects such as roads, water and sewage, schools and hospitals, and, not least, educational and technical programs to increase the skill level of the labor force (The World Bank in Guyana).

The IMF's expertise is focused on ways to limit the economy's reliance on the oil sector and reduce the economy's vulnerability to price shocks: "The key challenges are managing large resource revenue inflows to ensure macro-economic stability and sustainability, while investing steadily in people, physical infrastructure, and institutions" (IMF, 2023) The Fund stresses the importance of implementing structural reforms critical to diversifying the domestic economy and ensuring sustainable and broad-based growth. It is important to note that "oil exports alone accounted for about 88 percent of total exports in 2022. Excluding oil, sugar, gold, bauxite, shrimp, timber, and rice represent nearly 90 percent of the country's non-oil exports" (The World Bank In Guyana). In the past, countries' over-dependence on their resource sectors have spawned two well-documented disorders, the subject of this section: the “Dutch disease” and the “resource curse”.

The Dutch disease is a statistical relationship between an outsized expansion of a specific sector (for example, natural resources) and an accompanying decline in other economic sectors such as agriculture or manufacturing. The term was coined in 1977 by The Economist newspaper to describe the decline of the manufacturing sector in the Netherlands after the discovery of the large Groningen natural gas field in 1959. The transmission of the “disease” is through the following mechanism: as revenues increase in the expanding sector, the nation's currency appreciates compared to currencies of its trading partners. This results in the nation's other exports becoming uncompetitive on foreign markets. In addition, imports become cheaper in all sectors, domestic employment suffers and with it, over the longer term, the skill level of the nation's labor force, infrastructure, and manufacturing capabilities are compromised, harming the economy's long-term performance (Dutch disease).

To compensate for the loss of domestic employment opportunities, government resources are used to artificially create employment and the increasing national revenue from the enhanced resource exports usually results in higher government spending, often corruptly and/or inefficiently. As the sectors exposed to international competition decline, the ever greater dependence on natural resource revenue leaves the economy vulnerable to price changes in the natural resource. A recent example of this phenomenon playing out is the case of oil in Nigeria.

Until the 1960s Nigeria was a net exporter of food. When Nigeria’s oil revenues started to flow, the country’s currency appreciated, making it cheaper to import food and textiles at the expense of domestic production (and employment). Today, in part because of the legacy of the Dutch disease, manufacturing comprises only about 9% of GDP in Nigeria, and while approximately 70% of Nigeria’s labor force is engaged in agriculture, the country is, after China, the world’s second largest importer of rice, which is among the most important food staples of Nigerians, accounting for about 10% of household food spending. It is important to note that food costs account for roughly 60% of the average Nigerian’s personal consumption expenditures. Between 1962 and 1968 export crops were Nigeria’s main foreign exchange earner, but by 2015 the country had a $3bn trade deficit in food, increasing the demand for precious foreign exchange (Sohn, 2020). More recently Nigeria recorded a 121.7 percent increase in the value of imported foods within the 5 year period ending in 2022 (Vanguard, 2024).

The idea that plentiful endowments of natural resources might be more of an economic curse than a blessing was recognized more than three centuries ago by Richard Steele, the co-founder of the daily English newspaper, The Spectator, who wrote: "It is generally observed, That in Countries of the greatest Plenty there is the poorest Living" (Resource curse). The issue was revived during the 1950s and 1960s debates regarding the problems facing low- and middle-income resource-rich countries in their quest to accelerate their economic development. The term itself, the “resource curse”, was coined by British economist Richard Auty (1993) to describe how countries rich in mineral resources were unable to use this wealth to boost their economies, and how these countries had lower rates of economic growth than countries without an abundance of natural resources.

A statistical study of the resource curse, completed in 1995 by Jeffrey Sachs and Andrew Warner that was summarized and extended by the authors (Sachs and Warner, 2001), concluded that “countries with great natural resource wealth tend nevertheless to grow more slowly than resource-poor countries”. That is, the statistical evidence indicates that the “resource curse” is real. Since the publication of the Sachs-Warner study, subsequent research on the resource curse has focused on the variables behind the negative correlation between resource wealth and economic development.

The volatility in government revenue can cause enormous budgeting problems not only for meeting debt service obligations and efficiently managing multi-year physical infrastructure projects, but also for health and education budgets, both of which affect the economy's long-term performance. When debt service is interrupted and social programs are canceled or cut, it generates mistrust among creditors — domestic and foreign—and popular support for the government is eroded, often leading to civil unrest. Again, it is important to recall that more than 88% of Guyana’s export revenues are derived from oil exports and, in 2023, the IMF estimated that 30% of the government's budget was generated from oil revenues (IMF, 2023).

The "resource curse" manifests itself in every corner of the national economy. Blinded by bloated cash inflows from resource exports, often much needed diversification of the economy is delayed or abandoned because the resource extraction is so lucrative relative to the manufacturing sectors that must compete in the global economy. The successful resource sector becomes divorced from the rest of the economy, that is, the extraction industries build their own infrastructure, such as roads, rail links, port facilities and power stations. As the "private" infrastructure is built, there is no coordination to link it to the wider economy that is necessary for a diversified economy.

The salary structure of the resource-exporting sector is also often detached from the nation's labor market, siphoning off the nation's "best and brightest", or worse, creating jobs for relatives of the political elite and other "insiders". On the subject of the skill level of the labor force, countries that rely on natural resource exports tend to neglect education because they see no immediate need for it, exacerbating the "skills deficit"— or in the case of Guyana that was mentioned above, the "brain drain" through the emigration of skilled labor—that, in part, deters foreign direct investment in the non-resource sectors of the economy. As a counter-example, resource-poor economies like South Korea spent enormous amounts on education which, in part, contributed to the country's successful climb out of poverty over the last 50 years that resulted in full membership in the Organization for Economic Co-operation and Development (OECD), the club of mostly-rich countries.

Finally, the income from natural resources is generally considered an economic rent, a payment to an owner or factor of production in excess of the costs needed to bring that factor into production. The existence of the "rent"—an example of an "excess profit"—is a potential source of conflict between factions fighting for a share of that revenue, which may take the form of separatist conflicts in regions where the resources are produced and/or internal conflict between government departments often resulting in egregious levels of corruption and theft.

With the above description of the very real economic and financial disorders that are symptomatic of the Dutch disease and the resource curse, attention is now shifted to the antidotes available to government policymakers and World Bank and IMF technical experts to ensure that the large and growing infusions of revenue from oil exports over the next four decades will be rationally managed for development purposes while at the same time dodging the "disease" and the "curse" that often accompanies the sudden and—in Guyana's case, colossal—windfall of wealth from oil revenue.

According to the IMF, the government of Guyana is using the proceeds from its oil revenue "to invest in human capital, lower economy-wide energy costs, and build infrastructure, including climate change adaptation" (IMF, 2023). As the country's international reserves grow due to increased revenues from oil exports, a large share of these reserves are being diverted to Guyana's National Resource Fund (NRF) that was established in 2018 (and amended in 2021). The NRF operates as a sovereign wealth fund (SWF), which is "a state-owned investment fund that invests in real and financial assets such as stocks, bonds, real estate, precious metals, or alternative investments such as hedge funds. Sovereign wealth funds invest globally. Most SWFs are funded by revenues from commodity exports or from foreign-exchange reserves held by the central bank" (Sovereign Wealth Fund). Today, there are approximately 100 jurisdictions with SWFs, among the largest are in Norway, China, United Arab Emirates, and Kuwait (Sovereign Wealth Fund Institute, 2024).

The *raison d'être* of SWFs is to delink public spending from the volatility in revenue originating from natural resources to "ensure that revenue from natural resources does not lead to a loss in competitiveness; to fairly transfer national wealth across generations; and to finance development priorities". In Guyana's case, the NRF charter also includes an aspiration "to realize an inclusive green economy" (IMF, 2023, page 6). Removing these volatile oil revenues from automatically becoming a part of government spending through the annual budget reduces the risk of an overheated economy that often results in inflationary pressures and appreciation of the exchange rate that hampers a balanced expansion of the economy.

As Guyana's annual revenue flows from oil exports increase in the future, this will allow the country to use these financial resources in a more measured way that will be compatible with the absorptive capacity of the economy for spending on national—physical and social—infrastructure projects to enhance economic development, while simultaneously avoiding becoming a victim of the “Dutch disease” and the “resource curse”. In 2022, the first tranche of NRF funds were transferred to the national budget (just over 4% of GDP), which is expected to increase to 5% in subsequent years.

CONCLUSION

Guyana’s newfound oil-wealth may be a necessary condition for improving its population's living standards, but it is not sufficient. According to the United Nations’ most recent Human Development Report (2024), while Guyana’s ranking continues to rise as a result of the country’s astounding growth rates in GDP since 2020 with per capita GDP increasing to $35,783 in 2022 (twice the average per capita income of the world), Guyana’s other key components in the United Nations Human Development Index (HDI) such as life expectancy and mean years of schooling are more characteristic of countries with half of Guyana’s per capita GDP. In fact, Guyana registers the greatest deviation of per capita GDP ranking minus HDI ranking for the 193 reported jurisdictions. This suggests that despite the large run-up in per capita GDP the other components that comprise the HDI require significant improvement if Guyans’s oil wealth is to be deployed successfully. Providing enhanced health, education, and infrastructure services (transport, communications, and energy) will reduce poverty rates, improve national health and education metrics, and, over time, increase the skill level of Guyana’s labor force and, finally, living standards.

Guyana faces three serious challenges over the coming decades: Can the country resolve its centuries-long territorial dispute with its increasingly aggressive and beleaguered neighbor, Venezuela? Second, can Guyana diffuse the controversies described above regarding the country’s energy/environmental conundrum that would permit its economic development program to proceed? And, finally, can the country manage its bonanza of oil wealth to the benefit of all of its citizens?

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