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Symposium Introduction

Eurasia: Natural Resources and Economies – An Introduction to the Symposium

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The economic impact of resource abundance depends upon many factors. The literature emphasises that point resources are more likely to lead to rent-seeking than diffuse resources (Isham *et al.*, 2003). Jones Luong and Weinthal (2006, 2010) differentiate between public and private ownership and state control or lack of control. The situation is exacerbated during economic crisis conditions when the stress-test is shaking the economic foundations of institutions and market structures (Goldsworthy and Zakharova, 2010; Heuty and Aristi, 2009; Kalyuzhnova, 2010). The recent 2007–2009 crisis is not an exception in this respect. This symposium brings into discussion these challenges and identifies possible implications for economic policymaking. The joint theme of all the papers presented in this symposium is the examination of links between resource management and economic and institutional performance in resource-rich emerging economies.

In the first paper of the symposium Richard Pomfret argues that formerly centrally planned resource-rich countries could be vulnerable to institutional degradation and revenue volatility. The key policy issues are how and how fast to exploit their natural resources, how to share the revenues between companies and the state, and how to use the state's revenues. He examines these issues through case studies of six former Soviet republics and Mongolia, concentrating on methods of involving foreign partners in exploration and exploitation of natural resources. The author argues that hasty negotiation of Production Sharing Agreements (PSAs) between the host government

and international companies can be counter-productive for resource-rich countries by impeding long-term revenues from the mineral resources, but PSAs can also be critical in using foreign companies in order to generate the large revenues. Azerbaijan and Kazakhstan used PSAs to develop their hydrocarbon wealth and the Kyrgyz Republic to develop its gold mining, while suspicion of PSAs was associated with slower exploitation of hydrocarbons and minerals in Mongolia, Turkmenistan and Uzbekistan. PSAs are just one example of the pattern that, although institutions matter for the long-term prosperity of resource-rich countries, the relationships are more complex than revealed by simple correlations between indicators of institutional quality or of ownership patterns.

Hydrocarbon-rich states, such as Azerbaijan, Russia and Kazakhstan, that have succeeded in generating substantial export earnings manage the revenues through Sovereign Wealth Funds (SWFs). As management of the resource revenues is becoming even more urgent, many resource-rich countries are setting up mineral funds and other state investment vehicles to tackle the management challenge. This issue is elaborated by Matthias Luecke in the second paper of the Symposium.

Countries with large mineral resources can benefit from appropriate government decisions on investment. Historically, the stimulus for establishing mineral funds was the realization that many oil-rich countries wasted the windfall benefits from their resources. The inception of the mineral funds and their early history produced several lessons. In principle, mineral funds could facilitate domestic investments with high social return that are otherwise underprovided by market forces. However, this process has also proved a less than optimal undertaking – as the history of resource funds shows all too well, a number of resource-rich countries wasted their windfall on ‘wrongly’ selected projects. In addition, resource funds are likely to be socially beneficial only if they are well managed. The economic performance of many resource rich countries has been disappointing, even to the extent of prompting some observers to ask whether natural resources are a blessing or a curse. For example, about two-thirds of Caspian economies are driven by the oil and gas industry and state spending (Kalyuzhnova, 2009). State spending is highly dependent on revenues from the hydrocarbon sector. Resource rich emerging countries of Eurasia might face new economic challenges if their natural resources industry and state spending stop growing or decline. Mineral wealth, and state spending, may thus be mixed economic blessings for these economies. Whether a particular stabilization and savings fund is effective in accumulating assets for the medium and long run thus depends on whether its rules of operation are (i) appropriate and (ii) also followed in practice. Against this background, the paper by Matthias Luecke assesses the rules and

operation of the stabilization and savings funds in Kazakhstan and Azerbaijan, comparing them with the Norwegian experience.

In the third paper of the Symposium Yelena Kalyuzhnova and Christian Nygaard continue the analysis of the resource revenues' role and its impact to the other sectors of the economy through the special vehicles for state intervention. Drawing on the experience of Russia and Kazakhstan they illustrate how, in the absence of well functioning private financial sector, the governments of these two countries have attempted to substitute for the absence of the latter by introducing special vehicles that channel and direct resource revenues from their respective SWFs. In the paper the authors argue that these structures – Samruk-Kazyna of Kazakhstan and Vnesheconombank of Russia – retain significant elements of economic direction rather than market coordination. Through this analysis, Kalyuzhnova and Nygaard question the effectiveness of these establishments as long-term instruments for overcoming dependence on natural resources and immature financial sectors. The paper distinguishes between crisis and systemic components of these vehicles.

There is a connection between resource nationalism and government intervention in the financial sector. In the environment of high oil prices there is a possibility of spreading resource nationalism to other sectors of the economy. Resource nationalism could trigger state intervention in the financial sector. To some extent this might be conditioned by a general weakness of market institutions. The latter weakness is endogenous to the transition process. State-owned investment vehicles constitute additional market imperfections in that they *may* direct investment on the basis of non-economic considerations. In any given economy some investments are carried out on the basis of non-economic considerations (equity, redistribution etc). With respect to the overall economic trajectory an important aspect is, therefore, the size of this investment vis-à-vis overall investment in the economy. Overall, Kazakhstan and Russia represent cases with commonalities, but also differences. Common to both countries has been the successful usage of resource funds during the recent crisis in order to stabilize the economy and the inception and use of special vehicles for state intervention during and after the crisis. Prior to the crisis, resource revenues in Russia and Kazakhstan enabled direct and indirect credit growth in the form of state bank credits to the economy; budgetary credits to the domestic markets for the industries and consumers, and domestic operations of sovereign wealth funds. However, whereas Samruk-Kazyna's overall weight in the economy is considerable, Vneshekonombank is one of a number of state-owned financial institutions. However, unlike other state-owned banks, Vneshekonombank has a clear industrial policy remit and functions outside the Central Bank of Russia's regulatory framework.

In the globalized economy the confluence of politics and economics is clearly expressed in energy. In Eurasia oil, and gas revenues have been significant drivers of credit expansion in recent years through a number of direct and indirect routes. At a more general level, the inflow of oil and gas revenue in Eurasia has promoted nationalist economic structures *via* financial market intervention. However, the rapid credit expansion in recent years has not concomitantly led to a comparable expansion of investments, an issue that is compounded by structural weaknesses in the banking and credit system that, partially, necessitate the development of the dedicated state-owned investment vehicles discussed in this symposium.

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