The Paradigm of Exchange

- Economic analysis assumes willing participation in exchange
- Markets frequently require institutions separate from firms
- What creates the “demand” for the market place?
  - Decentralized decision makers
  - Tradable property rights
  - Common acceptance and enforcement of rules
Oil Development in Sudan

- Heglig field in Southern Sudan discovered by Chevron
- Development rights sold to BP, due to civil war
- BP sold rights to an independent company, Arakis
- Talisman, a Canadian Independent acquired Arakis
- Greater Nile Project formed with 4 partners:
  - Talisman
  - Petronas
  - CNPC
  - Sudanese interests
- Ad Hoc financing of the pipeline project
- Pipeline completed in mid 1999
- Oil revenue provided funds for arms
- Talisman sells interests to ONGC Videsh Limited
Oil Development in Chad

- Oil fields in Southern Chad in Doba, 1070 km from port
- Pipeline transit is primarily through Cameroon
- ExxonMobil operator for the Consortium
- World Bank financed Chad & Cameroon participation
- Complex process of consultation including NGOs
  - 7 years to complete
  - 900 public meetings, 300 villages
  - Explicit review of environmental impact
  - Restrictions on use of oil revenue
- Some revenue has been used for arms purchases
- FY 2001 military spending $31 m ($581 m Sudan)
- Archbishop Tutu: “The Chad/Cameroon project is not the help we asked for or needed. In the absence of the rule of law and respect for human rights and the environment, financing of large-scale oil development is destroying the environment and us.”
“Top-Down” or “Bottom-Up” Development

- World Bank Top-Down effort in Chad has mixed results:
  - Environmental impact has been lessened
  - Emphasis on process mollifies the NGOs
  - Control over Chad spending is ineffective
  - Exclusive government rights to economic rents are destabilizing to society
  - The process has a high transaction cost
  - Procedures stray from World Bank’s primary mission

- Historic economic development is bottom-up and evolutionary
The Magna Carta

• 1215 Agreement between King John and his Barons
• 65 elements, many govern economic relationships
  - 9 dealt with inheritance
  - 4 dealt with debt and finance
  - 6 with taxes
  - 22 with procedures for settling disputes
  - 18 miscellaneous
• No specifics for enforcing contracts or human rights, these evolved from common law, the Enlightenment, etc.
Property Rights and Human Rights

- Von Hayek and Chicago economists argue that property rights and human rights cannot be divided
- In any case enforcement of property rights creates a rule of law that may be applied to human rights
Reform to Avoid the “Curse of Oil” and achieve Economic Development

• Concentrated ownership of rent-producing assets creates incentives to preserve the status quo
• Access to resource rents often achieved through control of the military, police and instruments of enforcement
• Ownership of rent-producing assets should be diversified and separated from enforcement mechanisms
• Professor Adelman has suggested that Iraq’s oil resources should be fragmented and distributed as tradable properties
• Precedents include Alaska’s Permanent Fund