



THE EFFECTS OF OIL ON ECONOMIC DEVELOPMENT OF CHAD

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Abstract:

Chad's oil was extracted in 2003 by consortium oil companies and the World Bank. The World Bank and Chadian government agreed that once Chad starts to export oil to international market, the revenues would be used for development, but today evidence shows that oil production did not improve people's basic necessities. The country remains one of the poorest countries in the world. This paper critically assesses the resource Curse in Chad by exploring the effects of the oil on Chad's economic and social development. the finding shows that the declining of oil demand in 2016 has decreased the country's import and Export due to the fact the country was heavily depend on exporting oil. Many of the Chad's investments come from oil sector and since the investment in oil has been declining, foreign direct investment (FDI) also has fallen sharply. The paper also finds that rentier economy in Chad has permitted the president Idriss Deby to build a strong political elite that create a huge gap between the government and the civil society. the government uses public funding to support the patronage network, and that scenario has weakened institutions in Chad. The empirical findings have revealed that the oil production has exacerbated the already fragile economic of the country and that the government has no wills of development, this is why oil has a been a curse in Chad.

Keywords:

Resource Curse, Oil, Chad, Idriss Deby, Patronage politics

1. Introduction

The Resource Curse occurs when a country is rich in natural resources, but tends to experience poor economic growth, and sometimes even political and social struggles. Countries which national income are heavily depend on mineral and oil resources exports are prone to the Resource Curse. For example, countries like Nigeria, Libya, Gabon, Sudan, Angola and Chad are blessed by natural resources and have seen large amount of revenues, but these countries ended up facing tremendous economic and social problems. their resource wealth did not help to boost their economies, instead has exacerbated them (Kojucharov 2007).

Before the production of oil, Chad's main economic activities used to be agriculture and livestock. Until 2003 Chad's oil reached the international market, and the government received a significant amount of revenues from the oil, but it did not have any will for development of using the resource revenues to end poverty, improve health and education system. For these reasons, the country experiences major economic recession. According to the United Nation Development Program (2015), Chad is 185 out of 188 countries in the Humane Development Index, and the poverty rate in Chad expected to rise to 39.8 percent in 2019 (World Bank 2017).

This paper reviews the theory of resource curse as both economists and political scientists refer to as the Resource Curse. The theory contains two factors that explains the Resource Curse which are: the economic and political factors, and under each factors there are theoretical aspects that link them to the resource curse. The theoretical aspects usually are the negative impacts which the resource abundant countries suffer from while dealing with curse. The aspects that are under economic mechanism-the Dutch Disease, resources volatile in international market, and the poor economic linkages between resource and nonresource sectors (Ross 1999).

The political aspects that explain the resource curse are; the rentier state and the role of institutions, lack of democracy, the politics of patronage, and increasing of military spending and civil war, (Villumsen, 2010, as cited in Collier, 2007; Kojucharov, 2007; Pegg, 2006;).

Furthermore, this paper examines the resource curse in Chad while using the same feature that is explained by the theory of resource curse. To find out why Chad could not avoid the resources curse and the effects caused by this phenomenon on Chad's economic development, this paper poses the following question: what are the effects of the Resource Curse on Chad's economic and Social development?

2. Literature Review

The term of the resource curse was introduced by Richard M Auty (1993). He used it in his early studies, in which he argued that countries rich in natural resources tend to experience bad economic performances, due to their heavy dependence on exporting natural resources. Since then, the resource curse theory has been widely used by many scholars in the field of social sciences, among them, Andrew Warner and Jeffrey Sachs (1997, 2001), Philip Lane and Aaron Tornell (1999), Paul Collier (2007) and Nickola Kojucharov (2007) and many others (Sachs & Warner 2001, pp. 827).

Kojucharov (2007) explains that the closest factor that links the economic mechanism with the resource curse is the 'Dutch Disease' - is refer to a country which has large of natural resource, or boom in natural resource sector, it only exports its primary resources, (such as oil), that particular country in return gets massive amount of revenues which causes people to get higher income, this causes a high demand for local goods and services. Due to this fact, demands of local products increase, and prices in the local market raise up. In this context, the state does not distribute the resource revenues fairly: people who do not belong to the government's political elite would struggle with high living cost because they were not able to share the country's resource revenues. As such, local products turn-out to be expensive compared to foreign products (Kojuchrov 2007). The differences in the price between local products and foreign products can lead to a currency appreciation, as the economists refer to the real exchange rate appreciation.

Kojucchrov also sheds light on the government's behaviors toward the resource curse. He argues that state governments play major roles when they are dealing with the state's revenues. In the academic term, this factor is called behavioral mechanism or political mechanism; the government expands the revenues of the state unwisely. It spends money on unnecessary projects that help neither the citizens nor the country, instead, it causes corruptions. Such needless investments usually are invested in infrastructure, for instance, roads or governmental buildings. The question is why the government wastes the state revenues in unnecessary projects? the government expects approval from its citizens assuming that the state is building the country and promoting development, but in most of the case this scenario does not work due to a high level of corruption. The government ends up borrowing money from international donors.

3. Theoretical Analysis

In section, this paper argues the theory of resource curse. As is mentioned in the literature review, it argues the causal factors the resource curse. The term natural resource curse refers to the countries that have immense amount of natural resources. Resources such as oil, gold, diamonds and other mineral resources are the particular resources that lead countries to a perpetual economic, social and politics problems (Collier 2007). Mineral dependence countries do not just experience curse in term of their economic development, but they are prone to experience violent conflict, inequality, lack of democracy and corruption (Shaxson 2007)

this paper examines the effects of the oil by looking into the theory of the resource curse which contains two factors that explains the resource curse- the economic and political factors, and under each factors there are theoretical aspects that link them to the resource curse.

4. Economic Factors

The economic factors are separated in two (2) effects that this discuss them- the increase of foreign debt and the volatile revenues of the oil. These two (2) factors have direct connection with the resource curse and they remain one of the actual factors that cause the current economic crisis in Chad. the volatile revenue refers to the instability of resources' prices in international market, for instance oil. Studies reveal that governments spend significant amount of money on national budget during the boom periods of resources, but it is very challenging to cut the same public spending during the burst. This makes very difficult for governments to maintain a long time budgetary

system as the price of the commodities are dropping. As such, countries that dependent on exporting natural resources are unlikely to avoid budget deficit (Kojucharov 2007).

The other effect that many oil dependent countries experience is the international debts. Government from resource-rich countries have the habit of borrowing money from international financial institutions, such as International Monetary Fund (IMF) and the World Bank Group (WBG). Many studies reveal that this might cause global problems, such as, corruption, and large amount of debts that lead to a poor economic growth (Shaxson 2007).

To analyze the economic factors as the negative development outcomes for Resource curse in Chad, here the paper looks at the failing of the resource revenues management by the Chadian government as the reason why Chad has never seen any economic development. Chad's president never had the will of transforming the country's economic into a development, therefore, he has never had a developmental plan for the state. this proves that when he went to buy weapons with the first oil revenues that are received (Eriksson & Hagströmer 2005).

Another factor analyzed by Kojucharov (2007), According to him Deby's government has failed to manage the oil production can be explained in two ways. First, institutions are very weak, and they lacked capacity. For example, institution such as College de controle et de surveillance des resource petrolieres (CCSRP), at the start of its functions, it was reported that it lacked fund and work facilities like offices, computer internet and "The committee is under-funded, understaffed and deprived of information by both Exxon and Chadian government" (Eriksson & Hagströmer, 2005 as cited in BBC News, 2004, p.47-48).

Empirical results show that although oil has shown positive impacts to Chad's economic growth during the early years of the oil production, but in recent years the country has experienced poor macroeconomic performance due to the fact that the price in oil is dropping dramatically. Table. 1: shows that from 1990 when the current President Idriss Deby came to power to 2000 when the project of oil extraction approved, Chad's real Gross Domestic Product (GDP) grew only by 1.6% annual average. But when the oil production became operational in October 2003, the exportation of oil helped the country's GDP to jump to 33.6%. This has made Chad to become the highest growth rate in the world by the end of 2004. The booming of oil exports in Chad has helped the country to reduce its external debts from 50.2% of GDP in 2003 to 20.5% in 2006 (Kojuchrov 2007).

Table 1.Economic and Financial Indicators for Chad

Indicator	2003	2004	2005	2006/E	2007/P
Real GDP (annual % change)	14.7	33.6	8.6	1.3	-1.2
CPI Inflation (annual % change)	-1.8	-5.4	7.9	7.9	4.0
Current Account Balance (% of GDP)	-47.4	-4.8	1.1	1.8	5.3
External Debt (% of GDP)	50.2	35.0	27.0	20.5	24.1

International Monetary Fund (2007)

IMF (2016) report shows that the dropping of oil's price has brought Chad's economy to the ground. In 2013 and 2014 the price of a barrel crude oil was \$100, it dropped to \$ 43 and \$ 34 in 2015-16. This has affected the oil-sector growth by -5.9 and by huge cut in government budgets. At the beginning of 2016 the investment in oil companies has been cut by 80 percent as the drop in oil price was continuing to drop dramatically. Other sectors such as livestock, commerce, communication and transport sector have been affected both by security concern in the region and also because of the slow activity in the oil sector (IMF 2016)

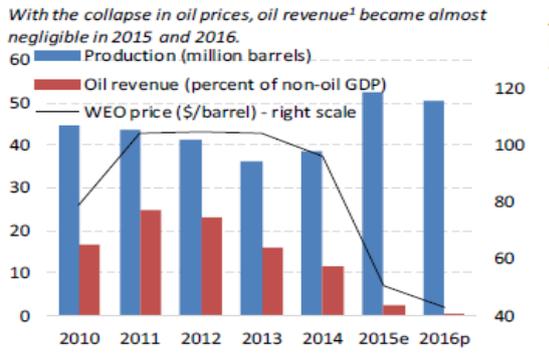


Figure 3. Chad: Economic Developments, 2010-16
Source: Chadian authorities, IMF 2016

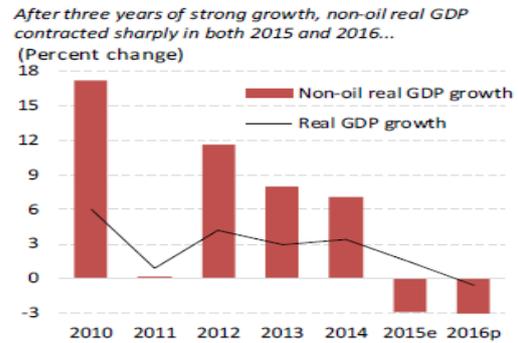


Figure 4 Chad: Economic Development
Source: Chadian authorities and IMF, 2016

Figure 3 gives information on the drop in oil prices. According to IMF the net oil revenues that dropped during the first six months of 2016 was estimated to be CFA Franc 25 billion for the year, 80 percent lower compare to the year of 2015. This phenomenon has also caused lots of trouble for the government to deal with the annual budget cut. Since the country was running out of money, the government was forced to reduce its annual budget of 2016 by 23 percent below the year 2015 and 44 percent less than the year of 2014 (IMF 2016).

Furthermore, Figure 4 shows that the contribution of non-oil revenues in real GDP growth has sharply decline in 2016. the indicator shows approximately CFAF 415 billion in Chad’s GDP has fall in 2016, that makes 3 percent lower than the year before.

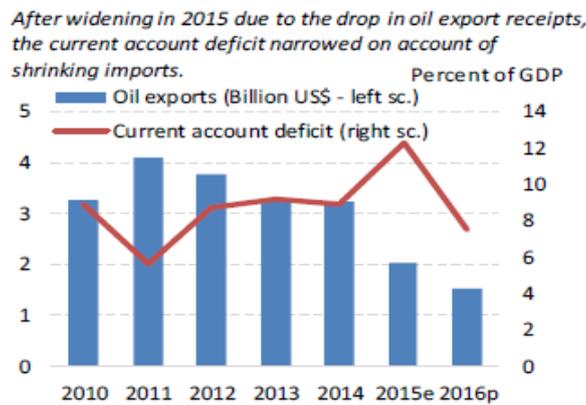


Figure. 5 Chad Economic Development, 2010-16
Source: Chadian authorities and IMF, 2016

Figure 5 explains that the declining of oil demand in 2016 has decreased the country’s import and Export due to the fact the country was heavily depend on exporting oil, as a result, the country’s account deficit narrowed to 7.5 of GDP. Many of the Chad’s investments come from oil sector and since the investment in oil has been declining, foreign direct investment (FDI) also has fallen sharply, for instance construction sectors are stopped (IMF 2016).

Indicator also shows that Chad is an oil producer country; but it does not attract Foreign investors. “Chad was 167th out of 179 countries in the Heritage Foundation’s 2014 Index of Economic Freedom, 143rd out 144 countries in the World Economic Forum’s 2014-15 Global competitiveness Index, and 185th out of 189 countries in the

World's 2014 Doing Business report (BTI 2016, p. 17). There are number of factors led the country not being a suitable environment for investment. Therefore, bad infrastructures and power cut problems in Chad. in Chad 80 percent of the population are farmers or herder, this causes lack professional skillful labors, corruption and patronage system are considered as a legal activity in the country (BTI 2016).

5. Political Factors

This political mechanism mainly explains the behaviors of the government in resource-rich country toward the resource revenues. Many leaders in Africa's natural exporter countries tend not to manage the resource revenues wisely, they instead use the revenues to enrich themselves and seek for building a strong political empire that can help them to maintain power. Therefore, the political factors effects are more serious and they are perpetual effects. Political aspects that explain the resource curse are, the rentier state and the role of institutions, lack of democracy, the politics of patronage, (Villumsen, 2010, as cited in Collier, 2007; Kojucharov, 2007; Pegg, 2006;).

The theory of rentier state refers to when a government only seeks to use the resource revenues for its benefits and tends to ignore domestic problems, such as, economic recession and social struggle. This government does not impose its people to pay domestic taxes, it just relies on the resource revenues and international aids (Pegg 2006.) The rentier of state encourages government of being too rational about the future of the resource revenues and it motivates the nonstate actors to involve in actions that only harm economic growth, this include corruption, bad governance and relationship between patrons and their clients.

In the case of Chad, the effects of rentier can be explained as follow. Before the oil extraction, the Chadian government has always been free of being accountable to its people the regime is a clan-based system of patronage that any attempt to revolt against the system would end up into conflict because the ethnic-patronage elite who have self-benefit from such system would not let any political faction to arise, they prefer to maintain enriching themselves by violating the rule of law (Winters and Gould 2011).

In the Chadian context of paying taxes is otherwise, Chadian people pay taxes without any of the expectations that they government would do something in return They do not expect anything from the government (Bayart 1999). people are certainly unaware of the fact that in case if they have to pay taxes, they get accountability in return. As it is suggested by Bayart (1999) it is a colonial legacy. During the colonization, the French used to rule indirectly while collecting wealth in the country. And in return, the French colonizers supported local chiefs and sultans to rule and collect taxes from the population.

As regards the resource rents affects democracy, Collier in his own words mentions that "the heart of the resource curse is that resource rents make democracy malfunction" (Collier 2007 pp.42). He suggests that democracy is underperformed in the natural resources-rich countries by proposing a law called "the jungle of electoral competition"- societies whose countries export oil are more likely to be ruled by authoritarian regimes; they embezzle the public funding to support their parties to win elections.

According (BTI 2016, Chad Country Report) Democratic institutions depend on the government and they were also weakened by the patronage system. In the administrative system works are done very poorly due to lack of independency in the parliament. Political appointment is controlled directly by the president and it is based on patronage system. The president controls the country only by himself giving the key positions to his relatives who support him. This has caused a huge gap between the government and the population. Thus, the fact that Deby's government is too strong ordinary people cannot question his policies.

Repression effects in Chad's oil trap can be explained as follow. Studies reveal that the oil revenues were not the primary cause of the government's repression. Although Deby promised to implement democracy after seizing power. He allowed multi-political parties in which one term has five years of presidency, but throughout his presidency this has not been the case. Deby has won all the elections that took place in 1996, 2001, 2006, 2012 and recent in 2016 which were controversial, the opposition boycotted the last three election accusing the president for electoral fraud (Eriksson & Hagströmer 2005, p. 26-27).

Imprisonment and killing of oppositions were common thing even before Chad becoming oil producer. The constitution allows the freedom of expression, but the crackdown on media is normal when it is against the government. Newspapers, radios and televisions that in N'djamena (Capital city) are the supporters of the president, they cannot broadcast or write against the president (BTI 2016)

This paper claims that democracy has never been in Chad even before Chad started exporting oil. but that does not say that oil did not cause the malfunctioning of democracy in Chad, without doubt that the oil revenues exacerbated democracy that barely was experienced by Chadian. Furthermore. The rentier effects have been severe effects against the country's development and help Deby's regime to become strong, it has been the key element of his success maintaining stable government. As for repression effects linking with the Resource Curse in Chad, this paper argues that the dominance of government in Chad and government's violence against the people is not oil's effects but it is part of Chad's political tradition. Consider many governments in Africa which their countries are rich in oil assume power with no intention of developments, they are motivated by the greed of power and wealth collection.

The politics of patronage can be explained by drawing two (2) analytics. The first is governments use this strategy of the patron-client relationship to avoid political crisis such as coup d'état and civil war, and the second one is during the electoral competitions political parties use public funds to bribe voters through patron-client's relationship (Collier 2007 & Arriola 2009)

Leaders in Africa tend to purchase people's supports while distributing state's wealth in order to create a great political empire without any major political faction. Arriola (2009) argues that in many African resource rich countries, leaders seek to expand their cabinet, while appointing patron in key positions in the government. He claims that politicians use this strategy avoiding political crisis and the risk of being overthrown which at the end of the day this strategy make them "the big man rules".

The politics of patronage is a serious matter that oil has brought to Chad. In 1990, Idriss Deby came to power as a democratic leader, he promised that he would bring democracy to Chadian people. He seized power in a patronage elite relationship, particularly through his Zakhawa ethnic group and they are still very loyal to him and to his government. Deby manages to expand this scenario to other ethnic groups. The patronage system is not just practiced among the president's clan but it spread throughout the country, at least in every major ethnic groups in Chad; that is including Gourane, Arab, Kanembou, Sarah, and so forth (May & Massey, 2007).

Idriss Deby expands patronage coalition by offering them the state's resources and those patrons in return buy off their clients in exchange of their loyalty supporting their patron to win position in the country's bad managed economy and politics (Hyden, 2006; Lemarchand & Legg, 1972; and R. Arriola, 2009). In order to expand patronage, he selects one person from a particular ethnic group, appointing him or her to a key positions in the government, that can be minister or general director in one of the key departments in the country, for instance in the ministry of finance, in airport or in oil companies. He also uses the strategy of divide and rule; he can easily bring division among family member by appointing one member of a family to a well-paid salary in case if he sees or hear threat comes from this family member.

In this context, this paper claims that due to the complete absent of strong intuitions Idriss Deby relies on expanding patronage elite by distributing the country's resource revenues in order to maintain his power, he avoids political challenges by recruiting more elites into his patronage coalitions. Because of the mal-governance and poor management of oil revenues, since 2014 Chad has been through its worse economic and social crisis. In June last year the government announced an austerity measure (16 austerity measure) that includes 50 percent of civil servant's salaries were reduced, cutting the annual university students grants completely from public spending (IMF 2016).

Civil servant who just rely on small wages are more affected by the austerity program. People whiteness that teachers were thrown out from their houses as they did not afford to pay the rental house, patients in hospitals remained untreated due to lack of doctors. while school were closed for almost 4 months in 2017 because teachers went on multiple strikes. The same case for doctors in public hospitals do not work as they went on strike. For that reason, in recent years many doctors open private clinics for people who afford the price. But for many Chadians private hospital are very expensive, hence, they cannot afford to treat in private hospitals.

The United Nation Development Program (2015) reports that Chad currently is 185 out of 188 countries in the Human Development Index. The current crisis started with the dramatic falling of the oil's price. According to Bertelsmann Stiftung's Transformation Index (BTI 2016) that in Chad access to economic power are given according to ethnics and religions. The highest and the privilege positions are only given to member of the ruling clan and the family of the president. Oil revenues is the main country's economic income, but the revenues are not used to help reducing poverty and improve health and educations, they are unequally distributed due to the patronage network. This has caused 60.5% of the population are below the poverty line with \$2 per day. People in rural areas are more affected, accordingly, 72% of the populations live in rural areas are under the poverty line and 80% of Chadian population are farmers and herder who their activities affected by the recent economic crisis. (BTI 2016).

6. Conclusion

This paper is an exploring research paper that has sought to analyze the effects of Resource Curse in Chad by answering the question what are the effects of oil on Chad's economic and Social development? in doing so, this paper has applied the theory of Resource Curse to analyze the research question. According to theory of resource curse, there are two factors that can explain the resource curse; which are the economic and political factors

The finding of the analysis from the political factors shows that the main reason that lead Chad to experience the resource curse is the patron based government in Chad. this regime has been an impediment to economic growth, it is based on politics of patronage, it uses the country's national income in order to expand its patronage so that the president can maintain his power without any threat of him being ousted. It was reported that "the petroleum revenues management system brokered with the WB has failed, and the revenues have been used by the government to buy arms, pay for some infrastructure and feed the patronage network to maintain support for the current president" (BTI 2016, p. 25).

In Chad democracy is not something that the Chadian people enjoy even before the current regime, democracy never existed even before the country explored its natural resources, this is because of the French colonial's legacy. But the oil production has exacerbated democracy, it motivates the regime to be more repressive. Idriss Deby uses cabinet reshuffle to manipulate the Chadian people. The Agence National de Securite (ANS) is the Chad's national intelligence agency. This agency is run by the president's closest clan and elites; it is one of the most brutal agencies. Manipulating and threatening journalists, opposition parties are part of this agency's works. The intelligence offers large amount of money and in return you must support the policies of the president, otherwise you might be jailed or killed. There have been many victims who fled the country left their families behind because of the threats posing by the agency.

This paper suggests that as far as the recent economic and social development in Chad are concerned, the oil production has been nothing but disaster for the country. It is safe to say that Chad's socio economic would have been far better than without the oil production. Although, it is believed that oil has contributed at some points to Chad's developments, especially from 2010 to 2012 when the government built some schools and one of the two universities in the capital. But Many Chadian believe that the government should have done far better than this. The issue of the underdevelopment of Chad's economy was the rentier economic in which the president had no wills of developing the country. His intensions to be in power and help to those who have been seeking for resource rentier. Furthermore, this paper recommends and encourages the Chadian government to implement the same approaches as Botswana implemented. Chad's government needs to implement economic diversification which promote non-oil economic growth and must open the country to international investors, then the government must be working on improving domestic problems such as, good infrastructure, permanent electricity power and security. Second approach is that Chad must end the management of the country's fiscal is being managed by the IMF. The government should take its responsibilities to manage its fiscal by implementing strict fiscal disciplines that will end the patronage network system. One of the most important approaches that Chad should learn from Botswana is that good governance. Botswana's success in managing its natural resources due to the effective institutions. According to Meijia & Castel (2012) four aspects of governance that lead Botswana to manage its natural resources. Voice and accountability, government effectiveness, market friendly regulation and anti-corruption policies.

Deby and his elite will enjoy this lavish lifestyle while the country's economy is collapsed. Many experts and Chadian people think that Chad will go toward civil war and armed factionalism. Therefore, Deby will keep using repression to arrest oppositions and kill protestants on the streets who are already show to the president they do not fear from his repression will keep protesting. Especially people from southern non-Muslim communities whose their grievances might lead the country into a civil war.

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