2015

Do Oil Economies in Sub-Sahara Africa

Rebecca Girma
CUNY City College

Recommended Citation
Girma, Rebecca, "Do Oil Economies in Sub-Sahara Africa" (2015). CUNY Academic Works.
http://academicworks.cuny.edu/cc_etds_theses/392
The City College of New York

Masters Degree in International Affairs

Summer 2015

“Do Oil Economies in Sub-Saharan Africa Hinder Development”

Submission for a Graduate Thesis Fulfillment at the Colin Powell School for International Affairs

Advisor: Dr. Jeffery Kucik
Author: Rebeca Girma
# Table of Content

### Abstract  
pg. 4

### Introduction and Background  
pg. 5-13

### Literature Review  
pg. 14-25

#### Chapter One

Neo-Patrimonial State and Governance  
pg. 26-37

#### Chapter Two

Commodity value  
pg. 38-44

#### Chapter Three

MNCs in LDCs  
pg. 45-51

#### Chapter Four

Corruption, High GDP and Poverty  
pg. 52

#### Chapter Five

The Curious Case of Kuwait  
pg. 53-57

### Summary  
pg. 58-60

### Bibliography  
pg. 61-67
Acknowledgement

I would like to thank my graduate school educators.
Abstract

The African continent provides majority of the world’s raw material for technology and fine jewelry. Countries dependent on their extractive industries lag behind on developmental goals. Their GDPs are high as well as their national poverty levels. This paper explores the factors in which a nation lacks development when it is financially wealthy to do so. There are similar patterns in nations where resource curse has occurred. What is the key to sustainable development in Sub-Saharan Africa? Is solving corruption and migrating away from a market dependent on primary exports the answer? Can they transition from the ancient patrimonial state to democracy? The paper explores the patterns, the results and perhaps a change.
Introduction Background:

Do natural resource economies hinder development in Sub-Saharan Africa? The current works on the subject argue on both sides where resource rich economies do develop at a lower rate and long-term development is hindered but also in some other cases natural resource economies are not affected and do not suffer from under development. The significant difference is in the sampled states.

In the case of Sub-Saharan Africa, the published works tend to lean towards oil economies having a negative effect on development in places it is needed the most like tropical Africa. This is evident by looking at economies annual GDP and also development growth rate. There is evidence of resource abundance that is not translating into development. However, in other regions of the world where abundant resources are present, development is not so much hindered. Such places are like Brazil, Australia and Norway. So the question then becomes if the same variable being natural resource economy reacts differently in different states, what are the other variables in a rentier economy that might perhaps change the outcome? Current works explore the same questions on what variables are also part of the concept of resource curse.

In this thesis I hypothesize that there are three factors which hinder development in resource-rich states: the corrupt nature of many post colonial states, the value of the commodity to the state (state dependency on the commodity), and the role of Multinational Corporations (MNCs). Is the development
of the state hindered by its patrimonial nature? Is there any correlation between MNCs involvement and lack of development within oil exporting nations in Africa? What practices by the State and MNC prevent these host nations from developing when their GDP is ranked among the highest on the continent?

My interest in these three factors is because each one is connected and operates together in a resource dependant economy. I place a value on each factor on this linear equation that results in resource curse. The state is the official “parent” on all resources within its borders. Any form of exploration and exploitation is with the states permission. With that being said, there is no resource contributing to the national GDP without the government knowing about it. The state takes the role of managing natural resource funds. What happens when the nature of the state is not so accountable and positive? We start to see negative behaviors such as mismanagement of resource funds. Corruption becomes a serious problem for development.

The second variable is the weakness of the economy within a resource dependent state. Diversity is crucial to any economy to survive shifts in the market. Natural resource abundant states tend to rely on a commodity and use that as a main source of income. Any fluctuation in price and demand will have a severe impact on economies that depend on extractive industries. By not diversifying its economy, a state cripples its chances of survival in the global market. Also keep in mind there is the real possibility of the resource abundance slowly dwindling into non-existence, as it is not renewable. What would be the outcome then when the main breadwinner of a state no longer exists?
Lastly, my third factor is the presence and influence MNCs have on such resource states. The resource needs to be extracted for use and sale and mostly they are done so by foreign corporations. This is not to say that they are no state owned and operated corporations involved in the extraction of natural resources. However, the state companies are a few compared to the dozen foreign firms that are part of the puzzle. There is evidence that MNCs are also corrupt along with the states that they operate in. Aside from corruption, there is also a lack of environmental responsibility on behalf of MNCs because the government has no form of regulations. Granted it is the nations primary duty to protect its borders and also regulating those working within them but in most MNCs cases, they have already bought the governments silence and get a blind eye towards most of their crimes.

To test my hypothesis I will examine Nigeria, Angola and Equatorial Guinea. I will layout their history as a patrimonial oil exporting state and the value of oil to their economy. I will also present the MNC's history within each country and their relationship. I will also be looking at their internal government and political systems. My method of collecting information will be from various sources such as the World Bank, IMF, UN publications and journals as well as current working papers in the field of study. The data will include information on levels of governance, development, commodity dependency and MNCs history and involvement. I will also be using scholarly writers work within the topic regarding resource curse cause and effects on development. The last portion of my hypothesis is beating and rising from resource curse. I will present a case study of Kuwait as an
oil-exporting nation who has not suffered a resource curse. I will supplement my recommendation bases on my findings.

**Case Studies:** In order to support my proposition that three factors hinder development in resource-rich states; I will employ the case study method. I have chosen these Sub-Saharan countries because they are in the top ten list of oil exporting nations in Sub-Saharan Africa, and they each have suffered the resource curse. I will analyze cases from Nigeria, Angola and Equatorial Guinea. Oil exports account for more than half of the national export revenue. I will also be using Kuwait as a comparison to analyze why as an oil exporting country Kuwait has not suffered the resource curse. Kuwait is also a member of OPEC and has been exporting oil since 1946. Oil exports also account for majority of the national export revenues. Three Sub-Saharan countries and one Middle Eastern country have similar oil exporting industries and yet only one of them has not suffered from the resource curse.

I will first examine Nigeria, Angola and Equatorial Guinea’s development statistics post independence. What measures of state building have taken place? I will be using development data from the World Bank and UNICEF to gauge the rate of growth in each case study. There certainly is a rise in national GDP and I want to be able to see if there is also a rise in human development. My measure for human development is the rate of poverty and growth out of it. The literatures will also supplement critiques of failed state management of the oil industry and revenues, the State as a political entity and its structure in regards to the economy, and the
MNC’s involvement in general and development as well as oil MNC within Nigeria, Angola and Equatorial Guinea.

To measure corruption I will use data from Transparency International that report on levels of corruption by state officials. I define corruption as the act of committing fraud for personal gain (monetary and/or political). The dependence of the state on oil can be measured by the GDP of the state and what percentage oil contributes to overall exports. I will be using global finance reports on the value of oil to the world and to the home country exporting it. The role of MNCs within the host nations will be analyzed with informational data collected from human rights groups.

Although I hope to find that all three factors are indeed important, I am also interested in the varied effects of the factors as they pertain to each of the three countries. In other words, it may be that one factor is more important than the others and/or that the priority of these factors differ in different states.

My proposed study is based on the following assumptions. The African continent is the second largest oil-exporting region in the world next to the Middle East. According to a Larry Diamond (2013) article “Petroleum to People,” a study shows that in the coming years there will be approximately $3 trillion of Foreign Direct Investment (FDI) pumped into the African economy just from the oil industry. There are multiple nations that are oil exporters across the continent; however, the fastest growth in the oil industry is concentrated in West Africa. The West African oil and gas market was approximately $21.30 billion for the year of 2013 (OPEC).¹

¹ OPEC Oil and Gas Market Global Report
Nigeria, Angola and Equatorial Guinea are among the top ten oil producers and exporters on the continent. Nigeria comes in at first place with 2.2 million barrels per day. Angola is third with 1.9 million barrels a day and in seventh place is Equatorial Guinea with 346,000 barrels per day. The largest renewable and non-renewable natural resources in the world are located on the African continent. The oil industry generates billions of dollars annually and is anticipated to grow even larger.

With such abundant resources, countries should flourish based on the revenues from their exports but many writers have noted a trend which they call a “curse”. The resource curse refers to the development problems that many nations with a high dependency on natural resources face. I propose that the Resource curse results from among other things, three combination factors: the corrupt nature of many postcolonial states, the value of the commodity to the state and their dependency on oil and the role of MNCs.

The three major oil producing countries in Africa-- Nigeria, Angola and Equatorial Guinea- which I have chosen to focus on have suffered the resource curse as a result of their oil dependency. The resource curse stems from corruption and lack of governance on a state level, lack of corporate responsibility from MNCs and the economic dependency on oil.

Angola has a population of 21.47 million and an annual GDP of $124.20 billion. According to the World Bank 60 percent of the rural community lives at poverty levels. Angola is one of the wealthiest nations on the continent.

\[http://data.worldbank.org/indicator/NY.GDP.MKTP.CD\]
exports make up 95 percent of the total exports and 45 percent of the annual GDP. Yet Angola remains underdeveloped. Over 36 percent of the overall population lives in poverty.³

Nigeria has a population of 178.5 million and an annual GDP of $521.8 billion according to the World Bank.⁴ It is also noted that 46 percent of the population lives in poverty. According to the Organization of Petroleum Exporting Countries (OPEC), the oil and gas sector accounts for 35 percent of the national GDP and represents 90 percent of the export revenue. Levels of corruption are high in Nigeria centered on missing funds and bribery. According to a New York Times article $20 billion from oil sales went unaccounted for from the national bank. When the head of the Nigerian Central Bank investigated, he was fired from his position.⁵

Equatorial Guinea’s annual GDP was $15.57 billion for the year 2013, oil represents 95 percent of the gross domestic product. The country has a small population of just over 757,014. According to a Larry Diamond’s article “Petroleum to People” 3 out of 4 Equatorial Guineans live under $2 a day.⁶ However, President Obiang’s family and anyone tied to the Obiangs have amassed fortunes at the expense of the state. There are high levels of corruption that led to the U.S Department of Justice to seize property belonging to Teodoro Nguema Obiang Mangue, the oldest son of president Obiang in Malibu, California in October 2011.⁷

³ http://data.worldbank.org/country/angola
⁴ http://data.worldbank.org/country/nigeria
⁵ http://www.nytimes.com/2014/03/10/world/africa/nigerians-ask-why-oil-funds-are-missing.html?_r=0
⁷ Ibid
All three nations are not fully democratic states. State governance in Africa tends to be patrimonial for the most part. This is not to say there are no democratic nations on the continent, but there are more states that are patrimonial than democratic. After independence, Angola, Nigeria and Equatorial Guinea had their fair share of unstable governments. There was a scramble for power and elites who came to power already had prominent positions during colonial rule and once colonization ended, they became presidents and prime ministers. Elites rising to such levels of leadership can be described as patrimonial. This behavior and relation between state officials and their method of governing has a patron/clientele relationship in the new decolonized neo-patrimonial Africa.

The resource curse is more prevalent in neo-patrimonial states. There is a correlation between the level of good governance and development achievements on the African continent. The state is the main public administrator and is responsible for developing the economy within its borders and also protecting state and private assets. In neo-patrimonial states, there is a disconnect between compliance and accountability. As they are un-democratic, there have been cases in each selected nations where oil revenues have been mismanaged. State officials often become corrupt and use natural resource revenues for their personal gain rather than the wealth and development of a nation. It is also been demonstrated that bribes and pay offs have been accepted from foreign investment companies for access to the natural resource.  

---

Natural resources such as oil are mainly extracted and exported by various multinational corporations (MNCs) that have struck a deal with the government. Foreign Direct Investments (FDI) is an important part of a growing economy, especially one that is emerging and is in need of capital. Multinational corporations bring a tremendous amount of capital into the host nations. However, there is a question about their role in development. Most of the MNCs are located in the western world and their FDI is directed towards the “Global South” which is the developing world that has the largest amount of growth potential and profit. Multinational corporations in sectors such as technology and textiles bring capital growth and development to the host nations. However, in the oil sector the outcome is often the opposite. The amount of money that is pumped into the nations is almost double if not triple that of other sectors. Oil is the most contested sector because aside from being a high commodity item on the global market, it comes with high risks.

Apart from environmental problems such as oil spills, MNCs have had to deal with security issues in certain countries where oil pipelines and refineries are at risk. Nigeria experienced both a terrible oil spill in 2011 and difficulty securing the oil pipelines from rebels. Angola and Equatorial Guinea suffer from serious corruption. These two nations are the wealthiest states in Africa, but due to corruption there are records of millions of dollars worth of oil revenue receipts missing.

Before moving on to deal with my hypothesis, I will provide a theoretical framework based on relevant literature on neo-patrimonialism and democracy.
Literature Review:

Resource curse is the negative relationship between resource dependence and economic growth. The theory is that natural resource abundant economies grow at a slower rate than the resource lacking economies. It is also referred to as the Dutch Disease. There is the question of whether resource curse only appears in developing states or travels further than such states. The basic framework is that countries that are heavily dependent on natural resource exports develop at a slower rate because other sectors of their economy become depreciated and lose value. Such dependent economies shy away from developing their manufacturing sector. Sachs and Warner (1995) insist that resource curse is the result of the Dutch Disease theory and dismiss the possibility that oil corporations and the political natures of the state contribute to the oil resource curse.

Rodriguez and Sachs (1999) explore the theory that the cause of resource curse in resource abundant is the state’s adaption to a sudden boom. They state that nations are living beyond their means with newfound wealth that is not renewable and steady. They label it as an “unsustainable high income”. Income that will soon decrease at any moments notice due to fluctuation in demand (oil prices) and supply that is not renewable. They conclude that selling goods at market price and investing the revenues to later survive off the interest of revenues reduces the chances of a curse rather than effectively blowing through the revenues.

Among other theories on resource curse and its cause, there are several theoretical works on escaping the curse. To escape, one must diagnose the issue and either avoid the defect or correct it for the future. The most common theory on
beating the resource curse draws upon the political nature of the state. What affects does the institution have on the economic outcome?

Mehlum, Moene and Torvik (2006) explore the roles institutions play in resource curse. They identify that the institution is a primary actor in the big picture of resource curse. They examine the institutional arrangements of states that have “growth winner” versus “growth losers”. They examine Botswana who is a resource exporting state. Botswana has diamond exports that account for 40% of the GDP but due to a “good institution” in place, Botswana performs well and is not affected by any resource abundance. 9 Botswana is therefore listed as a growth winner. They refer to Ades and Di Talla (1999) to shed light on how resource rents may stimulate corruption among politicians and bureaucrats. If there is no good institution in place, corruption on high levels is a reality rather than a theory. Based on their models, it is concluded that the quality of institution plays a great role in resource curse. Unlike Sachs and Warner that do not assign any value to institutions in resource curse, Mehlum, Moene, Torvil predict that resource curse can be eliminated entirely if institutions played a positive role by maintaining an accountable reputation. The Dutch Disease story simply wouldn’t apply.

If the performance of an institution has an effect on resource curse, what about leaders within the institution, what effects do they have on resource curse? Institutions are shaped and run by leaders and Cunningham and Casceli (2009) examine the multiple layers that leaders have within an institution and how they each relate to the resource curse. They set up their hypothesis by asking the many

ways that resource rents can alter the incentives of a political leader. In order to understand the outcome one must understand the start— which is the leader’s behavior.

They make two simple categories of centralized and decentralized mechanisms. The centralized mechanism is with a leader that is the recipient of resource revenues and benefits directly from it. The problem comes when its time to decide whether to allocate money into investments that can enrich the country or retain the money to remain in power. The patrimonial leader would follow this model and choose self-enrichment over national development. The arrangement for collecting resource through the government and its ability and incentives to make the most of the revenue determine the resource curse. Other models tested are the repressive leader, fatalistic leader, and patronage. Each one resulted in a variation of resource curse. In patronage, resource was likely and at a higher rate. There is an increase in rent resource while a decrease in social investments. There is also the need to remain in power and power is bought with state revenues.

“Is neo-patrimonialism a pathology, analogy, cause, effect or a term for all of Africa’s troubles?” This is the question that Ann Pitcher, Mary H. Moran and Michael Johnson try to answer in their paper Rethinking Patrimonialism and Neo-patrimonialism in Africa. Can the nature of the state be the initial point for all the problems the nation endures? Their paper defines what the common definition and use of “patrimonial” is when labeling a state as neo-patrimonial. The association of patrimonial Africa is not the same as Weber’s patrimonialism. Weber’s (1947)

definition referred to the patron and client like relationship between leaders and subjects in a political system. Weber also describes the distribution of power is based on culture.\textsuperscript{11} Today, patrimonial has the stigma of “corrupt” attached to it. Neo-patrimonial refers to the same guidelines listed by Weber but it is assigned to leaders post decolonization, the new patrimonial.

The construction of authority and the lack of accountability politically affect the state and social welfare of its people. Pitcher and her colleagues find that states that are not associated/labeled with neo-patrimonial leaders often experience higher rates of development versus those states with neo-patrimonial practices by their leaders.

There is a collection of “democratic” states in Africa and they all have their shortcomings as neo-patrimonial states. They are democratic in a sense, even though they are not liberal democracies. Rod Alence (2004) makes a comparison in between the level of development and the governance of political institutions in Sub-Saharan Africa.\textsuperscript{12} He analyzed a variety of nations where some are considered fairly liberal as well as less restrictive governments like Botswana’s and states that are less democratic and more restrictive like Angola and Nigeria. Alence finds that there is a positive relationship between states with relatively good governance and public administration and the level of development nationally. States with good governance are likely to be more transparent than those that are not practicing good governance. So, such “good” states are likely to experience higher development rates

\textsuperscript{11} Pitcher and Moran (2009) “Rethinking Patriomonalism and Neo-patrimonialism in Africa” p. 126
\textsuperscript{12} Rod Alence. 2004. “Political Institutions and Development Governance in Sub-Saharan Africa.”
since they are more accountable in their public administration. The opposite is also true where there is likely to be low development in countries with more restrictive and non-democratic governments. A neo-patrimonial state lacks the proper governance in public administration, which in turn negatively affects the economic and political stability of the country. The stability measures that Alence used are: economic policy coherence, public service effectiveness and limited corruption. Nations that were identified as "less restrictive" dealt with less corruption.

Foreign Direct Investments (FDI) generally aids in regional economic growth. According to Kevin N. Lumbila he indicates that American FDI increased to $148 billion for the year 2000 compared to only $ 32 billion in 1980. However, Africa received little in comparison to other regions within the years 1980-2000. He primarily explores the effect FDI has had on other regions like Asia and Latin America and how FDI actually worked in promoting development and economic growth that attracted further investments. When the same comparison was made, he found that Africa is the one region that is still in poverty. According to Jeffrey Sachs (2004), thirty-three Sub-Saharan African countries have more than half of their population still living under $1 a day.

In overview FDI in Africa doesn’t have the same positive outcomes as in other regions of the world. The investments are there but they somehow do not translate into higher economic development. Lumbila explores how FDI works in Africa. His study finds that aid boosts growth in regions where there is a "good

---


14
policy environment.”\textsuperscript{15} Meaning perhaps that there is some level of good governance within the host country. Transparency on the state level directly affects the growth of the states especially via FDI. The investments can eventually translate into measurable development achievements.

Development in Africa has lagged behind other continents for many years. Unlike other economies, Sub-Saharan Africa has struggled economically. Post-colonial Africa’s GDP per capita in 1992 was approximately equivalent to that of Western Europe in 1820.\textsuperscript{16} The African continent has been disenfranchised from the dawn of ships landing on her shores. From mass transportation of people for slavery, to being colonized and used as an extractive wealth for the European empire. Sachs and Bloom point out that Africa started out in the global industrial and economic race with multiple strikes against it. From colonial rule, slave trading, to weak institutions post-colonialism, ethnic division, geography (most tropical land concentration in the world), corruption and heavy dependence on primary exports. The slow growth in Africa can be determined by using any of the factors listed above as part of a larger picture that is the complex African economy.

In researching for development, the paper will use the general principals laid out by the World Bank Development indicators. What I will be measuring is the rate of poverty, literacy and life expectancy. Bloom and Sachs (1998) use six factors of


\textsuperscript{16} Bloom and Sachs. 1998. “Geography Demography, and Economics Growth in Africa”
development that affect the Sub-Saharan African countries.\textsuperscript{17} For the purpose of this paper, I have three of six factors laid out by Sachs. The three basic aspects of development I will use to examine the sampled countries are: poverty, literacy and life expectancy. Sachs states that countries with development issues in Africa suffer negatively from those three factors. My reason for selecting these factors over the other is because they are also the three measured factors in development. When researching data for development poverty margin, mortality rate and education enrollment are always the top indicators of social improvement or decline depending on the presented/collected data. The other factors were internal politics, economic politics and external conditions (i.e. colonization and slave trade).

Poverty is high while GDP per capita is also unusually high than normal. Life expectancy is shorter due to lack of proper medical care. Literacy rate is also lower because most children are unable to continue in school past primary to assist family in need. It is not to say that there hasn’t been improvements in the rate of development since the end of colonial rule however, the progress made is far behind than the expected growth with the available wealth on the continent. Other nations located in Asia and South America also suffered from the history of colonialism and tropical climates and yet they have managed to attain a sustainable method of development.

The prospect of development seems to lie in the balance between transparency and good governance. Achille Toto-Same (2008) explains and lays out the economic history of Equatorial Guinea before and after oil became a major

\textsuperscript{17} Bloom and Sachs. 1998. “Geography, Demography, and Economics Growth in Africa”
revenue earner of the state. After independence, the state was extremely poor and mainly relied on fishing and agriculture as the main export. Mobil Oil started exporting oil in August of 1996.\textsuperscript{18} Since then the GDP of Equatorial Guinea has shot up, yet the main population remains at a poverty level. Toto-Same explores the theory of the Dutch Disease. The phenomenon refers to the boom and bust cycle that is caused by an increase in exploitation of natural resources that causes the decline in agriculture and manufacturing. As Equatorial Guinea moves forward with oil production that accounts for over 90 percent of exports, will other sectors develop? What does this mean for the average citizen that is not in the oil industry.

Toto-Same correlates lack of development in Equatorial Guinea with two main factors, lack of governance and Dutch Disease. The over development in the oil sector makes other non-oil exports less competitive and the majority of the human labor (about 80 percent)\textsuperscript{19} is in the non-oil sector. Since the oil industry is the main and largest source of state revenue, any mismanagement of funds will affect development. This eventually leads to what is known as the “resource curse.”

The resource curse is a phenomenon that seems to be taking hold of oil/mineral exporting states in Africa. The value of the commodity in the world market and the dependence of the State impact the resource curse. Precious resources such as oil are extracted and exported by multinational corporations (MNCs) operating within the host country. Emeka Durugbo explores the relationship between MNCs and the resource curse in Africa. In her report “The


\textsuperscript{19} Ibid – Achille Toto-Same 2008.
World Bank, Multinational Oil Corporations, and the Resource Curse in Africa”, she finds a correlation between MNCs and lack of development in high exporting countries. Oil rich countries ultimately experience extreme poverty, civil wars, human rights abuse and environmental degradation.\textsuperscript{20} She explores the role institutions play in facilitating this. The report states that the combination of poor leadership by the State and MNCs with less than honorable agendas facilitate the resource curse. There is a lack of accountability and transparency on both sides, states and MNCs.

Nicholas Shaxson (2007) brings forward the common notion before 1990’s that oil companies were the new imperial power taking advantage of Africa. He presents that since OPEC’s rise in 1970’s, oil exporters like Nigeria held larger revenues from oil companies than before. This stark reality slowly restored the image of foreign oil companies as non-threatening. Exxon Mobil spokesman Andre’ Madec was quoted for saying “we don’t like to call it oil curse. We prefer to call it a governance curse.” \textsuperscript{21} Governance may have increased and each state has a larger stake on oil revenues, however it doesn’t exonerate any MNC from their crimes. Shaxson (2007) also quotes Martin Wolf a Financial Times commentator:

“In a society when everyone cheats and takes or pays bribes, there’s little incentive not to join in.”

\textsuperscript{21} Shaxson (2007), “Oil, Corruption, the Resource Curse”
Foreign firms are participants in the grand scheme of corruption as the politicians they bribe. Corrupt politicians have a price and it’s called corruption and oil companies pay to get their piece of the pie.

Surprisingly, there isn’t much work on the theory that MNCs are also part-takers in resource curse. There is an abundant collection of work theorizing that the resource curse is the cause of a single, not diverse and weakened economy along with corruption on a state level. However, there are few discussions on possibly assigning some responsibility to foreign corporations. After all, they are present to extract the resource and gain a substantial amount of wealth. Why is it presumed that they are innocent bystanders and are simply there to perform a task under the watchful eye of the state. The nature of the state is corrupt therefore the nature of business conducted with MNCs is more than likely to be corrupt too. In most cases that will be presented later on, MNCs are as corrupt as the leaders in the countries they operate in. There is evidence of bribery, illegal drilling license purchase and even financing civil wars.

Duruigbo uses data from Organization of Petroleum Exporting Countries (OPEC) to show that petroleum exporting countries have a lower rate of development than their counter part non-oil exporting nations. They also are more likely to endure civil wars and conflicts. These states also spend less on social welfare development programs but spend almost ten times more on military and security forces around oil resource locations. 22

The article calls for transparency by MNCs and host nations in monitoring oil revenues. Duruigbo insists on the creation of trust funds and public reports of the use of funds to reduce the levels of corruption. MNCs would be obligated to show what they are paying for since there are reports of payments being made to state officials for favorable oil deals. There would be a full accountability of oil revenues and disclosures of oil receipts, which would contribute to proper use of funds.

There seems to be subtle correlations between Multinational Corporations and lack of development. E.D Oruonye suggests that the resource curse is brought on by increased globalization that brings an MNC into a host nation. Oruonye states that globalization has spread foreign investments and foreign firms to various Sub-Saharan African countries. These MNCs in turn over exploit the land and violate indigenous people’s human rights. Oruonye examines in his paper the environmental impacts that are caused by activities of oil companies in Sub-Saharan Africa.

Oruonye states that most Sub-Saharan environmental degradation can be linked to the negative contributions of oil MNCs, which in turn increases poverty in the region. He samples a few states to analyze environmental degradation. Oruonye finds in Nigeria that the greenhouse gas emissions in the region are caused by gas flaring in the area from the process of oil exploration. Also ancient oil pipelines lack maintenance and break down causing massive oil spills in the Niger delta. As a result of the environment becoming toxic, residents are unable to live in

---

the area as resources dwindle and livelihoods are threatened. There are many documented civil strife cases that are brought up in the paper to show that oil companies and military/security forces (on behalf of the state and MNC) go to extreme measures to protect their investments.
The Neo-patrimonial State and Governance

The State: Patrimonial Relations

Decolonization took place in the 60’s and 70’s for most African nations but there are some countries that gained their independence much later such as the 80’s and so forth. The old colonial system left a political gap with old institutions in place. Colonial institutions were established to benefit the colonial empires and never to develop and sustain the colony. The purpose of the colonies was for extraction of raw materials that are then sent to Europe and made into marketable and profitable goods. The profits benefitted the imperial rulers rather than to improve the colonies.

Decolonization took place but the political and governmental institutions remained the same except there was no colonial rule. The colonial rule had established a patronage relationship within the state. Patronage on state level had already been a fostered idea and a known way of governing for colonies. When it came time to lead, leaders that filled in the shoes as statesman also inherited and perfected patrimonialism. Generally, those that were considered to have some sort of key figure during colonial rule or educated nationals rose to power. Some leaders were even Western educated and hard nationalists, which made for future state leaders after colonization ended.

Post independence most African nations battled through dictatorship, autocrats, one party regimes and military takeovers. The neo-patrimonial leader by
most scholars is described as being uniquely an African form of political leadership. Leaders have a more personal and patron/client like connections to their immediate subjects. In such cases corruption is likely to occur since there is no accountability being monitored and checked because all subjects are benefiting on the side from the politician in office. With weak institution and corrupt leaders, the state is bound for crisis and turmoil. There is little development and progress in terms of the average citizen who struggles to live even in poverty. It is not to say corruption doesn’t exist in the Global North, however it is manageable to the point where the majority of society is able to not feel the effects of corruption within a country.

In the global south, corruption on a state level directly affects the development of the nation and the farewell of its citizens. The reason being is that the developing world is just that - developing and not fully equipped to support its entire population on a system. The system is broken and remains broken until leaders sacrifice personal gain for national gain.

Angola gained its independence from Portugal in 1975. Once colonialism was over, there was a race for power between three primary groups. The Popular Movement for Liberation of Angola (MPLA), The National Union for the Total Independence of Angola (UNITA) and a small faction called the National Liberation front of Angola (FNLA). The FNLA group eventually dissolved into UNITA as they held little numbers. The next 27 years were plagued by a civil war waged out by MPLA troops and UNITA soldiers. Current president Jose Eduardo Dos Santos was the leader of the MPLA front, who beat out Jonas Savimbi in a “legitimate election” on September in 1992. The opposition and their supporters didn’t feel it was a
legitimate win so another civil war broke out after elections that lasted until 2002. Wars that span almost three decades long robbed Angola of any chance at prosperity in its infant postcolonial state. Small opposition would rise and Dos Santos would suppress competition by having radio stations and the Internet shut down. Dos Santos has remained in office since 1979. Eventually, China invested about $5 billion to rebuild Angola’s infrastructure that was destroyed in both civil wars. According to Stephanie Hanson, she reports that in 2004 Global Witness investigated and found that $1.7 billion was un-accounted for between 1997-2001.\textsuperscript{25} Dos Santos polices in office can be described as patrimonial. He appoints and replaces anyone in any government position.

Corruption is not un-common in Angola’s as well as other nations. There is evidence of bribery using oil and other extractive industries revenues. It is alleged that former UNITA members in office are paid of $15,000 a month in bribes from the official MPLA party, Dos Santos camp.\textsuperscript{26} Dos Santos benefits directly from the oil market. The revenue from Sonangol, the state owned oil company, provides the capital to buy off alliance and favorable terms. Also some political figures have a stake into the company, as well as his eldest daughter who now manages Sonangol and makes her one of the wealthiest African woman. His public policies are far less from improving the current circumstances and possible prosperous future of Angola. Instead, top officials are paid off from lucrative sign on bonuses from oil companies. More than 50 % of the government budget is spent on military.\textsuperscript{27} It is

\textsuperscript{25} Stepahinie Hanson. “Angola’s Political and Economic Development”
\textsuperscript{26} Munslow. Politics of Unsustainable Development in Angola
\textsuperscript{27} Ibid
proven throughout history that corrupt states spend a fortune on their military and external forces.

Equatorial Guinea is the only Spanish colony in Africa. In 1968, what was known as Spanish Guinea gained its independence and became known as Equatorial Guinea. Francisco Macias Nguema became the first president. His career began as a junior level officer in the Spanish colonial administration. His rise to power should be no surprise as he already had experience under colonial rule so it's only natural such an elite and favored by the former colonial empire takes head of state once colonization ended. Once Francisco got into office, he soon started appointing his own family members to key positions within the new government. The term Neguemism was born—a rule by a small family elite.  

Geoffrey Wood goes on to explain the devastations that took place once Macias was in office. Macias totalitarian rule completely neglected governmental functions. Education, internal security and the economy crashed. The majority of the population was forced to go back to subsistence farming. According Wood at one point the expulsion of Nigerian migrant workers led to a 90 percent drop in GNP. Also at least one third of the population in Equatorial Guinea had either been killed or exiled.  

In 1979, after a decade of civil strife, a coup took place with the lead of Teodor Obiang Nguema who was the Commander of the National Guard. He also happens to be Macias own nephew. Obiang overthrew his uncle and took power.

---

29 Ibid
The alleged last straw for Obiang to rise up against his uncle is the murder of his brother by his uncle Macias. Macias had become paranoid and taken exile in his home village during his last years. In that time, he allegedly murdered his own nephew. Obiang promised to end the Macias reign of excess years. Unfortunately, rather than end that, he too became a totalitarian leader. Obiang is still in office today. Though the constitution was amended to allow multiple party competitions in 1980, there are only few political groups that are legal (some are banned) in the country and allowed to participate. However, corruption regarding elections is high. In December 2002 an election was held and it seemed as though that Obiang won 97% of votes. The opposition Celestino Bacale withdrew amid threats.  

Obiang continues to rule and divides up governmental positions between his family members. His son Teodorin is the minister of Forestry, while his other son Gabriel is head of Mining and Energy. This is a classic example of the “patron” like preferential treatment patrimonial leaders practice.

In 1960, Nigeria gained its independence from Britain. The Northern elite and southern regions began to dispute on military corps appropriation that would lead into a three-year civil war. The north wanted a larger assignment of military corps based on sheer size unlike the south that felt it should be 50/50. The Nigerian military rose to power in 1966. Soon after an ethnic division based on region took place. The Biafra states (Eastern regions) were born as they seceded from Nigeria. As a result, a civil war broke out that lasted from 1967-1970. It is estimated that more than 500 thousand people lost their lives in the Biafran war. The first military

30 Ibid
government was under General Ironsi. He was known to have his “kinsmen” as his advisors. As a result of this accusation he didn’t last long in power. Following the civil war in between the regions, General Gowen took power. During his time, Nigeria was able to expand her sector socially and economically using oil revenues. The patrimonial practice became evident and embedded into the society. According to Ipke, Gowon had numerous post-war contracts with specific foreign businessmen that resulted in large kickbacks.  

Gowon’s rule ended in 1976 due to a coup that was led by Murtala Muhammad. According to history, Muhammad was a product of Gowon's patronage regime. He was a principal actor in the 1966 coup to restore Northern dominance. The zeal of Muhammad only lasted six months in power. He appointed his successor General Olusegun Obasanjo who was supposed to follow the “anti corruption motto” of Muhammad. However, Obasanio created organizations such as the Festival of Black and African Arts to restore the old patronage route as well as universities and schools. After Obasanio, Babangida took power in 1985. He was known for buying large powerful groups for support. Locally, this arrangement became known as "settlement". During his regime, he would depose of any officer in doubt of their loyalty and support. His family lavished in immense wealth. His wife was reportedly worth $8 million while he was worth $30 million. Among other things he has given numerous licenses to “client’s” to export crude oil illegally.

In 1996, Abiola Abacha won the presidential election. He surrounded himself only with very few loyalists he trusted. It is reported that several major state contracts

32 ibid
were awarded to none other than his children. Though Nigeria has elections, it seems as though the same type of patrimonial leaders are elected and take office.

State is the initial point where resource curse and lack of development takes shape. It is the first of the three conditions for resource curse. My reason for stating this is that every place in Africa where some sort of resource curse has occurred, you can find a very weak state with old institution that can not accommodate the ever changing needs of the extractive business. You will also find the resource is some form of mineral, oil or gas. According Hazel Mc Ferson, hyper-corrupt countries are associated with an abundant supply in mineral wealth.  

The extractive industry has been a major part of resource curse within the African continent. There is a lack of proper governance and accountability, which leads to higher corruption. The state doesn’t tax its population and therefore has little incentive to remain accountable and far from corruption. The extractive industries make up for more than half of the revenues of Nigeria, Angola and Equatorial Guinea. State leaders and those participating in the oil or extracted raw material business, tend to become corrupted and rule in a neo-patrimonial fashion. As pointed out, there is evidence of political payoffs for support and use of state funds for personal gain.

Nigeria, Angola and Equatorial Guinea all have officials that are considered neo-patrimonial. Patrimonial practices can be found not only across the African continent but also globally. It is not exclusive to Africa, however the neo-

---

33 McFerson. 2009. “Governance and Hyper-corruption is Resource rich Africa”
patrimonial practices by African leaders along with other conditions lead to a weak
and vulnerable state for resource curse to take place.

Scholars like Theobald, as referenced by Pitcher & Moran, have linked public administrations within neo-patrimonial states have lower development growth rate. According to Pitcher and Moran (2009), Theobald and Budd (1982) indicate that patrimonial states are less likely to have fundamental development growth economically and politically. The main reason for these occurrences is that state officials often misappropriate state funds towards personal enrichment rather than internal investments into the state institutions like education, healthcare and job training. The state in turn is less likely to develop when social conditions have not been improved upon and the present institution lacks the power to enforce any form of accountability. All three countries are publicly known to have had leaders that have used national wealth to increase their personal wealth. In Angola and Equatorial Guinea, the ruling party family has become extremely wealthy from state owned oil revenues. In Nigeria, state officials are known to receive kickbacks in exchange for a spotty oil contracts with MNCs.

The state is a governing body over its sovereign borders and citizens. The economy and the development of the country are one of the many duties for any state. Proper governance is extremely important in these two sectors because lack there of leads into a financially weak and underdeveloped state. So how does lack of good governance lead a nation into resource curse? The answer would be it is because of corruption and lack of accountability that robs a nation of its wealth and leads its natural blessings into a curse.
Nigeria, Angola and Equatorial Guinea are well known for their abundance of oil and as a result are large producers on the world’s oil market. Their annual income from oil exports are extremely high and yet, each state has lagged in development and suffers from resource curse. Those in office have not been held accountable for oil revenue receipts and management of state funds.

Nigeria, Angola and Equatorial Guinea all have a known reputation for being corrupted countries. From their top officials such as their presidents to others in office have been known to be corrupt. According to Transparency International’s 2014 corruption Index, Angola scored higher than Nigeria on levels of public sector corruption in Sub-Saharan Africa. Somalia being the highest and Botswana as the least corrupted in Africa. Corruption in public sectors robs the economic growth and development of a nation and leaves its people in poverty. Development requires capital and when funds are mismanaged and disappear with no accountability, the population suffers.

Rod Alence compares states that are restricted, non-democratic and democratic states. He uses this guideline to also measure the rate of development within each section. I am not here to argue whether or not democracy should be adapted by African states. What I am merely trying to prove is that states that are more restricted or patrimonial and have an abundant resource that can translate into state wealth, often lack development and some even experience civil wars. In
Alence experiment, Nigeria fell under and non-democratic category while Angola and Guinea Bissau fell under “restricted”\textsuperscript{34}.

Nigeria a “restricted” state is far from democratic and is also very rich in oil and gas resources. The combinations of those two lead to resource curse due to lack of good governance and the value of the commodity as well. Nigeria also relies heavily on its oil and gas exports as it makes up more than 75% of the economy.

Angola is fairly new to their sudden wealth of oil unlike Nigeria. Alence lists Angola under restricted. Restricted is explained as a restrictive government. Angola has a GDP of $124.2 billion\textsuperscript{35} and oil has made it extremely wealthy, however the conditions of people’s lives are nowhere near improved. In fact they are declining and as a result, Angola receives aid money from the World Bank. The paradox of a wealthy nation receiving aid is interesting. It forces you to ask yourself where does the money go.

Though most states in Africa are patrimonial, not all suffer from resource curse with their commodities. Pitcher, Moran and Johnston (2009) indentify perhaps why resource curse hasn’t affected Botswana even as a patrimonial state. The reason lies within the commodity and governance. Botswana, aside from diamonds, is also an agriculture state like cattle and has a robust tourism economy. They do have diamond deposits but according the Economist (2009)\textsuperscript{36}, the diamonds are located deep underground and require time and large financial investments that would only pay out in the long term. Debsawna (state partnership

\textsuperscript{34} Rod Alence. 2004. “Political Institutions and Development Governance in Sub-Saharan Africa.” P.171
\textsuperscript{35} http://data.worldbank.org/country/angola
\textsuperscript{36} http://www.economist.com/node/14707287
with De Beers) has closed down its diamond mines leaving out a gap in this specific extractive industry in Botswana. Botswana is in turn faced with turning to other exports to keep the economy going and GDP up. Granted there was a 40 percent slump as a result of the mines being closed, a resource curse never occurred.

Botswana has not suffered from any resource curse because their commodity is valued differently and the availability of it is also getting smaller. Their economy is no longer solely reliant on their income from their extractive industries. They have managed to cultivate and develop other sectors of their market such as agriculture and tourism through reserve and game parks. Botswana is also a fairly less corrupt state according to Transparency International (TI) 2014 Corruption Index publication. Their government manages to be accountable towards its people. Rod Alence also listed Botswana as a fairly democratic state. The status of the state and the level of its “good governance” proves to have an effect on the outcome of its economic and social development. Governments have to do their duties of being reliable, accountable for the sake of its own fate and the people. If the few elites benefit and the rest of the population suffers, it is only a matter of time before severe hardships and poverty incite conflict to break out. The overall national development is also lower.

Patrimonial states are weak and lack the formal institutions and will power that would normally serve as a monitoring agency to deter corruption. However, it is based on old colonial patronage/clientele system and therefore continues to fail in the modern post-colonial era. Corruption will always exist on a certain level, however when it is the state that is corrupt then the ripple effects spread out far and
Leaders would have to refrain from activities that would be seen as corrupt practices for personal gain and seek national gain and development through good and clean governance. Transparency is key to good governance. All state revenues from exports should be made public as well as the assets that are held by those in office. State officials tend to have shareholders stakes in state owned companies. For those share holders in office, personal assets are sometimes mixed in with state profits. An example would be from Angola, where public officials held shares in a state oil company named Nazaki according to Forbes magazine. By holding such major shares in a state oil company, officials were able to profit off the revenues. Transparency International recommends the publishing of revenues deter corruption as the knowledge is available to the public and the government would have the public’s scrutiny.

A check and balance system is important for any government to keep themselves in check. One branch cannot supervise or inspect itself, rather another branch would report unbiased to its own interests. A nation cannot move forward without having a strong government. The nation state begins at the governmental level and it is the foundation of any stable and well functioning sovereign nation.

---

Commodity Value

Value to the State and Dependency

Equatorial Guinea as a former Spanish colony relied on the Cocoa industry to provide for the economy. Cocoa production accounted for about 75% of the GDP prior to independence.\textsuperscript{38} Once Macias took office and led a 10-year terror on the country, the nation had lost civilians due to war or exile. The Cocoa industry plummeted and the Economy crashed in 1976 under Macias. Oil exploration took place first in 1967 by US Mobil, but it didn’t prove to be successful. In the 1980’s a Spanish company drilled in the same area as Mobil and was successful. By the 1990’s Equatorial Guinea became a known producer in the oil and gas market. Further oil exploration took place with Mobil in 1995 and struck oil with a daily production of 40,000 barrels/day, that would later grow to 190,000 barrels/per day.\textsuperscript{39} Once oil was discovered the government favored the industry due to its high cash output potential and went onwards with being an oil economy.

After the two civil wars, Angola lost most agriculture infrastructures and also man power. About half of the population was under the age of fifteen after the war.\textsuperscript{40} The war had taken its toll. Relying on agriculture to boost the economy was hopeless and there was no one to farm it. Angola was a major coffee exporter under Portuguese colonial rule. Aside from coffee, Angola also exported maize. It exported approximately 400,000MT of maize annually and was the world’s fourth largest

\textsuperscript{38} Frynas. 2004. “The Oil Boom in Equatorial Guinea.” P 528
\textsuperscript{39} Ibid
\textsuperscript{40} Hanson. 2008. “Angola’s Political and Economic Development.”
coffee exporter prior to independence in 1975. 41 The first oil exploration took place in 1955 with French company Total. However oil didn’t have the same impact as it does now until after the 1980’s. Oil contract signing bonuses and advances provided quick capital that the government can use. Oil receipts also have dominated and make up for most of the GDP while agriculture that once was the main revenue source is down to almost zero. Oil slowly became the preferred export and what accounts for most of the national GDP.

Nigeria is the oldest oil exporter of the three nations. Nigeria isn't new to the oil league. Discovery of oil in Nigeria began in 1950. The oil economy in Nigeria has played a significant part in politics. During the 1967-1970 civil war, ethnic groups struggled for control of the oil economy. Once the war ended, Nigeria was able to recover from the war solely based on oil receipts. The world oil shock followed by a boom and bust phenomenon took place in between the 1973’s and the 1990’s. Nigeria was able to profit from the high demands and cost of oil at this time as a result of being a member of OPEC. However, with the bust cycle, and the mismanagement of oil funds, the economy suffered. Nigeria artificially devalued the Nira in order to alleviate the pressure and also subsidized oil for domestic use. In this time frame, more and more cocoa farmers were leaving their farms and headed to urban cities for economic opportunities. 42 The agriculture sector decreased and the reliance on oil increased.

The importance of the commodity to the state and its importance on the global market play as the second part to cause resource curse. The value of the resource on the global market is very important. The level of importance will be determined by the assigned price and the availability. How many demands do we have and how many can we supply at a certain rate? The oil, gas and mineral sectors are valued highly across the global market. Oil supply has always been a contested subject since before the Gulf war. We live in a world where we need oil because most things need oil to function. Though there is a new path for less oil dependency, oil and gas are still a necessity in the modern world. Oil then becomes a widely desired commodity and therefore its value rises on the world market.

The value of a commodity to a state varies slightly from those of the global market. Developing states recognize that the commodity in question is their main “bread winner” for their economy. The national GDP relies heavily on the export of this one commodity. This commodity tends to be in extractive minerals for most Sub-Saharan African nations. The heavy reliance on one part of a national export weakens the state and makes it vulnerable to crisis associated with the commodity because there is no diversification in the national market. Other sectors of non-traded goods within the economy are less developed and also don't diversify which bring in less revenues. A Dutch Disease is soon to follow as a result of relying on one sector such as oil and gas and neglecting the development of other sectors. Sachs and Warner (1995) indicate that resource abundant states dependent on their resources will experience a low development rate compared to resource poor countries who do not depend on resources. States become more rentier states
where they rent most of their commodities and export in other sectors are low. The more that is rented the less development takes place because an economy based on commodity has less potential to expand in the long run compared to a manufacturing and labor intensive market. An example would be is a state that relies only on mineral exports while agriculture, fishing and especially manufacturing make up a small percentage of the national GDP. The minerals will run out eventually, what then.

There is also the lack of diversity in the economic sector. An Example would be Angola's agriculture sector. It only makes up 10 percent of the national GDP for 2013. States affected by the resource curse are generally rentier states where their main national income is off the export of lucrative commodities such as precious minerals. States rely heavily on one sector such as oil, gold, and diamond and as a result depreciated other sectors of the economy causing the Dutch Disease. By focusing and investing everything into one area, the risk of failure becomes larger. If you place all your eggs in one basket and the basket breaks, all of your eggs are now gone. States rely too heavily on their extractive industries to support themselves.

According to Organization of Petroleum Exporting Countries (OPEC) and The New York Times, Nigeria is the number one oil exporter on the African continent. Per day, Nigeria exports 2.2 million barrels per day. Oil revenues make up 95 percent of exports and 75 percent of government revenue. Nigeria has been exporting oil since the late 1960’s. Aside from the government officials relying on

---

funds from oil revenues, the entire GDP relies on it since it makes up 95 percent of exports. The agriculture sector is weak and low in annual revenues.

As a runner up, Angola is the second largest exporter of oil on the continent right after Nigeria. According to the IMF and World Bank Group, oil revenues make up 90% of all exports for Angola. It also accounts for 45% of the annual GDP. Oil revenues make up 75% of government revenues.\(^{46}\) The state is heavily dependant on its oil industry. Angola depends on oil to supplement other sectors of their economy. Their annual agriculture sector only made up 10 percent of the GDP in 2013.\(^ {47}\) National oil dependency must be reduced in order to develop other sectors and export more in other goods than oil. Reducing the national reliance on a commodity like oil reduces the chances of the state being affected by fluctuation in the market.

Equatorial Guinea is the seventh largest oil exporting state in Africa. Though it is not in the top five of oil producers in Africa, it is unique in size and population. It only has a population of 757,000 but with a GDP of $15.58 billion for 2013.\(^ {48}\) It is not a member of OPEC. According to the U.S department of Energy Information Administration, the oil and gas industry accounted for 95 percent of the GDP and 99 percent of the exports in 2011.\(^ {49}\) Based on such numbers, it would be accurate to assume that nearly all of Equatorial Guinea GDP and export revenue relies on the oil and gas industry. Relying so heavily on one sector brings about vulnerability in

\(^{46}\) http://www.opec.org/opec_web/en/about_us/147.htm
\(^{48}\) http://data.worldbank.org/country/equatorial-guinea
\(^{49}\) http://www.eia.gov/countries/country-data.cfm?fips=ek
other sectors. If the oil and gas market took a down turn for some time, the nation will lose a significant amount of revenues.

So what does reliance on one sector mean for an economy? It means the economy is going to suffer each time there is a fluctuation in the market. Also oil is not a renewable energy source so eventually it will run out, what then if most of the states exports are from non-renewable source. Like Gabon, these other nations will face the same fate of dwindling resources. Just like the resource dry up, so will the revenues and in turn affect the GDP negatively. A nation's development is hindered if the economy is not growing. There will be no jobs, there will be budget cuts from the public sector that is already struggling and would need subsidies for basic necessities.

Sachs and Warner (1995) sample various countries from around the world to test whether or not the effects of natural resources have on economic growth. They find that resource rich countries have higher levels of income but at the same time have negative economic growth. The opposite would be resource poor countries have lower income but higher growth in the long run. The main assumptions here is that one, the resource abundance is temporary therefore will eventually dwindle and the second is that resource abundant economies have an unsustainably high level of income.\(^50\) An example of this would be Equatorial Guinea. The population is under 1 million and the GDP per capita is $14,320 and yet 3 out of 4 people are living in poverty.\(^51\)

---


\(^51\) http://data.worldbank.org/country/equatorial-guinea
Megan Clark states (2014):

“...Dependence on crude production leaves the country vulnerable to global oil prices. Despite an IMF-supported Sovereign Wealth Fund and positive outlook for the next few years, governance problems and a lack of other sector development will continue to challenge development and has some observers dubious.”

At what rate can resource dependency be beneficial towards the state and have a higher economic growth rate? Does resource dependency lead to resource curse? The answer is not 100 percent clear, because there are many states like Saudi Arabia, Qatar and Kuwait that are oil dependent and yet there has not been a resource curse. The assumption would be that it is a combination of factors such as the level of dependency, good governance and access to the resource. There is evidence that easily lootable resources affect state security. The assumption is that states with resource that can easily be accessed by rebel groups will endure longer conflict periods. An example would be diamonds in southern portions of Africa, they are located in deep shaft mines making them hard to access without technical know how and tools. Diamonds in western Africa are closer to the surface and can easily be reached without the use of heavy machinery. Many rebel militia groups have financed their organization by using such easy access diamond. Also, level of governance and management of natural resource are a factor. A form of resource management aside from overseeing exports and revenues is the resource-extracting agents; MNCs. Multinational Corporations play a role in resource curse. This is not to state that they are the cause as the true single cause can’t be identified but merely a culprit.
MNCs In LDCs

A Love Hate Relationship

The presence of Multinational Corporations (MNCs) in the developing world is larger than ever. Foreign Direct Investments is exponentially increasing compared to the past few years and are expected to grow larger as stated earlier on in the paper. As FDI grows, the presence of MNCs in Less Developed Countries (LDCs) increases. Corporations and their subsidiaries spread in developing countries, but the relationship doesn't always have the most positive outcome. The business strategies of oil corporations bring large sums of capital to the host countries, but they also bring a host of issues like environmental problems and social problems. The idea of sustainable development has been around for over twenty years. While some MNCs are forging sustainable development as part of their business goal, oil and gas MNCs in Africa fall short of doing so. Why you may ask, because of lack of corporate responsibility and enforcement of regulations.

The sustainable development argument breakdown into sub-categories for MNCs in the oil and gas industry. These categories are climate change, biodiversity, renewable energy and social investment. The achievement of these categories is reliant on social pressure from either international institutions, governments or NGO otherwise corporate responsibility is not a first response to MNCs in the oil sector, it must be coercive. There has to be someone watching and requesting they abide by international standards that are set like the Kyoto Protocol, an international agreement where developed nations must reduce their Green House
Gas (GHG) emissions by 5.2% by 2010. Even though social development and social issues that are brought on by MNCs are part of the sustainable development discussion, it is less a talked about subject since there are no major agencies (regulators) pushing for this cause like there is for climate change and renewable energy. Such neglect has caused sever damages to rural communities in oil rich countries.

Escobar and Vredenburg (2011) state that according to Millennium Ecosystem Assessment (2005) reports that corporations are degrading 60 percent of the world’s ecosystem services. In the Niger Delta of Nigeria, the evidence of MNC and its degradation of the environment are clear. Royal/Dutch had a large oil spill in 2011 that was widely announced on most media outlets. According to Shell, 90 percent of the spill has been cleaned up. The remainder of the supposed 10 percent has made the land into a wasteland and is inhospitable to humans and wildlife in the region. Oil exploration in the Niger Delta has been the main reason for the major loss of ecosystems within the delta region. Such irresponsible corporate behavior leads to severe environmental destructions that affect the native people who live in the area. The is a lack of regulations on oil exploration and as a result, MNC’s tend to disregard other issues except for the bottom line of revenues. Aside from the environmental effects, indigenous people are loosing their homes and way of life.

Ken Saro-WiWa was an indigenous activist for the Ogoni people in the Niger Delta. Oil exploration in the region was driving out natives from their homeland due to

Escobar & Vredenburg (2011), Multinational Oil Company's and the Adaption of sustainability p. 50
to the dwindling resources caused by gas flares in the area. The Methane gas that is released from the oil pipelines causes the air to be polluted and brings about health issues. Oil spills and run offs also decimated the wildlife that was crucial to natives gathering and growing food. Unfortunately for Ken Saro-Wiwa, he was executed by the military on orders from the government. Shell supported the military government in order to secure its investments.

Aside from environmental degradation, MNC’s are often corrupt. Corrupt in the sense where there have been large sums of pay offs for drilling licenses, land rights and so forth. One prime example is the US company Cobalt International Energy Inc in Angola. According to Forbes article, Cobalt had partnered with an Angolan oil company Nazaki. A company that was later discovered to have been secretly owned by state officials, state officials with records of large sums of payment missing. The allegations are that oil tax revenues were being funneled to the government. Angolan law states that no politician can have ownership of state and private enterprise. The loophole is that this law doesn’t cover politician’s friends and therefore politicians can benefit indirectly. Though Cobalt argued it had no knowledge of the owner of Nazaki since Sonangol assigned it to Cobalt. Such negligence by oil corporations only shows the lack of transparency between government agencies and oil corporations. Frances Copolla states that according to the Open Source Initiative Report (2011):53

“…Multinational oil companies do not address governance or transparency issues in Angola. The companies’ continued transactions with the government – without calling

the terms of the transactions into question – have facilitated patronage problems, rent seeking and exacerbated the resource curse. Some exceptions exist, but these rare efforts are not industry wide. Companies tout their CSR projects, but these projects often lack community input, and never address transparency and human rights issues. In relation to the mitigation of impacts, multinationals get almost a free pass. There have been some efforts to hold multinationals to account, particularly through home-country anti-corruption instruments and civil society advocacy, but these need to be ramped up.”

Corruption and bribery runs rampant in states with low development and high commodities. Oil companies are known to pay bribes and give expensive lavish gifts to leaders and government officials in return for favorable deals in oil licenses. In 1977 the Foreign Corrupt Practices Act outlawed bribery of any company to foreign officials. This was in response to an investigation that turned up more than 400 US companies had made illegal payments to governments in foreign countries.54 In the case of Equatorial Guinea, corruption reaches to the President. Walter International Inc was financially supporting President Teodoro Obiang’s son to attend Pepperdine University in California. According to Bloom’s article, nearly fifty thousand dollars a year was being spent on Obiang’s son. Soon after, large companies such as ExxonMobil and Texaco were drilling for oil off shore. Such business practices are all too common in the oil industry across Africa. Oil companies are willing to bribe and spoil government officials and their families

rather than invest in social programs that would be considered as legitimate business practices.

Escobar and Vredenburg (2011) examine the adaptability of sustainable development within the oil and gas sector. Though there is an argument that social investment is unlikely by MNCs because it goes against their business strategies. They find that it is not impossible for MNCs to adapt sustainable development as part of their strategies. The mechanism would be normative isomorphism, where is one does it and shows that it is financially fit for the business, others will follow suit. A social investment doesn’t mean buying temporary items for a village or paying a fee but forming a long-term commitment in the community and enabling the community to develop and prosper. The oil is the commodity that companies are profiting from and should in return invest in the region.

Multinational Corporations are violating the land they seek to profit from and also displacing people from their natural homes such as the Ogoniland residents. Such violation spiral an already weak state and system into resource curse. The state is not fully capable of monitoring MNCs behavior and in some cases; politicians are also in business with the MNCs and are equally causing the problem at hand while the few minority benefits. There are many cases across the African oil industries where bribery and profiteering take place. State officials should consider the long-term effect of corruption for their citizen because while they profit, the people suffer.

Multinational Corporations are positioning themselves to profit from resources in such area without the return of social development. I can't simply
assign all responsibility to the MNC as they are a business entity and the main goal is to make money. However, the state should have regulations that require the MNCs to adhere to in order to continue business and profit. Oil drilling license renewals and approvals should be based on ethics rather than side payments. The MNC and state are both responsible where as the MNCs is the extracting agent and the state is the regulating agent.

The lists below give an idea as to which oil corporation are operating in each country. You will notice an overlap of similar companies in all three nations.

**In Nigeria**

Shell Petroleum Development Company Ltd  
Mobil Producing Nigeria Unlimited  
Chevron Nigeria Ltd  
Texaco Overseas Nig. Petroleum Co. Unltd  
Elf Petroleum Nigeria Limited  
Philip & Pan Ocean Oil Corporation  
Bought Over Ashland Oil Nigeria Limited  
Agip Energy & Natural Resources  
Statoil/ BP Aliance  
Esso Exploration & Production Nig. Ltd  
Texaco Outer Shelf Nigeria Limited  
Total (Nig.) Exploration & Prod. Co. Ltd.  
Amoco Corporation  
Chevron Exploration& Production Co  
Conoco  
Abacan

*Source for data  
http://www.nipc.gov.ng/intcomp.html

**In Angola:**

Exxon Mobil
Chevron Corp
Texaco
BP (UK)
Sonangol
Plus Petrol (Peru)
Somoil (Angolan private firm)
Marathon Oil
Elf Aquitaine
Eni (Italy)
Petrobras (Brazil)
Sinopec (China)
Maersk Oil (2006)
AGIP ANGOLA LTD
BP ANGOLA
CABINDA GULF OIL COMPANY LTD. (CABGOC)
CNR (RANGER OIL LTD)

*Data Source
http://www.omnimap.com/catalog/int/angola-gas.htm

In Equatorial Guinea:

Ge Petrol
Sonagas
Novamark
Elegance
G3 Oleo E Gas
Mobil
Exxon Mobil
Xuan Energy Limited
Marathon Oil

*Data Source
http://www.equatorialoil.com/Petroleum_Exploration_history.html

Corruption, High GDP and Poverty
Listed are a few numbers to put corruption into perspective along with how high GDP’s can be and yet still have larger amount of the population in poverty.

<table>
<thead>
<tr>
<th>Country</th>
<th>Transparency Int’l Corruption Index 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>69</td>
</tr>
<tr>
<td>Botswana</td>
<td>63</td>
</tr>
<tr>
<td>Bahrain</td>
<td>49</td>
</tr>
<tr>
<td>Kuwait</td>
<td>44</td>
</tr>
<tr>
<td>Niger</td>
<td>35</td>
</tr>
<tr>
<td>Nigeria</td>
<td>27</td>
</tr>
<tr>
<td>Angola</td>
<td>19</td>
</tr>
<tr>
<td>Venezuela</td>
<td>19</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>*N/A</td>
</tr>
</tbody>
</table>

*Data Source: Transparency International Corruption Index 2014*

The scoring ranges from 1-100. One being the most corrupt and 100 being the least corrupt. I have arranged the states in order from the least to the most corrupt according to Transparency International. Each state is also an oil-exporting nation.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP in 2014</th>
<th>Primary School Attendance 2014</th>
<th>Poverty level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>$568 Billion</td>
<td>85%</td>
<td>46%</td>
</tr>
<tr>
<td>Qatar</td>
<td>$211.8 Billion</td>
<td>103%</td>
<td>none</td>
</tr>
<tr>
<td>Botswana</td>
<td>$15.81 Billion</td>
<td>108%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Angola</td>
<td>$131.4 Billion</td>
<td>104%</td>
<td>36.6%</td>
</tr>
<tr>
<td>Eq. Guinea</td>
<td>$14.3 Billion</td>
<td>91%</td>
<td>76.8%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>$33.87 Billion</td>
<td>104%</td>
<td>none</td>
</tr>
</tbody>
</table>

*Data Source: World Bank Data Bank*

Table B represents the extremely high GDP attached with high poverty rates. The nations with the largest percentage of their population in poverty have suffered from the resource curse. All states listed are rentier states.

**The Curious Case of Kuwait**

**Resource Blessing Not A Curse**
Today, Kuwait has a population of 3.479 million as of 2014 with a GDP of $175.8 billion. Kuwait city, which is the capital of Kuwait, is the oldest and original larger settlement of Kuwait. Bedouin and pastoral Arab tribes from the Arabian Peninsula moved across the dessert and Kuwait City was born. The city was segmented between the elite ruling families descending from tribes and merchants as the businessmen of the city. The lower class were the laborers. The economy was mainly fishing, pearling, shipbuilding and trading of goods. The laborers and some slaves from the African continent worked in this sector.

Ruling families can be identified as ethnic Arabs and Sunni. Based on this distinction the two most powerful families were the Al-Sabah and the Al-Khalifa. Due to a disagreement the families had a falling out which led to the Al-Khalifa moving out of Kuwait city and eventually ending up in Bahrain. The family still rules Bahrain till this day. The Al-Sabah family became the chosen ruling family of Kuwait starting 1752. The Al- Sabah family is still the ruling family today and will most likely remain this way for generations to come.

The structure of the government is strictly for the royal family. The cabinet is chosen from the royal family and elite merchant families with ties to the royal family from intermarriage. They make up the elite ruling first class citizens of Kuwait.

---

55 http://data.worldbank.org/country/kuwait
56 Meshaal Jaber Al Ahmad Al Sabah. (2013) "Recourse Curse Reduction Through Innovation: A blessing for all, the case of Kuwait."
In 1899 Kuwait became a protector of Britain. The move came after Sheik Mubarak Al-Sabah requested the aid of the British Empire. Britain did comply with joy to fend off any other European including German interest using the Gulf Port. During this period, Britain and Kuwait had a cliency relationship, Kuwait being the client. Cliency is described by Mark Gasiorowski, as a strategic relationship between a strong state and a weak state where goods are exchanged for security services. Britain would offer security assistance against any internal and external threats. Externally, Iraq as a next-door neighbor always flirted with state borderlines and wanting to claim Kuwait as a province of Iraq based on old tribal beliefs.

Mubarak requests aid from Britain to aid in border security between Iraq and Kuwait. Mubarak also known as “Mubarak the Great” ascended into power after murdering his two brothers. Muhammad was the ruler and Jarrah was his closest advisor. It is described that Mubarak was encouraged to take place instead of his brother to slow down the “Iraqization” of Kuwait. Mubarak assassinated his brothers and took power and ruled from 1896-1915 as one of the most feared rulers in Kuwait.

Oil was first discovered in 1938 during oil exploration drillings led by BP and Gulf Oil which is now Kuwait Oil Company (KOC) after it nationalized in 1975. However, the first oil shipment didn’t take place until 1946. As Japanese cultured pearls saturated the market and ships were being built in the industrialized European region, Kuwait now had a new resource to depend upon that would prove

---

57 MERIP. (1975). “Kuwait”
59 Ibid
to be more lucrative than pearling and shipbuilding. In 1946 Kuwait’s oil income was $760,000.\textsuperscript{60} Kuwait gained its independence from Britain on June 19, 1961. As a strong state, post independent Kuwait created the “Ash Shuaybah Industrial Zone” in 1964. This allowed the state to use oil funds for state development. A water distillation and electricity plant were built as well as the expansion of ports and manufacturing items like chlorine, cement and asphalt. As part of the redistribution of oil funds, there was also a large scale expansion on education programs, healthcare and housing privileges afforded to Kuwaiti citizens. In the 1950’s the top three main portions of the national budget went to public works, education and healthcare expansion.\textsuperscript{61} Healthcare and education (up to university level) are free for Kuwaiti citizens. Under the new welfare state, population in Kuwait tripled from 1957-1975 from 113,622 to 470,123.\textsuperscript{62}

Today Kuwait’s oil and gas sector makes up for 60 percent of the national GDP and 95 percent of export revenues. Kuwait oil field produces about 3.2 million barrels per day.\textsuperscript{63} The national GDP stands at $175.8 billion for 2013 according to the World Bank. Kuwait continues to state build and provide a formidable social welfare system for its population using their oil revenues.

The major reasons resource curse occurs is the lack of resource management that don’t translate into national advancement. Kuwait has been building its internal infrastructure and social welfare system since they began

\textsuperscript{60} Shafeeq Ghabra. (1997). “Kuwait and the Dynamics of Socio-Economic Change”.
\textsuperscript{61} Meshaal Jaber Al Ahmad Al Sabah. (2013) “Recourse Curse Reduction Through Innovation: A blessing for all, the case of Kuwait.” P.27
\textsuperscript{63} http://www.opec.org/opec_web/en/about_us/165.htm
exporting oil. It has also been expanding to become more diverse and not so dependent solely on oil revenues. Kuwait manufactures building materials for homes, cement, chlorine and also asphalt. This is small in comparison to oil but yet an important sector that aids Kuwait in exploring different economic avenues for revenues.

Like other oil exporting nations there are foreign oil corporations that are involved in Kuwait. These are the major oil companies that are across the globe in many states, including the African nations previously discussed. Figure one list all major foreign oil company involvement in Kuwait.

**Kuwait:**

Bristish Petroleum Co. Plc
Chevron
Getty Oil. Co
Gulf Oil
Japan’s Arabian Oil Co
Mobil Corp.
Royal Dutch/ Shell
Shell International Petroleum Co. Ltd
Texaco
Total

*Data Source http://www.virginia.edu/igpr/APAG/apagoilcompany.html*

Unlike in my three cases Angola, Nigeria and Equatorial Guinea, there is no previous work or articles that mention MNC corruption in Kuwait. I find it ironic that the same companies found in Africa behave differently in the Persian Gulf. Is it safe to assume perhaps there are stricter monitoring and regulations in Kuwait versus in Angola, Nigeria and Equatorial Guinea? Meshaal Jaber points out on page 71 figure 3.6 Kuwait's scores as assessed by Transparency International 2013
report. Kuwait scores 116 out of 163. The scale indicates one being the worst and 163 being the least. Just one year later Transparency International Corruption Index report shows that Kuwait has improved significantly 2014. Kuwait scores a 44 out of 100. One being the worst and 100 being the least corrupt. Based on this assessment Kuwait is working its way to being less corrupt and having good governance. This was not the case in 2005. According to an IMF report presented by Meeshal Jaber, among resource rich countries governance scale, Kuwait lay smack in the middle of bad governance and good governance. Since then Kuwait has tremendously improved its track record for governance and social investment.

Though Kuwait is not a democratic nation, it manages to have a sense of good governance among its people. There is clear indication that oil revenues have benefited the state and the citizens in the form of free education and healthcare. Also low-income housing are available through the government. Though oil accounts for majority of exports, it is not the only revenue. Kuwait is expanding and developing a technology sector and skill sector with its high rate of university graduates. Since the exporting of oil, Kuwait has used the windfall of excess capital to build its self from a sustenance society to a high income one in matter of 50 years. Kuwait like Botswana hasn’t suffered a resource curse because they manage their resource blessings with good policies and accountability. The population is also directly successful due to the behavior of the state. In the end, the state will always be responsible for the welfare of its people as it is the sovereign ruler within its borders.
Summary

In summary, resource curse is the result of mismanagement of natural resource. The resource is not the curse but the way it is managed. The same resource has been identified in four different nations across two continents. Oil doesn’t seem to have the same negative effects in Kuwait as it does in Angola, Nigeria and Equatorial Guinea. The variables of government, economic dependency and MNCs were clearly identified in all four. The difference lies within these variables. In states where governance is weak with high rates of corruption along with minimal social investment and state building, resource curse is present.

Angola, Nigeria and Equatorial Guinea have extremely high levels of corruption that basically hinder development. State funds are continuously unaccounted for and billions of dollars simply vanish. There is no investment into building infrastructures and creating a social welfare program. Majority of the population in corrupt states still live in poverty with no access to healthcare, education (post primary school) or housing. However, Kuwait presents a good example of what good governance and management of resource wealth looks like. Kuwait maintains a good governance track record (as pointed out by Transparency International) with good policies. It invests oil revenues into building state infrastructures, by providing free education, healthcare and housing accommodations. It is also diversifying its economy by manufacturing chemicals and investing into the tech industry.
Commodity dependency also creates a weakness in the economy. It becomes extremely vulnerable to volatile price fluctuations. There is also the ever-present reality that these resources will eventually tap out. At that point if the state hasn’t made other investments to cover itself from the decline and loss of a sector, the internal economy will suffer greatly and head towards a crash. By relying solely on one sector, states neglect to explore and develop other economic avenues that could earn them revenues. Resource curse becomes a likelihood reality for resource dependent states as other sectors of their economy continue to depreciate. Botswana was one nation mentioned several times throughout many working papers during my research. Apparently, there was the stereotype assumption that all African resource rich countries are headed to resource curse due to patrimonialism. Botswana was brought up several times across many articles as an example that this assumption was not true. Botswana has an abundant supply of diamonds but it is not their only source of revenue. By diversifying into agriculture and tourism, Botswana has evaded the resource curse. Also Botswana scores better than Kuwait on the Transparency Corruption Index report. Their government is transparent in state fund management and as a result the government is more accountable towards its actions.

Lastly, the Multi National Corporations (MNCs) play a role in resource curse only in states where there is no or little policy governing their actions. It would be a far reach to entirely blame all of the problems on MNCs as the new imperials within a state. However, they are not free of blame either in places like the Niger Delta.
They may not be the main cause of resource curse but they are a culprit in the process. How you may ask. Well let’s look at Nigeria, Angola and Equatorial; there is clear evidence of corruption within in MNCs ranging from oil spills that are still not fully cleaned up to bribery and funding rebel groups in hopes of better oil contracts once the rebels take over the government. However, in the same breath the same companies that are caught red handed behaving in an appalling manner, do not misbehave in Kuwait. Is there a different sort of respect for the Arabian nation and leader? I don’t know but I do find that there are strict policies within Kuwait on MNCs and it becomes in their best interest to abide by the rules and conduct themselves in a corporate responsible way.

Places like Angola, Nigeria and Equatorial Guinea have very little policies governing MNC’s causing them to show their true greedy and careless ways. There can be no other explanation for their behavior in the same industry on two continents. I doubt African leaders are forcing them to act corrupt, they are more a less following the leader.

Without the reduction of corruption on state level, the rest of the variables follow a domino effect. The state is the primary actor, the more accountable they are the less corrupt they become. With less corruption and better management of funds the better the state develops. The more the nation develops the better the regulating policies are designed. The better policies in place the less corrupt MNCs become. It is all on the same equation. The curse lies with the management and not the resource. Accountability, transparency and good governance can cure and curb resource curse.
Bibliography:


Undisclosed Author. (1975). “Kuwait” MERIP reports, No. 36 (April, 1976), pp. 5-6. Published by: Middle East Research and Information Project.
Magazine Articles:

Also available on: http://www.washingtonpost.com/wp-dyn/articles/A1101-2004Sep6.html

Clark, Megan. (2014). “Angola Is Moving Into Oil’s Big League As it Leaves Decades Of War Behind” April, 2014
Also available on: http://www.ibtimes.com/angola-moving-oils-big-leagues-it-leaves-decades-war-behind-1572751


Also Available on:

Also available on: http://www.cfr.org/world/angolas-political-economic-development/p16820

Also available on: http://www.nytimes.com/2014/03/10/world/africa/nigerians-ask-why-oil-funds-are-missing.html?_r=0

Web Sources:

Data. “Nigeria.” Worldbank.org

Data. “Angola.” Worldbank.org

Data. “Equatorial Guinea.” Worldbank.org

Data. “Kuwait” WorldBank.org


Infrastructure and Project Finance. “Angolan banks work to reduce nation’s oil dependency.” World Finance.com


Member Countries. “Nigeria facts and Figures.” OPEC.org
Member Countries. “Angola facts and Figures.” OPEC.org

Member Countries. “Kuwait Facts and Figures” OPEC.org


The Economist. “Diamonds are not forever.” Economist.com

Thompson, Eric V. “In The Gulf Region.” Virginia.edu