

*Avoiding Turmoil: A Comparative Exploration of the 'Resource Curse'*

Ian Latimer

A senior thesis submitted in partial fulfillment of the requirements for the degree of Bachelor of  
Arts in International Political Economy  
University of Puget Sound  
November 5 2015

## Abstract

As petroleum extraction and consumption has steadily increased in recent decades, economists and development researchers have been puzzled by discrepancies in the growth, development, and governance of oil-dependent countries around the world. The divergent development outcomes of oil states beg the following question: what are the political and economic conditions that determine the consequences of oil wealth management in petrol-dependent states? Hypotheses in the literature (including the ‘resource curse,’ ‘poverty trap,’ and ‘rentier state’ models) argue that resource abundance fosters harmful economic practices and poor governance. Rather, I argue that resource abundance and dependence merely exacerbates existing poor political and economic institutions. Economists frequently use wide-scale regression analysis to establish causative explanations for oil wealth mismanagement and poor governance. In order to account for state idiosyncrasy and historical context, I instead use a comparative model, examining divergent outcomes of oil wealth management in two pairs of case studies: Brunei Darussalam and Timor-Leste in Southeast Asia, and Equatorial Guinea and Congo-Brazzaville in sub-Saharan Africa. I find that preexisting political and economic institutions can prominently shape a states’ experience in managing oil wealth. These institutions, including political regime instability, governmental corruption, and armed conflict, all contribute to the idiosyncratic nature of state oil wealth (mis)management.

## **Introduction**

The notion that an abundant endowment of natural resources may in fact be harmful for a country's development is a paradox that has been heavily featured in political economic discourse. First introduced in Auty's (1993) *Sustaining Development in Mineral Economies*, the 'resource curse' theory sought to explain the growing disparities in economic growth rates and development indicators between resource-rich and resource-poor states across the world. In the two decades following its introduction into popular economic rhetoric, many have come to view the resource curse as a tried-and-true development hypothesis, based on a number of identifiable patterns in the data. I believe that the resource curse theory, while potentially necessary for establishing historical trends of negative oil wealth management, fails to account for idiosyncratic variations in the results of countries' management of oil rents. Resource abundance and dependence does not create poor institutions or governance practices, but rather can exacerbate those that are already in place. It is necessary to suspend the belief that the resource curse is intrinsic in oil-dependent countries, in order to address the following question: what are the political and economic conditions that determine the consequences of oil wealth management in petrol-dependent states?

Using a comparative model to examine seemingly similar states' divergent experiences in oil wealth management, I argue that the condition and stability of preexisting political institutions is the most influential determinant of a country's ability to use its oil wealth to navigate the resource 'curse.' I identify political regime type, governmental corruption, and armed conflict as those institutions most significant to the idiosyncratic nature of oil wealth (mis)management. In Equatorial Guinea, the state closest to resembling the 'cursed' state model presented by Auty, Sachs, et al., a relatively high gross domestic product (GDP) per capita

distorts the egregious misuse of oil wealth by the state's long-standing autocratic regime. Its neighbor, the Republic of Congo-Brazzaville, is demonstrative of a different resource-curse, wherein political instability and civil war have impeded economic growth and development. The sultanate of Brunei Darussalam has had marked success in translating its oil abundance into economic growth and an improved standard of living for its people, at the cost of propping up the country's existent undemocratic regime. Finally, I examine the young Timor-Leste, described in an International Monetary Fund press release (IMF 2015) as "the most oil-dependent economy in the world." Born from armed civil conflict and lacking strong, healthy political institutions, Timor-Leste is thought by many to be teetering on the edge of a resource curse. Others argue that it may still have a chance to implement good governance practices to ward off an incoming disaster.

### **"Zooming In": The importance of implementing a comparative model**

Whether owing to political, economic, or social idiosyncrasy, all countries experience and navigate the resource curse differently. That is not to say that there are not historical patterns, but rather that there is no one-size-fits-all model in which states have used their oil wealth to achieve political and economic development. Beginning with the foundational work of Sachs and Warner (1995), researchers have sought out patterns in development data through employing large, sweeping regressions and cross-country analyses, using correlation in order to postulate a causative model of oil wealth mismanagement. This type of research has proved important in formulating and identifying symptoms and diagnoses of the resource curse. However, it fails to provide necessary historical context or country-specific policy recommendations to avoiding the curse.

I identify dependence on this type of research as a failure of early understandings of the resource curse. Instead of producing a general economic model, it may be necessary to *zoom in*, and focus on countries on an individual or comparative basis. In lieu of a wide-scale regression analysis, I build on the comparative case study model of Magnusson and Clark (2005), examining case studies based on five shared characteristics:

(1) *Regional proximity*: There are two main theories that support the inclusion of regional geography for into this comparative model. First, the concept of “regionalization” pertains to increased political and economic interests in a specific, defined geographical space. These interests can, and have, shaped policy and institutions, including the creation of Regional Trade Agreements (RTAs) or politico-economic unions (such as the EU). Second, the notion of “regionalism” centers on the recognition of common senses of identity and interest between populations or states. This too can shape institutions, including NGOs, and even popular discourse (such as the notion of East Asian Exceptionalism) (Evans 2005).

(2) *Small population size*: The size of a country’s population can have large implications for the effectiveness of its governance. Small population sizes and growth rates are often a reflection of a state’s economic development and position in accordance with the demographic transition (Bongaarts 2009). Additionally, small population size has a number of implications in regard to the distribution of resource rents, including the distortion traditional measures of economic prosperity. For instance, some small oil-states demonstrate inflated GDP per capita statistics, when in fact high per capita GDP in these countries may not translate to increased standards of living and development. It all comes down to distribution: historically, states with weak political and economic institutions, or those riddled with political corruption, often fail to distribute earned oil wealth in a way that is equitable or socially beneficial. Economic growth

without wealth distribution may bode well for a state's GDP per capita on paper, but will likely fail to provide greater social benefits. Additionally, small population sizes and growth rates are often a reflection of a state's economic development and position in accordance with the demographic transition (Bongaarts 2009).

(3) *Oil dependence*: Quite frequently, development theorists conflate resource dependence and resource abundance; although the two are related, there remains a need to distinguish between them. Brunnschweiler and Bulte's work (2008) characterizes resource dependence as the degree to which countries are able or unable to derive income from sources other than extractive resource industries. One methodology for determining oil dependence is the calculation of a country's oil rents (the difference between the costs of crude oil production at world prices and all profits earned from the sale of that oil) as a percentage of its GDP. For Perspective, Colgan (2015, 661) draws the threshold for oil dependence at 10% of GDP; states in which oil rents constitute greater than 10% of GDP are therein identified as 'petrostates.'

(4) *Oil abundance*: If oil dependence is to be framed as a country's lack of access to alternative income sources outside of oil extraction, oil abundance is a more traditional piece of rhetoric in the resource curse discourse. Abundance refers to the quantitative measure of "in situ" resource wealth, otherwise framed as a country's existing natural resource endowment (Brunnschweiler and Bulte 2008, 261). Thereby, a country's oil abundance is an aggregate of its extracted, refined oil and untapped reserves alike.

(5) *Offshore oil extraction*: Interestingly enough, even the specific geographic location of a country's oil reserves should be included in any discourse centered on that state's historical and current experiences with oil extraction. Specifically, the offshore location of oil resources is thought to shape the relationship between armed conflict and resource control. Colgan (2015)

notes that there are often two paradoxical outcomes for oil-dependent states: they are either conflict prone with tumultuous governments, or play host to long-lasting autocratic regimes. In the case of the former, some scholars have offered linkages between onshore oil production and armed civil disobedience (Ross 2001). Offshoring, however, can help prop up and maintain stable government institutions in the latter of Colgan's outcomes, many of which are deemed undemocratic.

Alichi and Rabah (2012) argue that some of the conventional understandings of the causes of the resource curse are indeed conceptually plausible, but produce empirical evidence that is mixed and frequently on a case-by-case basis. Therein lies the importance of a smaller, comparative analysis. If selected well, not only are these compared states likely to have more in common, but they may also stand to learn from the experiences of the other in navigating the resource curse.

### **A Hot Commodity: The particularities of studying oil**

On an international scale, oil is far and away the most economically important natural resource commodity. The sheer rate at which oil is extracted, processed, and traded is incomparable to other resources; year-to-year, the petroleum industry generates between ten and a hundred times the volume of global trade compared to mining products like coal and metals, the next largest resource category (Colgan 2015). Recent changes in technology have only spurred growth in the size of the petroleum industry, which by 2009 constituted an astonishing 14.2% of the entire global trade in commodities (Ross 2012, 3).

The sheer magnitude of the petroleum industry is not the only factor that differentiates the management of oil-derived resource rents. Almost in spite of its importance, oil is an extremely volatile commodity, and thus quite vulnerable to boom and bust periods in the global

economy. The stability of oil prices has far reaching implications for oil consumption trends (those cent-by-cent increases we see on the gas pump), but also for the extraction and production of crude oil in petrostates. Volatility presents a significant problem for oil-dependent countries. Historical trends demonstrate that during boom periods, countries engage in chronic overspending on oil industry infrastructure, which can have devastating disruptive effects once that stream of income slows during a bust. Countries are left with sizable debts, increased reliance on foreign aid, higher rates of poverty, and exacerbated inequity in the distribution of remaining oil rents (Clawson 2012; Shaxson 2005). El-Anshasy and Mohaddes (2015) provide a thorough regression analysis of seventeen oil-producing states over a fifty-two year period, and demonstrate these long-term negative effects of volatility on economic growth. These findings provide a basis for their argument that volatility in and of itself can be the primary causal mechanism of an oil-based resource curse.

The negative consequences of oil volatility are especially visible now, as the global petroleum industry is in the wake of a significant bust period. According to a recent press release from the International Monetary Fund (IMF) (2015), Brunei Darussalam, a storied success among oil-dependent states, is currently being confronted by slashed global oil prices and its diminished domestic oil production. Though sheltered from the harsh consequences of low oil prices by its sovereign wealth fund, Brunei's outlook will be bleak if it continues to depend so heavily on such a volatile commodity. Timor-Leste, similarly, has had success limiting the consequences of the current oil bust through conservative fiscal policies and the growth of its own sovereign wealth fund (Santos 2015).

Another distinguishing facet of the oil industry is its classification as a 'point-source' commodity (Barma 2012). This term refers to the highly concentrated nature of ownership in oil

industries, which can reduce the need for accountability and transparency for the few who accrue substantial oil rents. Point-source industries often possess significant barriers to entry (i.e. overhead costs, technology, education), thereby restricting ownership and access. While point-source commodities can lead to investment in new technologies and infrastructure, they often fail to promote requisite education or economic diversification within the home countries. The oil industry is also problematic as a source of employment for nationals. As jobs in oil often feature high levels of requisite education and training, states often conduct outside hiring of highly educated, technically trained workers from transnational oil companies (TNCs).

The dependence on importing technology and educated workers brings me to a final unique characteristic of the oil industry: historically and even today, petroleum extraction and processing is heavily tied to non-local, international actors such as TNCs and nongovernmental organizations (NGOs) (Colom and Campos-Serrano 2013). Throughout the 20<sup>th</sup> and into the 21<sup>st</sup> centuries, a timespan in which oil was discovered in many low-income states around the world, the ability to tap into and take advantage of large caches of fossil fuels has often been concentrated in the hands of large corporations, many from the United States. Colom and Campos-Serrano (2013) note that the relationships between international oil corporations and governments in oil-dependent states can be problematic, and have been linked to corrupt practices including the diversion of state oil rents for individual benefit.

While concerns about climate change and global warming have certainly been influential in spurring investment into alternative energy sources to fossil fuels, the international importance of and dependence on oil will not be going away any time soon. The oil industry is unique not only because of its sheer importance on a global scale, but because of a number of industry-

specific circumstances that have historically dictated access to the commodity's economic utilization.

### **Conceptualizing a “Resource Curse”: An exploration of theoretical and rhetorical frameworks**

There are a number of key theoretical discourses that are central to any conversation surrounding the political and economic development of oil-dependent states. I examine three in particular: first, the ‘resource curse’ theory, also understood as the ‘paradox of plenty’, which postulates a causative model for the development shortcomings of oil economies. Second, the ‘poverty trap’ theory, employed to explain how and why dependence on resource wealth could enforce and maintain systemic poverty and poor economic outcomes. Finally, the ‘rentier state’ theory, derived from the oil-economies of the Middle East, centered on the relationships between resource dependency, political regime, and civil society. These three theories prove especially influential in my attempt to navigate the successes and failures of some states in converting mineral wealth into sustainable, equitable political and economic development.

#### *The ‘Resource Curse’*

In a 1995 working paper for the National Bureau of Economic Research, economists Jeffrey Sachs and Andrew Warner built on the initial work of Auty (1993) in confirming a paradoxical trend in outcomes for resource-rich countries. Based on a comprehensive data set (including ninety-seven low-income countries across the world), the two posited a negative correlation between natural resource abundance and economic growth. This finding led them to the conclusion that those countries with large endowments of natural resources found themselves routinely outperformed by their relatively resource-barren counterparts, in terms of both economic growth and other development indicators (Sachs and Warner 1995).

Their work focused on the shortcomings of resource-rich, low-income countries throughout the postwar 20<sup>th</sup> century. Amongst decades of increased global governance and economic development, research like that of Sachs and Warner began a discussion of the inequitable distribution of the benefits to globalization. Stiglitz (2006) notes that, “understanding why developing countries that are resource-rich perform so badly is of immense importance...because resource-rich countries tend to be wealthy countries with poor people, and that paradox provides insight into the broader failures of globalization” (Stiglitz 2006, 134). In theory, the resource curse provided that understanding, and in doing so challenged conventional assumptions pertaining to the importance of natural resource abundance to industrialization and economic development. Whereas some champion cases like the development of the United States and Canada, for having quite literally been fueled by their natural resource abundance (namely coal and timber) the curse identifies these successes as anomalies rather than commonplace (Sachs and Warner 2001, 823-833).

There is an ongoing discussion amongst resource curse proponents about the factors that most determine an oil-based economy’s development outcomes. Some place the bulk of analysis on the economic components of the resource curse, citing undiversified economies, commodity volatility, and the ‘Dutch Disease’ as contributing variables to the curse (Sovacool 2010, El Anshasy and Mohaddes 2015). Others emphasize political determinants of the resource curse, including a focus on institutions, type and quality of governance, and relationships between government and civil society (Collier 2007; Diamond and Mosbacher 2013; Doraisami 2009; Easterly 2006; Englebert and Ron 2004; Hammond 2011; Shaxson 2007).

While many contemporary scholars now identify the ‘resource curse’ as an explanatory truth in the development literature, this view is not universal. Critics have posed challenges to

Sachs and Warner's work on the bases of idiosyncrasy, prior institutions, luck, and a number of other facets in between (Barma 2012, Clawson 2012). Others push for a need to expand the resource curse discourse to account for the importance of non-local non-state actors, armed conflict, and international markets (Basedau and Lay 2009; Colom and Campos-Serrano 2013; El Anshasy and Mohaddes 2015). The sizeable literature on the resource curse offers both support and challenges to the theory, and both are important in shaping future policymaking in low-income, resource-dependent states.

### *The 'Poverty Trap'*

The resource curse theory is built on an inherent assumption that dependence on natural resources can lead not only to comparatively slow growth in the short-term, but can actually inhibit development and lead to poor economic and political outcomes in the long-term (thereby living up to its name as a 'curse'). This theory, then, joins a growing list of political and economic mechanisms that would indicate the existence of 'poverty traps'. Yet another staple of Sachs' work, a poverty trap refers to the notion that there are specific self-sustaining economic and political circumstances that can keep certain populations and entire countries in poverty (Sachs 2005).

In *The Bottom Billion*, Collier (2007, 39) suggests that a country's natural resource endowment can serve as a poverty trap, noting that at least 29% of the poorest billion people on Earth live in countries whose economies are dominated by resource dependency. He notes that natural resource abundance can be a trap regardless of regime type: whether autocratic or even democratic, many low-income, resource-abundant countries are likely to misuse the opportunities that resource wealth can present for sustainable economic growth.

Based on the varied experiences of high-income and low-income oil economies around the world, it seems quite possible that resource abundance can have beneficial consequences for a state's economic growth. But it is equally possible to remain trapped in poverty due to the negative political and economic consequences of natural resource dependence.

### *The 'Rentier State'*

'Rentier State' theory, historically rooted in the oil-based, resource-abundant economies of the Middle East, is quite relevant in any exploration of states' navigation of the resource curse. Natural resource rents refer to the accrued revenue from the extraction and export of a country's resources (Collier 2007). A rentier state is thereby one that not only features, but *depends* on these external rents that accrue directly to the state, rather than on wealth generated by a multitude of internal, productive sectors (McSherry 2006).

The literature characterizes rentier states as economies featuring low growth rates, expensive and lofty state projects, diminished relationships between states and civil society, and problematic practices including politics of patronage and rent seeking (Basedau and Lay 2009; Busse and Gröning 2011; Colom and Campos-Serrano 2013; Jensen 2011; Ross 2001).

Theorists also examine the relationship between rentier state behavior and political regime type. Given its roots in the oil-fueled states of the Middle East, rentier state theory often posits a link between oil-based economies and authoritarian practices and regimes. This link features significant tradeoffs: whereas rentier states often feature stable regimes, and avoid armed civil conflict over resources, they are also notorious for human rights abuses and the silencing of dissent. Theorists find that the accumulation of wealth in rentier states can diminish state accountability in democratizing and representing the wants and needs of civil society groups (Basedau and Lay 2009; Haber and Menaldo 2011; Ross 2001).

Rentier state theory is helpful and important to the examination of sustainable development outcomes in oil economies. While most small, mineral-dependent states do not boast the same high levels of wealth as the oil baron states of the Middle East, many share similar economic and political challenges. These include vulnerability to volatility during boom and shock periods, overdependence on undiversified economic sectors, and problematic authoritarian practices, among others.

### **Oil in Action: The political and economic impacts of oil rents**

A number of scholars emphasize the necessity of studying states' historical political and economic institutions in order to contextualize their contemporary experiences with oil rent management and resource curse avoidance. For better or worse, successful management and mismanagement of resource-derived wealth have the capacity to heavily influence the lingering consequences of oil extraction (Dunning 2008). On the one hand, some theorize that oil rents can spur movements for democratization. Others argue the opposite, namely that oil rents have, and will continue to, fuel authoritarian governments and practices. What, then, are the political determinants of these consequences of oil wealth management?

It is requisite to consult some of the patterns that characterize the relationships between the resource curse theory and existing political conditions in oil states. The development literature identifies a number of determinants, from which I have focused on four: regime type, quality of governance, functionality of existing state institutions, and incidence and prevalence of civil armed conflict.

#### *Oil and the 'ocracies': The influence of resource rents on political regimes*

Possibly the strongest political pattern identified in political economy is the correlation between oil wealth and autocratic and authoritarian practices. This relationship is known to many

as Thomas Friedman's (2009) "First Law of Petropolitics," and has been expanded upon by a number of scholars in the international development literature (Colgan 2015; Dunning 2008; Haber and Menaldo 2011; Jensen 2011; Ross 2001; Smith and Kraus 2005). The idea suggests the following: oil extraction produces rents, which fuel rent-seeking behavior. If states not only capture but *rely* on petroleum rents, they are less incentivized to share power and participation in the political system with their citizens. This model implies that a state that does not worry about economic support from its citizens (no taxation necessary if wealthy from oil) also does not worry about the political approval from its citizens. As such, oil rents tend to sustain autocratic and authoritarian practices.

Drawing on the aforementioned rentier state theory, Ross (2001) explores a number of causal mechanisms that reify the pattern of oil supporting autocratic practice. The "taxation effect," briefly touched on above, describes a decline in the political representation of popular interest when at the hands of an oil-backed state. The "spending effect" argues that oil wealth often leads to greater spending on patronage and further inhibits democratization. Finally, the "group formation effect," which analyzes cases in which oil-wealthy states have used their money and power to prevent the formation of groups that share oppositional or dissenting views.

Magnusson and Clark (2005) discuss the shortcomings of democratization in many oil-states as influenced by the state's quality of leadership and existing institutional democratic outcomes. This discussion is predicated on the idea that good political leaders will prioritize democratic rule of law over their own accumulation of wealth and power. This leadership has the potential to create and sustain healthy democratic legacies and institutions. Resource rents can challenge the values of these leaders, as a large oil endowment "raises the economic stakes of

political outcomes...providing both the powerful and their rivals the resources and the incentives to seek or maintain political power by any means necessary” (Magnusson and Clark 2005, 574).

Dunning’s (2008) work features an examination of the various ways in which oil-derived resource wealth can affect democratization; that is to say that countries anomalous to Friedman’s ‘first law’ are not merely idiosyncratic, but rather speak to a trend for oil rents to promote conditional democratic ideals. His theory is admittedly paradoxical at first glance, given the general acceptance of the oil-autocracy link in political economy. Even his book’s title, *Crude Democracy*, is initially counterintuitive, a reference to his theory that even democratic systems can be propped up and sustained by mechanisms of state oil wealth. Dunning draws on case studies in Latin America to show the potential for resource wealth to promote democracy, contrary to the notion that the accumulation of oil rents and freedom are always moving in opposite directions (Friedman 2009).

A handful of other scholars build on Dunning’s theory that oil has the capacity to assist in democratization, further challenging the first law of petropolitics. Haber and Menaldo (2011) problematize the assumption that oil causes authoritarianism, arguing that Friedman’s law fails to account for changes in important historical political institutions over time. They opt to study historical and contemporary political transitions within individual countries rather than through comparison. Their research posits that often, authoritarian regimes were already in place in petrostates prior to oil discoveries. Additionally, increases in resource dependence do not inherently expedite authoritarianism. Rather, in 19 of their 53 case studies, resource reliance appeared to be a blessing insofar as furthering democratization.

Colgan’s (2015) most recent work argues that oil wealth only inhibits democratic movements in the wake of violent conflict. And while oil economies are historically prone to

such armed conflict (discussed later in this paper), he believes that peaceful democracy remains a viable and possible alternative for petrostates. Violent resistance and political conflict beget conditions in which oil wealth supports autocratic systems of rule. But in the absence of these conflicts, Colgan identifies hope for gradual democratization in oil states.

*Can oil rents shape the standards and obligations of governance?*

Both the resource curse and rentier state theories are predicated on the idea that oil can have significant influence over the causes and effects of governance practices in oil-producing countries. Figure 1 depicts the ways in which oil rents can permeate a country's 'Natural Resource Management Value Chain.' Barma (2012) is quite critical of the permeation of oil rents into political policy and decision-making, as oil creates the potential for politics of patronage, as well as decreases taxation and distribution of resource rents. A number of authors even frame the consequences of resource dependence as a potential force to undermine standards and qualities of 'good governance' (Barma 2012; Basedau 2005; Colgan 2015; Jensen 2011; Shaxson 2007).



**Figure 1: Barma's (2012) "Natural Resource Management Value Chain"**

Source: Barma, Naazneen H. 2012. Petroleum, Governance, and Fragility: The Micro-Politics of Petroleum in Postconflict States. In *Beyond the Resource Curse*, ed. Brenda Shaffer and Taleh Ziyadov. Philadelphia: University of Pennsylvania Press, 330-351.

In conjunction with the notions of the resource curse and rentier state, the definition of good governance is fairly consistent, built upon a premise that state policy and decision making should be transparent and should reflect civil interest. Therefore,

“Managing the [curse] is a governance challenge- the quality, transparency, and accountability of policy-making processes, the legal and regulatory climate, and general public as well as natural resource sector institutions are major determinants of how successfully countries can turn the resource curse into a blessing” (Barma 2012, 334).

One of the prominent shortcomings of petrostate governance is the propensity of oil rents to generate both individual and institutional corruption (Hammond 2011, Basedau and Lay 2009, Shaxson 2007, Doraisami 2009). Shaxson (2007) does an excellent job of exploring corruption without assigning it a narrow definition. Rather, he offers two conceptualizations of corruption: first, corruption as an abuse of the wider societal interest, resulting in a ‘tragedy of the commons’ scenario. Second, Shaxson poses corruption as anything that abuses the public good or undermines public faith in its governing systems and institutions. Corruption on an ‘individual’ basis refers to corrupt acts performed by individual political and economic actors, including embezzlement and rent-seeking behavior often exhibited by government officials in petrostates.

‘Institutional’ corruption looks different: it hinges less on the political actions of individuals, but engages broader politics of patronage and clientelism. With regard to the resource curse, it implies a distribution of oil rents according to larger state interests. This can take the form of clientelistic contracts divvied up amongst oil corporations for political support, or even just the direct rerouting of rents to family members and friends. While small-scale mechanisms of corruption can absolutely contribute to general distrust and loss of faith in government, Colom and Serrano (2013) argue that institutional corruption may have a larger role as a tool of government that can consciously be used to uphold the political status quo. It can prevent the emergence of a vocal and empowered middle class or oppositional movement by maintaining oppressive authoritarian institutions.

*Dissolved social contracts: resource rents and civil society*

Oppression within autocratic oil-states is not only indicative of an institutionally corrupt government, but of one that has lost any semblance of a functional democratic relationship between its state and civil society. Is the rentier state structure of wealth accumulation inherently tied to the erosion of a state's responsibility to respond to social pressures or concerns from its citizens? Okruhlik (1999, 296) identifies a trend in the use of oil rents to reify state interests and impose an "artificial rigidity on relations between ruler and ruled." Basedau and Lay (2009) argue that oil dependence in rentier states can explicitly facilitate grievance amongst groups in states' civil society over human rights abuses and the silencing of dissent.

Many economists point to institutionally weak or absent systems of taxation as a main symptom of degraded social obligations between rentier states and civil society (Busse and Gröning 2011, Jensen 2011, Colgan 2015, Ross 2001, Besley and Persson 2014). There is a general consensus supporting Ross' (2001) identification of a 'taxation effect' in rentier states, which postulates that direct government earnings from resource extraction reduce the need for general population taxation. Reduced taxation weakens the mutual obligation between civil society and government; if accrued oil rents can supplant taxation of the greater population, the political system will only represent the interests of those who accumulate and control rents. This can have disastrous effects on government accountability, and diminish long-term pressure to improve the quality of state institutions governance (Busse and Gröning 2011).

Besley and Persson's (2014) research back up the aforementioned trends in tax collection across low-income countries of the world, where in total, taxes consist of between ten and twenty percent of GDP (as opposed to numbers in high-income countries that are closer to forty

percent). They argue that this model of tax structure may be symptomatic of a weakened state capacity, and may be alleviated through democratic development.

*Fueling the fire: oil and armed conflict*

Alongside the popularized notion that oil can be a hindrance to democracy, some scholars argue that oil has a tendency to create and sustain periods of violent conflict in petrostates. Colgan (2010) describes the rate of engagement in ‘militarized interstate disputes’ as more than 50% higher in petrostates than in non-oil economies (661), and argues that a key to the link between oil and armed conflict is the study of revolutions and revolutionary governments in petrostates. The use of accrued oil income to fund conflict results in what is termed ‘resource-backed aggression,’ and it happens on both domestic and international levels. Oil can also influence those who do not enjoy the accumulation of rents to engage in revolt. The significant wealth at stake in the control over high-value resources like oil provides both motive and continued financing for groups involved in these types of armed conflict (Basedau and Lay 2009).

Doraisami (2009) believes that resource related conflict is an inherent consequence in the lived experience of resource cursed states. Her research identifies an association between abundance of strategic and valuable resources with not only the onset of armed conflict, but also the duration and intensity of these conflicts. This association is frequently based on disputes between governments and civil society groups over resource ownership and distribution, given the substantial economic stakes of securing oil rents.

Based on the experiences of a handful of democratic or near-democratic case studies in avoiding violent conflict, Smith and Kraus (2005) argue that it is possible to contain conflicts over distribution of oil wealth within the electoral and political arenas, preventing the emergence

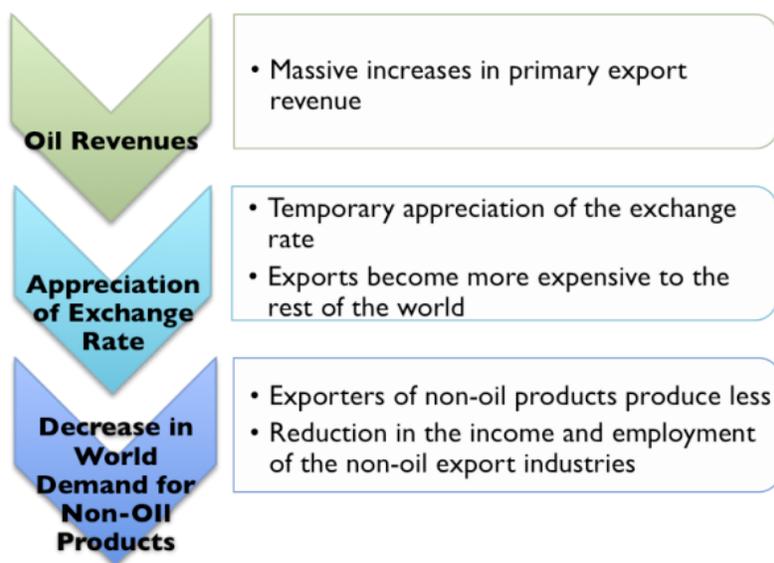
of violent conflict. However, in order for this to be the case, a country must have a number of democratic institutions in place already, namely rule of law, and the existence of a sizable, politically mobile middle class. The conventional link between oil and armed conflict, as posed by some authors, operates on the assumption that oil creates and maintains autocratic authoritarianism, and thus does not account for states with even limited democratic institutions. Smith and Kraus' theory stresses the importance of democratic institutions as a determinant for a country's success with regard to resource wealth management, as those without are more likely to be engaged in armed conflict.

Finally, while the resource curse theory supports an association between resource abundance and armed conflict, it is inherently contradicted by the rentier state theory. Rentier governments have been characterized by their propensity to buy patronage and political support, while simultaneously seeking out and suppressing dissent within the population (Basedau and Lay 2009). And while oppressive and explicitly undemocratic, the dynamic between government and civil society in rentier states has historically maintained autocratic political stability, and poses a theoretical challenge to the assumption that oil creates and feeds violent conflict.

#### *Symptoms of the curse: The 'Dutch Disease'*

This lack of oil wealth reinvestment in human capital and market diversification has been described as creating an economic condition called 'Dutch Disease,' named for the poor economic consequences of the discovery of natural gas in the Netherlands in the 1950s. In short, Dutch Disease (Figure 2) occurs when profitable commodity exports (in this case oil) cause an appreciation of the exchange rate, rendering a country's manufacturing and agricultural sectors less competitive globally, and causing increased dependency on that original commodity (Auty

and Mikesell 1998, 20-21). In essence, Dutch Disease creates a ‘hollowing-out’ of a country’s economy, and leaves it vulnerable to price volatility or even a potential market failure.



**Figure 2: ‘Dutch Disease’ Diagram**

Source: *Center for Global Prosperity*, 2010  
 (<https://globalprosperity.wordpress.com/2010/08/19/oiling-africas-gears-for-democratic-change/>)

### **Case Studies: Learning from comparative models**

In selecting case studies, I focus on identifying pairs of petrostates based on a set of five shared characteristics: regional proximity, relatively small population sizes, oil dependence, oil abundance, and the offshore location of oil reserves. These shared traits allow for a more applicable comparison and contrast of states’ experiences with resource wealth management, as this model accommodates for state idiosyncrasy while still providing foundations for comparison. The resulting examination of the case studies demonstrates the intricacies of the resource curse, and ways in which different political and economic conditions shape the consequences of the curse.

Figure 3 provides a basis for comparing and contrasting countries based on eight different metrics related to the resource curse: (1) GDP per capita, or the total summation of a country’s

goods and services divided by its population; (2) the total population of the country; (3) oil rents as a percentage of GDP, or the proportion of total profits from oil to a country's GDP; (4) imports of goods and services as a percentage of GDP, which can demonstrate a country's reliance on imports in an undiversified economy; (5) Human Development Index score, which ranks countries based on development indicators including life expectancy, education, etc.; (6) WGI Control of Corruption score, which captures perception of corruption in a country; (7) EIU Democracy Index, which ranks states' democratization based on factors like political participation, civil liberties, etc.; and finally, (8) Freedom House Freedom rating, which assigns a score from 1 to 7 based on the political and civil rights of citizens in a country (1 being the best, 7 being the worst).

Country Name	GDP per capita (current US\$) (2012)	Total Population (2014)	Oil rents (% of GDP) (2012)	Imports of goods and services (% of GDP) (2012)	Human Development Index Score (1-187) (2013)	WGI Control of Corruption Score (-2.5 to +2.5) (2014)	EIU Democracy Index (1 to 167) (2014)	Freedom House Freedom Rating (1 to 7) (2014)
Brunei Darussalam	41,808.76	417,400	27.75439294	31.18	30	0.63	-	5.5
Equatorial Guinea	21,306.96	820,900	56.13308836	65.20	144	-1.84	164	7
Congo-Brazzaville	3,191.16	4.505 million	62.95637349	60.33	140	-1.22	146	5.5
Timor-Leste	1,105.35	1.212 million	-	124.57	128	-0.65	46	3.5

**Figure 3: Comparative Data: Selected Development Indicators**

Source(s):

Columns 2-5: World Development Indicators, *The World Bank*. 2012-2014. (<http://data.worldbank.org/data-catalog/world-development-indicators>)

Column 6: Inequality-Adjusted Human Development Index Scores. 2013. *United Nations Development Programme*.

(<http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>)

Column 7: World Governance Indicators, *The World Bank*. 2014. (<http://info.worldbank.org/governance/wgi/index.aspx#reports>)

Column 8: Democracy Index 2014. *The Economist Intelligence Unit*. ([http://www.eiu.com/public/topical\\_report.aspx?campaignid=Democracy0115](http://www.eiu.com/public/topical_report.aspx?campaignid=Democracy0115))

Column 9: Freedom in the World 2014. *Freedom House*. (<https://freedomhouse.org/report/freedom-world/freedom-world-2014>)

## Petrostates in Sub-Saharan Africa: Equatorial Guinea & Republic of Congo-Brazzaville

### *Equatorial Guinea*

Located along the Western coast of Africa, Equatorial Guinea is a small state with a reputation for substantial oil wealth and poor governance. A number of scholars regard

Equatorial Guinea as an excellent candidate for the resource curse on the sole basis that it has the largest gap between its GDP per capita and HDI rankings in the entire world, a difference of 91 ranking spots (Colom and Campos-Serrano 2013; McSherry 2006; Shaxson 2007). Geoffrey Wood (2004, 547) goes as far as to describe Equatorial Guinea as the ‘Kuwait of West Africa,’ drawing parallels based on some of the particularly negative consequences stemming from both countries’ accumulated oil rents. The likening of Equatorial Guinea to a Middle East oil magnates is reminiscent of the aforementioned rentier state model, based on the Equatorial Guinea’s relative political stability (discussed below) and avoidance of violent conflict through oil-funded political patronage (Basedau and Lay 2009).

Like most sub-Saharan African countries, European colonialism left a significant impact on the economic and political institutions of Equatorial Guinea. A colony of Spain until 1968, Equatorial Guinea’s push for independence nipped at the heels of many other Central and Sub-Saharan African countries swept up in the midcentury wave of decolonization (McSherry 2006). The departure of Spanish rule left the economy of Equatorial Guinea in shambles: the country was entirely dependent on raw natural resources (Toto Same 2008), with cocoa production alone comprising 75% of the country’s GDP. This economy crumbled quickly under the leadership of the country’s first elected president, Francisco Macias Nguema (Frynas 2004, 528). In 1979, only eleven years after independence, a coup replaced one Nguema with another, as Francisco was ousted by his nephew Teodoro Obiang Nguema Mbasogo (who remains in the presidential office today). Meanwhile, beginning in the former Nguema’s rule, favoritism within the Equatorial Guinean government began to breed tension between two of the country’s dominant ethnic groups, the Fang (Nguema’s people) and Bubi populations (McSherry 2006).

The history of the Equatorial Guinean oil industry began with a number of unsuccessful oil explorations undertaken by the Spanish colonizers. The first discovery of crude was made by a Spanish oil corporation in 1980, and the extraction and production of that oil would itself not begin until eleven years later in 1991 (Dunning 2008; Frynas 2004). The oil boom hit Equatorial Guinea quickly: in 1991, the country was producing 6,000 barrels per day; by 1998, that number hit 83,000 barrels/day; and by 2005, production peaked at 400,000 barrels of crude oil per day (Toto Same 2008, 3). Based solely on economic metrics such as GDP per capita, Equatorial Guinea's ascent appears truly remarkable. The country transformed within a couple decades from a postcolonial backwater country into one of the continent's top 10 oil producers, with a growing population and increased international development aid to boot.

However, a number of economic and political determinants reveal the truth: Equatorial Guinea is perhaps the best example of the resource curse, given the country's history of perpetual resource rent mismanagement, ethnic tensions, and autocratic practice. Equatorial Guinea's significant oil abundance, in tandem with the second smallest population size of the case study countries, inflates its GDP per capita statistics, which registers as the highest in all of sub-Saharan Africa. And yet, between 75-77% of the population remain under the national poverty line (Colom and Campos-Serrano 2013); where has all of the resource wealth gone?

The Obiang regime, in place before the country's oil boom, demonstrates the importance of existing political institutions in shaping the negative consequences of oil wealth. Equatorial Guinea registers at the very bottom according to both metrics of democratic freedom featured in Figure 1: it ranks a dismal 164/167 according to the EIU Democracy Index, and obtained a determinedly undemocratic 7 on the Freedom House rating. The corruption of the Obiang regime has created incredible disparities in the dispersal of oil wealth: in Equatorial Guinea, an

estimated 80% of rents accrue directly to less than 5% of the population, a distribution indicative of corruption and patronage politics within the state (Wood 2004, 560). And that indication is evident in its political development indicators, as Equatorial Guinea registered the lowest score of the four case studies on the WGI Control of Corruption metric (Figure 1). Congruent with the rentier state model, the concentration of oil rents in so few Guinean hands decreases the necessity of the state to employ a representative form of government. The use of resource rents to alleviate dependence on social taxation enacts self-sustaining autocratic practices (Jensen 2011).

The Equatorial Guinean government has only recently begun to feel pushback against its corrupt practices. In 2011, the United States Department of Justice seized over \$71 million in assets belonging to Obiang's son in Los Angeles, a man whose official government salary approximates \$81,000 per year (Diamond and Mosbacher 2013). International efforts to crack down on government corruption continues, largely focusing on corruption mechanisms including direct rerouting of oil rents to private bank accounts, but also the creation of local 'shell companies' that work directly with TNCs (Colom and Campos-Serrano 2013; Frynas 2004; McSherry 2006; Shaxson 2007; Wood 2004).

#### *Republic of Congo-Brazzaville*

Just southeast of Equatorial Guinea lies the Republic of Congo-Brazzaville (hereafter referred to as 'Congo'), a larger state by means of both physical territory and population (though use of the population metric demonstrates that Congo is still small in comparison to many sub-Saharan African states). Haber and Menaldo's (2011) 'reappraisal of the resource curse' situates Congo as a 'potentially resource-cursed' country on the basis that its democratization regressed following the oil boom of the 1990s. Multiple scholars argue, however, that democratization did

not solely suffer because of the possible causal link between resource abundance and poor governance. Rather, Congo's experience demonstrates the consequences associated with a conflict-related resource curse, reminiscent of Collier's (2007) conception of a civil-conflict based poverty trap (Englebert and Ron 2004; McSherry 2006; Shaxson 2005).

A French colony until independence in 1960, Congo's political history is characterized by armed civil conflict and political disarray. The country was for decades a hotbed of Cold War-era Marxist socialism, before its first democratic election in the August of 1992. In spite of any initial strides made by staging a multi-party election, the rest of the 1990s was tumultuous. The first democratically elected president, Pascal Lissouba, held office for six years, before being ousted at the culmination of an armed civil war by his own presidential predecessor, Denis Sassou Nguesso.

A major source of contention during Lissouba's presidency concerned the development and future of the Congolese oil industry. Offshore oil reserves had been discovered in Congo by French explorers in 1957, some forty years earlier. Just as was the case of the Spanish in EG, French contributions to Congo's petroleum industry demonstrate the significance of colonial and international involvement in the evolution of oil industries in post-colonial countries. It was not until Lissouba's '90s that Congo began to see significant expansion of its oil sector, blossoming into what would become the sixth largest oil producer in the sub-Saharan region (Carcillo and Leigh 2007). It became complicated for Lissouba when he decided to approach the American transnational oil firm Occidental Petroleum, in an attempt to trade financial support for future access to Congolese oil production. This move did not sit well with French transnational oil companies, some of which had been involved in Congo's oil industry even since first discovery (French 1997). As a result, the French, as well as Angola (another former French colony),

decided to back Nguesso as an opposition leader to Lissouba's presidency. Any potential benefits from the increased revenues brought on by the oil boom of the 1990s were nullified by the mounting armed conflict that permeated the latter half of the decade. Eventually, Nguesso forced his way back into the president's office, a position that he has maintained to this day through (questionably) democratic reelections (Englebert and Ron 2004; Shaxson 2005).

Congo features a number of economic measures potentially indicative of some type of resource curse. It has the second smallest GDP per capita of this country set, as well as the highest reported measure of oil rents as a portion of GDP (Figure 3). Additionally, the country is host to multiple indicators of relatively poor governance, second only to Equatorial Guinea for the worst HDI, Control of Corruption, and Democracy Index scores. These measurements largely fall in with the popular resource curse rhetoric, as it would seem that Congo's dependence on oil rents has produced a 'double-barreled affliction' of bad governance practices and poor economic development (Englebert and Ron 2004).

However, unlike the circumstances of EG, in which GDP per capita is inflated so as to misrepresent the existence of poverty, Congo's data does not necessarily represent the 'standard' resource-curse. Rather, Congo requires a modification to the curse discourse, on the basis of inquiry into a link between natural resource dependence and armed political conflict (Englebert and Ron 2004; McSherry 2007; Ross 2001). The petroleum industry was central to Congo's armed conflict in the 1990s, which has drastically shaped the politico-economic landscape of the country. Congolese informants interviewed by Englebert and Ron (2004, 62) "uniformly believe that greed for petroleum rents in a new and uncertain political context was a major motivation for the war." If this is the case, whereby armed conflict is more likely to exist in the wake of political instability, then the effects of resource abundance are ambivalent. Congo's poor

economic and political development has been harmed more by conflict born from political instability than from resource abundance. The model of Congo's curse can be used to explain the importance of existing political institutions and stability on resource abundance and dependence; only in a time of tumultuous political circumstances and instability can resource rents create and sustain armed conflict.

*“Curses” in Comparison: Equatorial Guinea and The Republic of Congo-Brazzaville*

The experiences of these two cases in navigating the resource curse make suggestions as to what factors determine whether or not a country will be cursed by its natural resource endowment. Equatorial Guinea is demonstrative of trends in the development literature that have led to the popularization of the resource curse theory. The state's politico-economic trajectory reifies the notion that without healthy existing economic and political institutions, resource abundance can impede development and harm governance. The Republic of Congo-Brazzaville, however, slightly modifies the resource curse narrative to account for patterns of armed conflict in some low-income, resource-dependent states in sub-Saharan Africa. It similarly demonstrates the negative consequences of oil wealth in a state characterized by poor political and economic institutions, but additionally indicates that resource abundance is only related to conflict in states with already-unstable political systems. If a state can remain politically stable, authoritarian or democratic alike, resource abundance could prove a boon, and not a bane, to development.

**Petrostates in Southeast Asia: Brunei Darussalam and Timor-Leste**

The development of Southeast Asia into a significant contributor to the international economy has brought large amounts of attention to the region's offshore oil reserves. Although oil has already been extracted in the region for decades by some notable states (namely Indonesia, Malaysia, and Vietnam), new oil stocks continue to be discovered in Southeast Asian

waters. The region is incredibly diverse and complex, comprised of nations characterized by massive disparities in political, economic, and social conditions. While some Southeast Asian nations are home to centers of booming urbanization and technological development, others still rely heavily on the land for both subsistence and for generating wealth. Though the resource curse discourse often focuses on low-income states in sub-Saharan Africa and Latin America, Sovacool (2010, 227-228) is wary of the potential for resource extraction to play a similarly adverse role in Southeast Asia's development, for two reasons. First, he anticipates continued increases in dependence on oil and natural gas in the future of the region. Second, he notes that historical tendencies for corruption and bad governance in the region exacerbate the risks of succumbing to a resource curse.

### *Brunei Darussalam*

The microstate of Brunei Darussalam is in many ways an outlier in the region of Southeast Asia. It is both the smallest state (based on population and geography) and by far the wealthiest oil-based economy in Southeast Asia. In fact, aside from Singapore, Brunei is the only Southeast Asian nation that boasts an HDI score indicative of its presence in the upper echelon of 'very high human development' (Figure 1). Thus begs the question: how has this petrostate been so successful at channeling its oil revenues into sustainable economic development? Is Brunei merely an oil-outlier, or does it offer a model for avoiding a resource curse?

Oil was first discovered in Brunei in the early 20<sup>th</sup> century, and quickly became the principal commodity of the small nation's economy. Especially due to Brunei's small landmass, the discovery of extensive offshore oil reserves presented tremendous economic opportunities. Similar to the case studies in sub-Saharan Africa, Brunei's early experiences were influenced by its colonial and post-colonial relationships. In the case of Brunei, the colonizer in question was

Great Britain, a relationship that continues to this day through the prominence of the Royal Dutch Shell Corporation (an Anglo-Dutch petroleum conglomerate). Additionally, Brunei was the first Asian country to produce liquefied natural gas (LNG), an extremely lucrative extractive product. LNG is notable as it allows for natural gas to be efficiently shipped around the world (Wang and Chin 1978, 43-44), and is praised by some as a less harmful fuel source than fossil fuels.

In the 1970s, the GDP of Brunei was approximately \$1.2 billion, predominantly comprised of wealth from its oil and natural gas industries. These extractive industries at the time accounted for 88% of the country's GDP; services accounted for another 10%, while traditional Bruneian economic activities like agriculture, fishing, and forestry had been reduced to 1.3% (Duraman et al. 1998). Beginning in the 1980s, the sultanate began to impose policies supporting economic diversification to reduce dependency on oil revenues. As a result, oil rents as a percentage of GDP have since plummeted in Brunei, while the country's GDP has continued to grow, reaching \$17.26 billion in 2014.

Scholars identify a number of factors that may contribute to Brunei's experience in avoiding the consequences associated with the resource curse. The preexisting political institutions of Brunei are arguably the most important determinants of the country's rent-based prosperity. Including the aforementioned attempts at economic diversification in the 1980s, the sultanate of Brunei has instituted widespread oil wealth reinvestment into improving the country's environmental standards and the quality of life of its population (Afzal et al. 2012; Anaman and Mahmud 2003). In order to finance these domestic investments, Brunei created and maintains an extremely successful sovereign wealth fund, which currently maintains a balance of approximately \$40 billion. Revenues in this fund have been used to introduce extensive welfare

campaigns in Brunei, such as public housing projects, free public education, heavily subsidized healthcare, and others. Brunei has also been able to increase its share of oil rents by nationalizing its oil industry through the state-owned Brunei Shell Petroleum Company (Duraman et al. 1998).

Majid (2007) argues that Brunei's rent reinvestment policies have generated great social contentment as a substitute for democratization in Brunei, a regime that he identifies as a constitutional sultanate in theory and an absolute monarchy in reality. While Brunei's Control of Corruption score (+0.63/+2.5) indicates a relative lack of patronage politics, its Freedom House rating (5.5/7) is on par with that of Congo-Brazzaville, a country with significantly worse development and governance outcomes (Figure 3). Therein lies the major criticism of Bruneian management of oil wealth: the country demonstrates a substantial tradeoff between democratic freedoms and economic development. The oil rents earned from the country's oil abundance have successfully been utilized to improve the country's standard of living and economic development, while simultaneously propping up a non-democratic regime that exhibits some of the autocratic practices associated with poor governance in other resource cursed countries.

Finally, in contrast to the Sub-Saharan African case studies, Brunei's population is not only small, but also comprised of only two main ethnic groups. Smith and Kraus (2005) identify ethnic conflict as a potential roadblock to democratic development in oil-producing states, but Brunei's two groups (the Malays and Chinese) do not possess a history of conflict in Brunei (the Malays and the Chinese) (Majid 2007).

### *Timor-Leste*

One of the youngest countries in the world, Timor-Leste, or East Timor, has been plagued by political and economic problems since granted independence from Indonesia in 2002. In the years since, the small country has set lofty goals, expressing their desire to become one of

the wealthier states in SE Asia, and has pursued the utilization and growth of its domestic oil industry as a means to achieve that outcome. Democratic since independence, Timor-Leste achieved the highest scores of the four countries for both metrics focused on the provision of civil democratic freedoms: Freedom House assigned Timor a 3.5/7 rating, and the EIU Democracy Index ranked it 46/167 (Figure 1). In spite of these positive governance outcomes, Timor's economic development indicators show a different story. The country is home to a growing population living with a devastatingly low GDP per capita, a significant proportion of which rely on subsistence agriculture or informal economy work for their livelihood (Doraisami 2009). Additionally, due to a lack of remaining infrastructure and no semblance of a manufacturing industry, Timor is entirely dependent on other countries for its imports of goods and services, with imported goods and services comprising a whopping 124.57% of its GDP.

East Timor's history of colonialism and control is quite convoluted. This small nation in the Indonesian Archipelago was once a colony of Portugal, which utilized the country as a far-east trading post. In 1975, in the wake of domestic Portuguese political instability, East Timor declared independence. This declaration was short lived, however, as within months Indonesia had invaded and annexed the nation as a protectorate province. Timorese resistance to Indonesian annexation led to militarization, eventually escalating into armed conflict between Indonesian army troops and Timorese guerilla fighters (Smith and Dee 2003). The UN began a peacekeeping mission in Timor-Leste in the late 1990s, preceding the country's independence by introducing the UN Transitional Administration in East Timor.

The relative youth of East Timor's political and economic institutions only furthers the challenges that face the struggling economy. Given the established importance of prior political institutions, many think that East Timor may be headed in the direction of a resource curse due to

its inability to constructively direct sudden influxes of oil (Barma 2012; Jaffe 2012). The offshore oil industry is the main source of both optimism and concern for the future of Timorese sustainable development. Doraisami (2009, 164) argues that, “Timor-Leste’s overarching challenge is to employ its oil revenues to develop and create jobs in the non-oil economy while maintaining macroeconomic stability.”

As such, East Timor is another example of a post-conflict state that is at risk of succumbing to a resource curse. While not necessarily susceptible to Dutch Disease (it has no other significant exports to be priced out by currency appreciation) an undiversified economy leaves Timor extremely vulnerable to the volatility of global oil prices and demand.

*“Curses” in Comparison: Brunei Darussalam and Timor-Leste*

A comparison of these two Southeast Asian case studies offers a particularly interesting dynamic: on the one hand, Brunei Darussalam has found overwhelming success in avoiding the symptoms and consequences of the resource curse. On the other hand, Timor-Leste is the youngest of the four countries, but already has some scholars convinced of an inevitable descent into turmoil. Given said relative youth, however, Timor-Leste may still be able to both learn from and replicate Brunei’s successful oil economy.

The longevity and success of the Bruneian oil industry is built on the stability of the sultanate’s political and economic institutions. Brunei has been governed by a constitutional sultanate since the 14<sup>th</sup> century, though some argue that the regime functions more as an authoritarian state (Majid 2007). However, it would be wrong to assume that Brunei’s trajectory would align with other autocratic oil states based solely on a shared type of governance. For example, Brunei does not fit the rentier state model of the Middle East petrostate, which in theory would demonstrate dissolved political, economic and social obligations between the oil-

rich state and its population. The sultanate of Brunei, rather, has for decades pursued peaceful economic and social development outcomes and improved standards of living (such as increased life expectancy and literacy rates) in lieu of electoral political participation (Majid 2007).

I believe that Timor-Leste is still in position to make up for its lack of effective, preexisting political institutions. The young democracy has seemingly already begun to look to Brunei as an archetype of successful oil wealth management and reinvestment. East Timor created and continues to grow its own sovereign wealth fund (Barma 2012; Harmadi and Gomes 2013; Seymour 2000), and is engaged in talks surrounding the potential nationalization of its oil industry (Barma 2012). Given its moniker as the most oil-dependent state in the world (IMF 2011), the foremost remaining obstacle for Timor-Leste is to channel that oil wealth into the development of a thriving (or at least existent) non-oil economy.

### **Curses in Comparison: Case Studies**

The West African state of Equatorial Guinea is perhaps the best example of oil's capacity to exacerbate a number of prior-lacking institutions. Equatorial Guinea is home to inflated measures of economic growth (its GDP per capita of \$21,306 grossly misrepresents the country's wealth distribution), and ranks as the worst of the four countries in terms of human development, control of governmental corruption, democratization, and popular political freedoms (Figure 1). Though the Obiang regime has in fact remained stable since assuming power in 1979, the Equatorial Guinean government is riddled with high level political corruption, which is only fueled by poorly-distributed oil rents.

The Republic of Congo-Brazzaville's experience with oil dependence alters the discourse of the resource curse to account for a history of armed conflict. Ranking only slightly higher in the above metrics than its neighbor, Equatorial Guinea, Congo has experienced stagnant and

troubled political and economic conditions because of instability and violent conflict, not inherently because of its oil wealth.

Of the four examined case studies, only Brunei boasts indicators of a thriving economy and rising standard of living (though at the not-so-trivial cost of Bruneian political freedom). The sultanate's stable monarchical regime remains somewhat free of high-level government corruption, and the country lacks a history of violent ethnic or political conflict.

Finally, Timor-Leste is a young state teetering on the brink of turmoil, demonstrating a lack of all three of the most significant political institutions likely to be exacerbated oil dependence. Timor-Leste was born from a history marked by numerous violent conflicts, colonialization and political instability, and continued widespread corruption. Contrary to some authors, I find that the young oil-dependent democracy may in fact be able to find success in avoiding the negative consequences of oil wealth mismanagement. By following in the footsteps of its Southeast Asian neighbor, Brunei, Timor-Leste should be able to continue to enact institutions conducive to economic growth, development, and political stability.

## **Conclusion**

The development literature has long been fixated on the notion that resource abundance and dependence is intrinsically harmful for a country's growth and development. As a result, there are a number of purportedly correlative, if not causative models for the political and economic shortcomings present in otherwise low-income oil economies in the developing world. While potentially effective for establishing trends in the global economy, these theories often fail to account for idiosyncratic determinants of good and bad resource management in oil-dependent economies. It is useful to examine states using a comparative methodology, in order to begin to

understand and differentiate the political and economic determinants of oil wealth management in objectively similar countries.

I argue that the existence of stable political institutions seems to be the most important determinant in regard to a state's ability to turn oil rents into increased political and economic development outcomes. These political institutions, namely regime stability, high-level corruption, and armed conflict, all contribute to the distinctive nature of positive and negative state oil wealth management. This finding challenges a resource curse framework that is predicated on the notion that natural resources will incentivize or create bad governance, when rather it seems that resource endowments merely exacerbate existing problematic political and economic institutions.

Understanding the determinants of successful and poor resource wealth management proves increasingly necessary; despite the fact that problems pertaining to natural resource dependency have been widely discussed in development discourse, many of the most dependent states remain in political and economic turmoil, including three of my four case studies. Rather than relying on assumptive theories that attribute developmental failure to oil dependence and abundance, policymakers and theorists must continue to research and create the requisite institutions to allow for successful oil wealth redistribution and reinvestment.

### References

- Afzal, Munshi Naser Ibne, and Roger Lawrey. 2012. KBE Frameworks and Their Applicability to a Resource-based Country: The Case of Brunei Darussalam. *Asian Social Science* 8(7): 208-218.
- Alichi, Ali, and Rabah Arezki. 2012. An Alternative Explanation for the Resource Curse: The Income Effect Channel. *Applied Economics* 44: 2881-2894.
- Anaman, Kwabena A., and Tuty H. Mahmud. 2003. Determinants of Supply of Non-Oil Exports in Brunei Darussalam. *ASEAN Economic Bulletin*, 20(2): 144-157.
- Auty, Richard M. 1993. *Sustaining Development in Mineral Economies: the Resource Curse Thesis*. New York, NY: Routledge.
- Auty, Richard M. and Raymond F. Mikesell. 1998. *Sustainable Development in Mineral Economies*. New York, NY: Oxford University Press.
- Barma, Naazneen H. 2012. Petroleum, Governance, and Fragility: The Micro-Politics of Petroleum in Postconflict States. In *Beyond the Resource Curse*, ed. Brenda Shaffer and Taleh Ziyadov. Philadelphia: University of Pennsylvania Press, 330-351.
- Basedau, Matthias. 2005. Context Matters- Rethinking the Resource Curse in Sub-Saharan Africa. *DÜI Working Paper*, Institute of African Affairs.
- Basedau, Matthias, and Jann Lay. 2009. Resource Curse or Rentier Peace? The Ambiguous Effects of Oil Wealth and Oil Dependence on Violent Conflict. *The Journal of Peace Research* 46(6): 757-776.
- Besley, Timothy, and Torsten Persson. 2014. Why Do Developing Countries Tax So Little? *Journal of Economic Perspectives*, 28(4): 99-120.
- Bongaarts, John. 2009. Human Population Growth and the Demographic Transition. *Philosophical Transactions of the Royal Society*, 364: 2985-2990.
- Brunnschweiler, Christa N., and Erwin H. Bulte. 2008. The Resource Curse Revisited and Revised: A Tale of Paradoxes and Red Herrings. *Journal of Environmental Economics and Management* 55: 248-264.
- Busse, Matthias, and Steffen Gröning. 2011. The Resource Curse Revisited: Governance and Natural Resources. HWWI Research Paper no. 106.
- Carcillo, Stéphane, and Daniel Leigh, and Mauricio Villafuerte. 2007. Catch-Up Growth, Habits, Oil Depletion, and Fiscal Policy: Lessons From the Republic of Congo. *IMF Paper*, Fiscal Affairs Dept.

- Clawson, Patrick. 2012. Sometimes the Grass Is Indeed Greener: The Successful Use of Energy Revenues. In *Beyond the Resource Curse*, ed. Brenda Shaffer and Taleh Ziyadov, 58-83. Philadelphia, PA: University of Pennsylvania Press.
- Colgan, Jeff D. 2010. Oil and Revolutionary Governments: Fuel for International Conflict. *International Organization* 64: 661-694.
- Colgan, Jeff D. 2015. Oil, Domestic Conflict, and Opportunities for Democratization. *Journal of Peace Research* 52(1): 3-16.
- Collier, Paul. 2007. *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*. New York: Oxford University Press.
- Colom-Jaén, Artur, and Alicia Campos-Serrano. 2013. Oil in Chad and Equatorial Guinea: Widening the Focus of the Resource Curse. *European Journal of Development Research* 25: 584-599.
- Diamond, Larry, and Jack Mosbacher. 2013. Petroleum to the People: Africa's Coming Resource Curse- and How to Avoid It. *Foreign Affairs*. September/October 2013.
- Doraisami, Anita. 2009. Fiscal Policy Challenges in Timor-Leste: Is the Resources Curse on the Horizon? *ASEAN Economic Bulletin*, 26(2): 164-173.
- Dunning, Thad. 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*. New York: Cambridge University Press.
- Duraman, Haji Ismail, Clem Tisdell, and John Asafu-Adjaye. 1998. Achieving Sustainable Development in an Oil-Dependent Economy: The Case of Brunei Darussalam. *Asia-Pacific Development Journal*, 5(1): 103-120.
- Easterly, William. 2006. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin Books.
- El-Anshasy, Amany, and Kamiar Mohaddes, and Jeffrey B. Nugent. 2015. Oil, Volatility, and Institutions: Cross-Country Evidence from Major Oil Producers. Energy Policy Research Group Working Paper. University of Cambridge, England.
- Englebert, Pierre, and James Ron. 2004. Primary Commodities and War: Congo-Brazzaville's Ambivalent Resource Curse. *Comparative Politics* 37(1): 61-81.
- Evans, Paul. 2005. Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity. In *Remapping East Asia: The Construction of a Region*, ed. T.J. Pempel, 195-215. Ithaca, NY: Cornell University Press.
- French, Howard W. "Rebels, Backed by Angola, Take Brazzaville and Oil Port." *The New York Times*. October 16, 1997.
- Friedman, Thomas. 2009. "The First Law of Petropolitics". *Foreign Policy*, August 16.

- Frynas, Jędrzej George. 2004. The Oil Boom in Equatorial Guinea. *African Affairs* 103(415): 527-546.
- Haber, Stephen, and Victor Menaldo. 2011. Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse. *The American Political Science Review* 105(1): 1-26.
- Hammond, John L. 2011. The Resource Curse and Oil Revenues in Angola and Venezuela. *Science & Society* 75(3): 348-378.
- Harmadi, Sonny Harry B., and Rui A. Gomes. 2013. Developing Timor-Leste's Non-Oil Economy: Challenges and Prospects. *Journal of Southeast Asian Economics*, 30(3): 309-321.
- "IMF Executive Board Concludes 2010 Article IV Consultation with the Democratic Republic of Timor-Leste." *IMF Press Release*. <http://www.imf.org/external/np/sec/pn/2011/pn1131.html>
- "IMF Executive Board Concludes 2015 Article IV Consultation with Brunei Darussalam". *IMF Press Release*. <https://www.imf.org/external/np/sec/pr/2015/pr15259.htm>
- Jaffe, Amy M. 2012. Resource Nationalism and Oil Development. In *Beyond the Resource Curse*, ed. Brenda Shaffer and Taleh Ziyadov, 295-312. Philadelphia, PA: University of Pennsylvania Press.
- Jensen, Anders Ditlev. 2011. State-Building in Resource-Rich Economies. *Atlantic Economic Journal* 39(2): 171-193.
- Magnusson, Bruce A., and John F. Clark. 2005. Understanding Democratic Survival and Democratic Failure in Africa: Insights from Divergent Democratic Experiments in Benin and Congo (Brazzaville). *Comparative Studies in Society and History* 47(3): 552-582.
- Majid, Harun Abdul. 2007. *Rebellion in Brunei: The 1962 Revolt, Imperialism, Confrontation and Oil*. London: I.B. Tauris.
- McSherry, Brendan. 2006. The Political Economy of Oil in Equatorial Guinea. *African Studies Quarterly* 8(3): 23-45.
- Okruhlik, Gwenn. 1999. Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States. *Comparative Politics* 31(3): 295-213.
- Ross, Michael Lewin. 2001. Does Oil Hinder Democracy? *World Politics* 53(3): 325-361.
- Ross, Michael L. 2012. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton, NJ: Princeton University Press.
- Sachs, Jeffrey. 2005. *The End of Poverty: Economic Possibilities For Our Time*. New York: Penguin Books.
- Sachs, Jeffrey D. and Andrew M. Warner. 1995. Natural Resource Abundance and Economic Growth. *National Bureau of Economic Research*, Working Paper 5398. Cambridge, MA.

- Sachs, Jeffrey D. and Andrew M. Warner. 2001. "Natural Resources and Economic Development: The curse of natural resources." *The European Economic Review*, 45:827-838.
- Santos, Joao Dos. 2015. "Timor-Leste Manages the Shock From Falling Oil Prices". From *East Asia & Pacific on the Rise, The World Bank*. <http://blogs.worldbank.org/eastasiapacific/timor-leste-manages-shock-falling-oil-prices>
- Seymour, Lee J.M. 2000. East Timor's Resource Curse? *Far Eastern Economic Review*, 163(48): 36.
- Shaxson, Nicholas. 2005. New Approaches to Volatility: Dealing with the 'Resource Curse' in Sub-Saharan Africa. *International Affairs (Royal Institute of International Affairs 1944-)* 81(2): 311-324.
- Shaxson, Nicholas. 2007. "Oil, corruption, and the resource curse." *International Affairs* 83(6): 1123-1140.
- Smith, Benjamin, and Joseph Kraus. 2005. Democracy Despite Oil: Transition and Consolidation in Latin America and Africa. Conference Papers- *American Political Science Association*. 2005 Annual Meeting, Washington DC: 1-25.
- Smith, Michael G. with Moreen Dee. 2003. *Peacekeeping in East Timor: The Path to Independence*. London: Lynne Rienner Publishers.
- Sovacool, Benjamin K. 2010. "The political economy of oil and gas in Southeast Asia: heading towards the natural resource curse?" *The Pacific Review* 23(2): 225-259)
- Stiglitz, Joseph. 2006. *Making Globalization Work*. New York, NY: W.W. Norton & Company.
- Tisdell, Clem. 1998. Brunei's Quest for Sustainable Development: Diversification and other strategies. *Journal of the Asia Pacific Economy*, 3(3): 388-409.
- Toto Same, Achille. 2008. Mineral-rich Countries and Dutch Disease: Understanding the Macroeconomic Implications of Windfalls and the Development Prospects- the Case of Equatorial Guinea. *The World Bank*, Policy Research Working Paper Series: 4595.
- Wang, K.P. and E. Chin. 1978. "Mineral Economies and Basic Industries in Asia." *Westview Special Studies on China and East Asia and Southeast Asia*. Boulder, CO: Westview Press.