

# **THE DICHOTOMY OF OIL RICHES**

**By**

**Ms. Cauvery Ganapathy**

The existence of natural resources should normally bring a windfall of benefits to a nation. Yet, international experience testifies to the fact that conflicts originating in the context of resources are beget not only between nations, but also within them. Prevalent cleavages have for varied reasons and in varying manners, been exacerbated in several resource rich countries. The phenomena is not exclusive to the possessors of any single natural resource; yet, undeniably, oil wealth seems the most prominent harbinger of poor political and economic discipline. Nearly a third of the petroleum rich nations appear mired in poor developmental statistics. The nature of internal troubles in these countries or the trajectory of it, may vary, but all these nations unfailingly manage to evoke images of unrest. The idea here, therefore, is to consider whether it is a matter of mere chance that so many petroleum economies bear a distinctly unstable and undemocratic social and political circumstance.

First, the facts. According to the Energy Information Administration, the list of the world's top 15 oil exporters reads as follows:

1. Saudi Arabia
2. Russia
3. UAE
4. Norway

5. Iran
6. Kuwait
7. Nigeria
8. Venezuela
9. Algeria
10. Angola
11. Libya
12. Iraq
13. Mexico
14. Kazakhstan
15. Canada

In addition to the first 15, is the list of the other oil rich states - either traditionally known as bastions of petroleum production or recently identified as possessing sufficient reserves to spawn beneficiaries of oil wealth for at least the next two decades: Chad, Colombia, Sudan, Bolivia, Indonesia, Chad, Côte d'Ivoire, Namibia, São Tomé and Príncipe, Azerbaijan, Turkmenistan, Cambodia, East Timor, Myanmar, and Vietnam.

Of the nearly thirty oil rich states thus mentioned, only Norway, UAE, Kuwait and Canada qualify as countries whose social and political structures are perceived as receptive, democratic, free and peaceful. Almost all of the rest are bound within fanatical interpretations of traditional power moorings by way of - the monarchy and its manifestations in Saudi Arabia, the political and economic oligarchs of Russia, the religiously approved guardians of decision making in Iran, the former dictatorial regime in Iraq, and the present junta in Myanmar, and the politically non-accountable governments of Nigeria, Libya, Sudan and Chad are among the most well founded instances that would perpetuate the wondrously inverse relation that the spread of stability and open societies, seems to share with the possession of oil wealth.

It seems pertinent to enquire into the motive force of such chaos in oil rich states. Five strands of possibility appear -

One, several of the oil rich countries fall prey to the phenomena identified as the 'Dutch disease' - it is the tendency of an oil generating economy to rely almost entirely on that singular industry to the detriment of other industries in the country. The rise in oil prices, tends to push the domestic currency higher, inadvertently rendering the other exports of the country non-competitive in the international market. As a result, the economic concentration in the country shifts from being primarily on oil production to being almost exclusively on it. Significantly, the other domestic industries suffer, thereby challenging the employment status in the country. This again, affects the overall economic well-being of the population. The dissatisfaction among the unemployed and the inherent imbalance in an economy governed by the volatile nature of oil prices, serves as the starting point of domestic instability.

Second, the distribution of oil wealth is another instigator of internal strife. The domestic oil industries are open to private ownership. Very few like Venezuela, Iran, Canada and Kazakhstan, among others, have their petroleum resources under public ownership. Effectively, true to the nature of the free market principle, the benefits of profits accrue to only sections of the population that can afford investing in the stakes. A trickle down effect is not a given with more than a third of the oil rich states. In fact, one of the most appalling- and continuing- genocides of our times, Darfur, despite finding its theoretical classification as an ethnic conflict, traces its origin to the reality of the power circles of Khartoum being unwilling to share oil wealth with other parts of Sudan. Conflicting claims over the domestic resource base, therefore forms a crucial causative of civil strife within oil rich states.

Third, the nature of oil as the most vital resource, bestows immense powers in the hands of those that bear ownership over it. Petroleum reserves power the mobility of the world. Hence, it is the unfortunate truth of international relations that many a social, economic and political discrepancy in oil producing states has been overlooked by the international community, in the interest of not disrupting an assured flow of oil supply. There have

been blatant instances of Myanmar and Sudan benefiting from their oil supply to the People's Republic of China, wherein, the status as a Permanent Member of the UN Security Council has been employed to veto any possibility of an imposed egalitarian order in the two countries. International interdependence, on principle, mandates that the international community on the whole has a stake in the well-being of every individual country. Yet, the fact that even international will and action can be held to ransom by the owners of petroleum reserves has negated the above principle and allowed for the continuance of arbitrary and undemocratic rule in several oil producing states.

Fourth, ironically, most rebellions against the owners of oil resources within their own countries find sponsorship from oil wealth itself. Generation of funds –however illicit – in oil rich nations is too simple a task. Iraq and Nigeria have seen insurgents sell stolen oil in the black markets, while Colombia and Sudan have seen instances of oil companies working in remote areas being held to ransom. Civil strife in these countries therefore tends to be sustained by earnings from the national resource itself.

Finally, oil wealth encourages separatism. Oil and gas are usually produced in self-contained economic enclaves that yield a lot of revenue for the central government but provide few jobs for locals -- who also often bear the costs of petroleum development, such as lost property rights and environmental damage. To reverse the imbalance, some locals seek autonomy from the central government, as have the people in the petroleum-rich regions of Bolivia, Indonesia, Iran, Iraq, Nigeria, and Sudan.<sup>i</sup>

In all essence the resulting understanding of these five causes of civil strife is a dichotomy. A natural resource that brings immense earnings to countries but by its very nature wrecks --- or, in the least supports --- chaos within the domestic establishment, is a tragedy of our times. In fact, taking this inverse relation forward, Thomas Friedman expounded on a theory attempting to decode this dichotomous paradigm. The theory, called 'The First Law of Petropolitics', suggests that there is a negative correlation between the "price of oil and pace of freedom," which "always move in opposite directions in oil-rich petrolist states." For the purpose of Friedman's theoretical framework, the "pace of freedom" means the development of the elements of a

democratic government, such as free speech, free press, free and fair elections, an independent judiciary, independent political parties, and general rule of law.<sup>ii</sup>

In the ultimate analysis, this inverse relation is not perhaps a matter of unfortunate coincidence. There is something to be considered about nations which in the absence of any domestic reserves of oil have moved in the direction of renewable forms of energy, having the best records on the human development index<sup>iii</sup>. The distribution of oil wealth tends to follow a pattern that by its very structuring is not equitable, nor transparent. Weak and corrupt governance is both a pre-cursor and a veritable support system to the chaos within oil producing/exporting states. It is a mark of how deeply rooted the acceptance of the phenomena is that the Extractive Industries Transparency Initiative, an effort launched by nongovernmental organizations in 2002 encourages oil and mining companies to "publish what they pay" and governments to "disclose what they receive."<sup>iv</sup> Yet, it is an initiative that has received a very lackadaisical response. Transparency and equitable distribution of oil wealth, it appears, despite its desirability, is an exceedingly uncomfortable proposition for the resource rich parts of the world.

---

<sup>i</sup> Michael L. Ross, "Blood Barrels: Why Oil Wealth Fuels Conflict", *Foreign Affairs*, New York, Vol.81, No.3, May/June 2008, accessed electronically at <http://docs.google.com/gview?a=v&attid=0.1&thid=1209e1535e2433b6&mt=application%2Fpdf>, April 16, 2009

<sup>ii</sup> Thomas Friedman, "The First Law of Petropolitics", *Globalization 101.org*, Project of the Levin Institute, accessed electronically at <http://www.globalization101.org/index.php?file=issue&pass1=subs&id=356>, April 16, 2009

<sup>iii</sup> United Nations Human Development Report 2008, accessed electronically at <http://hdr.undp.org/en/statistics/>, April 16, 2009

<sup>iv</sup> Extractive Industries Transparency Initiative, 11 March 2009, Oslo, accessed electronically at <http://eitransparency.org/files/2009-03-11%20EITI%20Fact%20Sheet.pdf>, April 16, 2009