



Institut für Politische Wissenschaft und Soziologie
Proseminar BMIB
Neue Entwicklungen und Herausforderungen in der internationalen Politik
Dozent: Dr. Kai Hirschmann
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Are Weak States More Prone to Adverse Effects of Oil Resources?

Assessing Current and Future Impacts
of Oil on Prevailing

von
Florens Odendahl

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1 Introduction

Are oil resources a curse or a fortune for a weak state? This work tries to argue that adverse effects of oil are more eminent in weak states. In order to define what is meant by weak states, the Failed States Index (FSI) will be taken as a reference. It will be tried to build a theoretical foundation for the proposition and in addition, empirical evidence will be taken into account to support it.

A vast part of the literature, especially the economic literature, comes to the conclusion that the discovery of natural resources is not necessarily a fortune for a country but can be curse. Indeed, most countries which possess natural resources have underperformed regarding their economic growth in the last century (Sachs & Warner 1997). Based on empirical research, several authors (e.g. Fearon & Laitin 2002, Collier & Hoeffler 2002, 2004) state that the likelihood of conflicts within the country up to the incident of an actual civil war is increased by the existence of oil reserves. However, the mechanisms of the adverse effects are less clear and the question if the effects in weak states are worse, is only casually considered.

Oil demand is increasing, currently mainly driven by the Asian continent, whereas the production may have already reached its peak. According to this, the importance of oil reserves can be expected to rise and a significant amount of the proven reserves is hold by weak states.

First, a brief introduction to the topic of conflicts in which resources are embedded is given, followed by a brief overview of the global oil market. Thereafter, it is tried to derive a theoretical foundation for the proposition stated above from existing approaches that try to explain the adverse effects of oil in general. Some empirical evidence will be presented to assess the soundness of the theoretical foundation. In the last chapter, Nigeria will be considered as a brief case study and it will be tried to apply the theoretical foundation built in chapter 3 in order to explain the Nigerian development.

2 Resource Conflicts and the Development of Oil Demand

This section will briefly introduce definitions used in academic literature about resource scarcity and conflicts in which natural resources are an issue. An overview of the devel-

opment of the global oil market will be provided which will lead to the problem of oil and eventually its impact on weak states.

2.1 Defining Resource Scarcity and Conflicts

The definitions are taken from a project paper of SWP (2010) and although in this work solely oil as a natural resource is considered, definitions that can generally be applied are stated. Two factors have to apply to the resource itself for it to be a potential source of conflict. First, it has to be scarce which means it has to be demanded by some actors and must not be available free of charge. Second, in general, a resource has to be regarded as valuable on a global level to be valuable on a regional level. Scarcity can be further separated into absolute and relative scarcity. Absolute scarcity implies that the actual reserves have diminished to a critical point. Relative scarcity is induced by a lack of production capacity, an interruption of the supply chain or an artificially induced scarcity by institutions such as the Organization for Petroleum Export Countries (OPEC).

A conflict emerges, when actors have clashes of interest on a certain subject and neither side is willing to concede. However, the actual subject is not necessarily a natural resource itself, but it can be exploited for demagogic purposes. This can be done e.g. by making use of a misperception of the value of the resources by the population or a certain group, giving this very group an incentive for a conflict even though there is no reasonable economic motive. In particular, changes in the perception of the natural resource can be politicized by declaring the resource to a subject of national interest and taking it to the level of geostrategic considerations. Therefore, a distinction has to be made between conflicts that emerged due to resources and conflicts in which resources play an underpart such as being the financial lifeline or a rhetorical instrument to raise grievance and/or greed, whereas an exact classification will be rather difficult in some cases. Furthermore, the conflicts that emerge can be separated into different stages such as in a “crisis”, in which violence is rare and occurs only individualized, a “severe crisis” if violence is used repeatedly and organized and eventually “war” or in this context rather “civil war” (HIIK 2003). In this work however, rather situations with conflicts that can be identified as a severe crisis or civil wars will be considered. The term ‘weak state’ is defined such that a state is called weak state if it is within the first 35 states of the FSI 2011.

2.2 Global Oil Demand

The data used here is from the "statistical review of world energy full report" from BP p.l.c. (2011, see references for a direct link to the data) or is calculated based on the data from BP (for the calculations please see the Excel spreadsheet "Calculations Based on BP data" submitted with this work). Proven oil reserves are mainly located in a few regions. Africa holds 9.5%, the Middle East 54.4%, South and Central America 17.3%, Europe & Eurasia 10.1% and North America 5.4% of the proved oil reserves on a 2010 basis, whereas overwhelmingly 77.2% are located within members of the OPEC. Oil production in 2010 was partitioned as follows: 12.2% in Africa, 30% in the Middle East, 21.8% in Europe & Eurasia, 16.8% in North America, 10.2% in the Asia Pacific Region and 8.9% in South and Central America. The top fifteen states of the Failed States Index account for more than 7.5% (own calculation) of the worldwide oil production and hold more than 12.6% (own calculation) of the proven oil reserves. Weak states hold 20.9% of the overall proven oil reserves. The production grew about 2.2% from 2009 to 2010 whereas at the same time oil consumption grew about 3.1%, with a growth of oil consumption in China of 10.4% from 2009 to 2010 and an average growth of almost 6% (own calculation) per year in the last 20 years. From 1990 to 2010 the worldwide oil production increased by 25% (own calculation) whereas the oil consumption increased by 31% (own calculation). Today, oil consumption can be partitioned to different regions as follows: 31.5% in the Asia Pacific Region, 25.8% in North America, 22.9% in Europe & Eurasia, 8.9% in the Middle East, 7% in Central and South America and 3.9% in Africa. Growth in oil consumption was mainly driven by the Asia Pacific region, which accounts for around 64% (own calculation) of the overall growth in consumption from 1990 to 2010. Considering China alone reveals that its oil consumption increased by 250% (own calculation) in the last twenty years.

As it can be seen from the data, consumption increases faster than production and a considerable large share of the overall reserves is located in countries whose conditions are critical according to the FSI. Predictions about future developments suggest that a decline in oil demand is not likely. If the demand continues to increase while the peak of oil production has been reached, it is not unlikely that struggle for oil will intensify not only between countries and companies, but also within countries. A not negligible

amount of oil is possessed by weak states which makes it necessary to evaluate its impact on those states. The next chapter gives a brief overview of aspects that have to be taken into account if it is tried to assess the effects oil will have on weak states.

3 Theoretical Foundation and Empirical Evidence

Oil resources have an impact on the economy as well as on the political environment of a country. In this chapter, it will be argued that the implications are more intensive and of a broader scope if the country can be classified as a state with a certain rank in the *Failed State Index*. Furthermore, it will be shown that the effects on the economy and politics can lead to a conservation of prevailing structures, impeding development towards democracy and civil peace.

3.1 Oil and its Implications for the Economy

The discovery of oil will generate a remarkable amount of revenue to its owner, in almost all cases the government, and it leads to the attention of oil dependent countries. Oil production is highly capital intensive and requires rather high skilled workers such as engineers and hence its positive effect on the labor market might be limited. Besides the positive effects on treasury, there will be negative implications for the economy, which will be outlined in this chapter. The focus will be on three issues noted in Sala-i-Martin & Subramanian (2003). It will be argued that the *degree* to which these issues actually affect the economy depends highly on the country itself. The three issues that will be considered are the *Dutch Disease*, *Rent Seeking* and the *Volatility Effect*, which can be described as follows:

Dutch Disease: A well known problem that tends to occur when natural resources are discovered, especially oil and gas, is called *Dutch Disease*. The mechanism works as follows: the discovery of oil leads to a shock in the exchange rate. The increase in exports leads to an appreciation of the exchange rate which increases the price for goods from this country for other countries and decreases the price for imported goods. Hence, it gets more difficult for domestic manufacturers to sell their goods on the world market and furthermore imported goods become cheaper and thus put pressure on domestic man-

ufacturers. This leads to a decline of the industries that produce tradable goods and to an increase in ‘non-tradable products’ industries. This can, in the worst case, lead to a decline of the overall output. Anyway, even if the decline in production in non-oil producing industries can be compensated by the oil producing industry, a higher unemployment rate will follow as oil production is above-average capital intensive. The scenario described above took place in the Netherlands after the discovery of a natural gas field in 1959 and was described in *The Economist* in November 1977.

Rent Seeking: *Rent Seeking* is as well a concept from economics, defined by Anne O. Krüger in 1974, describing the effort of different actors to get a fraction of a desirable existing asset instead of making an effort to actually create another asset, or in other words, to undertake investments. Supposable actors are influential individuals or social groups, such as ethnical groups, political parties, the military or other public or private syndicates. In this context, *Rent Seeking* means that several actors spend their effort in order to take possession of the revenues generated by the oil instead of investing it in projects which would lead to actual economic growth. Thus, investment opportunities are left unregarded which leads to a lower growth rate than actual achievable. The actors are doing so because the private costs in ignoring the investment possibilities are lower than the social costs (Krüger 1974). Indeed, the discovery of oil promises high rents which increases the incentives for capturing the state as emphasized by Fearon & Laitin (2003). Furthermore, besides an intensive conflict between the rent seeking groups, corruption might increase which would lead to a less reliable bureaucratic system.

Volatility Effect: As stated in the paper “The Volatility Effect” (Ramey & Ramey 1995), a negative relationship between the magnitude of economic fluctuations and long-run growth is suggested, contradictory to the long time prevailing separation of Business-cycle theory and long-run growth models. The findings of the particular paper are, that a higher volatility is correlated with a lower mean growth of the Gross Domestic Product (GDP). Ramey & Ramey propose as a possible explanation that the firms have higher uncertainty-induced planning errors (Ramey & Ramey 1995, 1148). Despite the existence of the OPEC which tries to gain some control over the global oil market, the oil price is a volatile asset and the influence of one country on its development is very limited. A country which somehow relies on revenues from oil production is therefore at the mercy

of the development of the global oil demand and hence the world economy. If a significant share of the GDP is generated by oil production and oil exportation, the amplitude of the economic fluctuations of the country can be expected to be larger. Economic growth can therefore be slowed down by oil production and the corresponding fluctuations of oil related revenues.

Regarding these issues some factors can be identified that are important for the determination of the effect that oil production will have on the countries economy. Considering the *Dutch Disease*, the current state of the economy and the governments capacity to act is crucial to assess the impact. For example, is the government able to use the petroleum related revenue to establish non-tradable industries, to influence the exchange rate or to boost the competitiveness of manufacturing industries which are subject to pressure due to the exchange rate appreciation? Furthermore, is the economy sound in general, such that worse terms of trade can be absorbed by the companies? In addition, the current stage of development is crucial as it is widely assumed that most of the former underdeveloped countries which experienced remarkable growth in the last decades partly did so because of their possibility of cheap manufacturing for the world market. According to this, growth opportunities for countries with a low stage of development are narrowed by an overvalued currency. Considering *Rent Seeking*, the reliability of institutions and the transparency of the governmental work is crucial, since pressure groups will try to manipulate or even to become themselves the policy makers. Furthermore, it has to be considered to what extent elites and pressures groups exist. The *Volatility Effect*, can also be related to the stage of development of the economy, since at least the volatility of the economy is expected to be higher the more the economy depends on oil. Summarizing, it can be suggested that the impact of the three issues outlined above on the economy partly depends on the stage of the development of the economy and its soundness in general, the share of the oil revenues of the overall national product, the influence that single elites or groups can carry out and the transparency and reliability of institutions and the political system as a whole.

Now considering the twelve indicators used in the FSI, at least five can be identified to coincide directly with the factors noted above. The indicators are *Uneven Economic Development*, *Poverty and Sharp Economic Decline*, *Legitimacy of the State*, *Progressive*

Deterioration of Public Services and Rise of Fractionalized Elites. A country gets a high score in the economic indicators if there is “(...)a pattern of progressive economic decline of the society as a whole as measured by per capita income, GNP (...)” (FFP 2011), an “(...) increase in levels of corruption and illicit transactions among the general populace” or a “group-based inequality, or perceived inequality, in education and economic status” (FFP 2011). In other words, a country gets a high score in these indicators if the economy is unsound in general, if corruption is prevailing and if a great share of the wealth is distributed to a few powerful elites. The political and military related indicators are scored high, if there is a “(...) massive and endemic corruption or profiteering by ruling elites” (FFP 2011), a “state apparatus that narrows to those agencies that serve the ruling elites (...)” (FFP 2011), thus a lack of institutions or “fragmentation of ruling elites and state institutions along ethnic, class, clan, racial or religious lines” (FFP 2011). In other words, a general lack of institutions, transparency and a struggle of different groups for the rent is typically prevailing.

Comparing this indicators for failed states with the factors revealed above, the effects of the discovery of oil resources on the economy in a country with a high score in the FSI can be expected to be disproportionately high in a negative sense. *Rent Seeking* is highly attractive due to the lack of transparency and governmental institutions. In addition, as the elites struggle for their part of the rent and because of the general lack of accountability, investments to boost the already weak economy will be rare, which facilitates the occurrence of a *Dutch Disease* and impedes the development of domestic industries. Following this, the economy will depend on oil production and the price of oil on the world market, making it vulnerable to the *Volatility Effect*.

However, not only a short term negative influence can be expected. The oil revenues enable the ruling elites to maintain their status and hence the economic structures of the country will be preserved. Since economic development is impeded and “the rulers have less need of a socially intrusive and elaborate bureaucratic system to raise revenues” (Fearon & Laitin 2002, 25) remaining in power is an easy task for the ruling elites. Thus, these two instances are mutually dependent, leading to a vicious circle. The ruling class will remain in power as long as the imbalance in power exist. The imbalance in power is due to lack of a sound economy and institutions and the distribution of the oil revenues

to the few elites. However, as long as a corrupt government embezzles the money from the oil, no investments will be undertaken to boost the economy, which preserves the imbalance of power within the country.

3.2 Oil and Its Implications for Politics and Civil Peace

In this subsection the effects of oil on the political development within the country and the impacts of pressure and attention from the outside are considered. It will be seen that the oil's scarcity and its importance for the industries in the developed world has implications with respect to the treatment of the state and its rulers. For the development within the country, two approaches, which provide some explanatory power why natural resource abundance can be a destabilizing factor for a state, are presented. We will see that both theories would suggest a worse outcome if applied to "weak" states or states with a high score in the failed state index respectively. Furthermore, it will be argued that the preservation of political structures and unsolved civil conflicts will be facilitated. For a more detailed and comprehensive depiction of mechanisms that might explain the correlation between civil conflicts and natural resources see Humphreys (2005). The two mechanisms considered here will be named the "separatist incentive mechanism" and the "opportunity mechanism" and can be described as follows:

Separatist Incentive Mechanism: This approach argues in a way that natural resources are usually geographically concentrated (Collier & Hoeffler 2002, 8). This encourages the inhabitants to seek for secession from the part of the country that does not possess any natural resources. A secession is simply perceived as being economically advantageous (Collier & Hoeffler 2002, 3). As identified by Collier & Hoeffler (2002), natural resources are especially potent to lead to the perception that a secession is profitable due to several factors. The value of the commodities depends on the world market and is thus subject to a high volatility. This might lead to an overvaluation of the reserves due to a misperception of the value caused by a short run uptrend (Collier & Hoeffler 2004)¹. Furthermore, the discovery might be perceived "(...) as winning a lottery (...)" (Collier & Hoeffler 2002, 5). Limited effort has to be made to generate remarkable revenues without depending on industries in other parts of the country. In Collier & Hoeffler (2002) the authors mention

¹The authors note this in a slightly different context, though their idea is applicable in this case as well.

an example for the impact of a change in the world market price in oil to the perception of the indigenous population. Oil was discovered in the North Sea in 1966, especially at the coast of Scotland, whereupon the British government decided to raise taxes on oil revenue. Due to the Yom Kippur war in 1973, which led to a significant increase of the oil price², the Scottish National Party experienced a boost in votes and ran a campaign that “(...) if Scotland were independent, the tax revenues would accrue to the five million people of Scotland rather than to 50 million of Britain” (Collier & Hoeffler 2002, 7). Further, they find empirical evidence that the risk of secessionist civil war is particularly eminent if there is both, a considerable extent of natural resources and a low level of education (Collier & Hoeffler 2002, 15). Additionally, as argued later, it provides evidence for the suggestion that oil is particularly devastating for the civil peace in weak states.

Opportunity Mechanism: Collier & Hoeffler (2004) argue that sometimes rather greed than grievance is the motive for civil wars. They motivate this suggestion by alleging that rebel groups are often more than compensated for their costs (Collier & Hoeffler 2004, 563). When oil is discovered certain groups may consider this as an opportunity for making profits and therefore rebellions can be seen “as an industry that generates profits from looting so that the insurgents are indistinguishable from bandits or pirates” (Collier & Hoeffler 2004, 564). As particularly pointed out by Collier, “economists who have studied rebellions tend to think of them not as the ultimate protest movements, but as the ultimate manifestation of organized crime” (Collier 2006, 2). Empirical evidence is provided that raw natural resource exports, such as crude oil, substantially increase the risk of a conflict within a country (Collier & Hoeffler 2004) and they explain this tendency partly by the greed motivated emergence of rebel groups.

Again, the criteria of the FSI can be applied to analyze whether the impacts of oil on the political environment are expected to be more intensive in failed states. As outlined above, the combination of natural resource abundance and a low level of education increases the risk of secessionist civil wars. The FSI criterion of an uneven economic development considers the availability of education for the population, where a high score in this criterion indicates that access to education is limited at least to some groups. Therefore, states with a high score for “Uneven Economic Development” can be expected to

²The oil price increased by almost 250 % from 1973 to 1974 (BP p.l.c. 2011).

be at a higher risk of a secessionist civil war due to the simultaneous occurrence of a low education and oil abundance. Furthermore, failed states typically have a low per capita income and growth rate. A low level of per capita income indicates that at least a part of the population does not possess any valuable assets which are endangered by participating in illegal activities, putting the favor to rebellion and looting in a cost-benefit analysis. Following this arguments, civil unrest might emerge or sharpen due to natural resource abundance. Moreover, the revenues generated by the oil resources can make a contribution to the funding of rebel groups or separatist movements which might contribute to keep prevailing conflicts alive. This might lead to another vicious cycle as militant groups are kept alive by oil revenues and at the same time rebellion is profitable as long as revenues are generated by oil.

3.3 International Relations of Oil Abundant States

The estimated peak of oil production has been reached, whereas the demand increases every year and is not expected to fall unless a serious substitute for oil is invented. Following the basic economic principle that an increase in demand and a decrease in supply will result in higher prices, the value of oil is determined to go up. Setting aside the effects that an increase in value might intensify the adverse effects within a country, states with oil resources will gain more attention. The increased value of the oil might be a fortune for a stable democratic state; however, it can be a curse for a misruled weak state which can be motivated as follows: The western world and China as well as the emerging countries in Asia and South America can be expected to court the respective countries to gain access to their natural resources. In fact, it is alleged that China already started to do so in Africa (Hanson 2008). In 2008, one third of Chinas imported oil came from Africa, where 85% of the overall exports from Africa to China came from five oil rich countries (Hanson 2008).³ Chinas interest lies in a short-term coverage of their increasing oil demand to ensure growth and a better long-term position on the international oil market (Taylor 2006). To achieve this objective, China courts the countries with aid, diplomacy and trade deals and obtains access to its natural resources in return (Hanson 2008). African states prefer the Chinese investments because China imposes no conditions such as good governance,

³Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan.

or the adherence to human rights on their capital spending (Taylor 2006, Braeutigam 2010, Hanson 2008), quoting He Wenping, director of the African Studies Section at the Chinese Academy of Social Sciences in Beijing “We [China] do not believe that human rights should stand above sovereignty ... We have a different view on this, and African countries share our view” (Mooney 2005). If other states than China want to counteract the increase of Chinese influence in Africa, they will have to reduce the political conditions imposed on investments and will use the Chinese attitude for a justification. By doing so, misrules and authoritarian regimes in oil rich countries will get access to an additional financial lifeline besides the revenues of the oil itself. The international pressure on regimes can be expected to decline and improving the behavior of autocratic governments towards the population with the help of international isolation will be annulled. Foreign states will not frivolous resign from the opportunity of getting access to oil. This situation can be in particular described by game theory, considering a game in which the states have the choices between imposing political conditions and imposing no conditions on their investment, denoted by $i + c$ and i respectively. The game can be depicted in a (2 x 2) matrix as follows:

A \ B	$i + c$	i
$i + c$	(2,2)	(0,3)
i	(3,0)	(1,1)

where A and B are single states, the values in parentheses are the outcomes for A and B after their decision and the order of preferences is $2 > 1 > 0$.⁴ It can be seen that the answer i is the dominant strategy and thus the outcome of the game will be that both states chose i which is “investment without conditions” although they would be better off if both played $i + c$. Both playing $i + c$ means only investment attached with strings are offered, implying that A and B have to share the oil resources.⁵ However, a deviation from $i + c$ is profitable for A or B because if there is one state which offers financial support without conditions, it will be picked as the only co-operation partner of the oil rich country. Thus, i is the best answer regardless to the choice of the other player. Additionally, it is assumed that sharing the resources while imposing terms, e.g. on human right issues, is preferred

⁴In this example, the game is limited to the interaction of two states for simplicity. Results will not be changed if the game is expanded to allow for a high number of states.

⁵Suggesting that the oil rich country C is *a priori* indifferent between A and B.

to sharing resources without such conditions, e.g. because the conscience of A's and B's population is salved. Now playing the game more than once could lead to the favorable outcome $(i + c, i + c)$, however such an equilibrium would be very fragile if a realistic number of actors were taken into account. Anyway, this small model is hardly capable to account for the manifold factors that are important in reality, though it is a helpful depiction of the dilemma states might have to face in the future.

3.4 Some Conclusive Remarks

As outlined in this chapter, from a theoretical point of view, weak states have the potential to be more prone to the adverse effects of oil resources. Some empirical evidence is provided by Humphreys (2005) who finds evidence for the correlation of particular eminent adverse effects and weak states. Although oil production and state strength are highly significant for the onset of civil war, the interaction term which measures the combined effect of oil production and state strength is only significant at the 10% level. In addition, it is only significant if oil production and not oil reserves are used for the regression. Nonetheless, this evidence favors the suggestions of more eminent negative effects of oil production in weak states. All in all, it has to be noted that empirical evidence on this issue is far from being definite and that Humphreys (2005) results question particularly the opportunity theory in general.

4 Case Study of Nigeria

In Nigeria, oil was discovered in June 1956 (Walker 2009). In 1960 Nigeria gained its independence from the United Kingdom. From its independence on until the end of the 90s, Nigeria was almost end-to-end reigned by authoritarian regimes, suffered from a secessionist war from 1967 to 1970 and several military coups took place. Additionally, corruption and embezzlement were omnipresent.

This analysis will start with the secessionist war, also called the Biafra War, in 1967. Although the reason for the war were ethnic tensions within the country, another factor should be taken into consideration. The overwhelmingly part of the Nigerian oil is located in the region that seceded in 1967 which rises the question whether and/or to what

extent economic aspects have played a role in the decision for a secession. Whether these economic concerns were taken into account when the Republic of Biafra declared its independence is a question which can not be answered in this work, though it is worth to be noted. Subsequently to the war a period of tremendous economic growth followed from 1970 to 1978 in which the purchasing power parity converted GNP per capita increased about 135% (Heston, Summers, Aten 2011) and oil production more than doubled from 1970 to 1978 (BP p.l.c. 2011). Thereafter, the GNP per capita rather decreased than increased until 2000. In addition, oil production decreased after 1978 and started to recover in the end of the 80s and the beginning of the 90s (BP p.l.c. 2011). Although the oil production decreased, the oil revenue per capita increased from 33\$ in 1965 to 365\$ in 2000, whereas the GDP per capita decreased at the same time (Sala-i-Martin, Xavier & Subramanian, Arvind 2003). During the same period, several military coups took place and except for the corrupt “democratic” government from 1978 to 1983 (U.S. Department of State 2011), Nigeria was reigned by military regimes. The decline in the GNP per capita as well as the fact that more than one military coup were executed are strong indicators for *Rent Seeking*. When the military was in power, the general economic development came second as long as the ruling elites were well off. In addition, the oil revenues were a financial lifeline for the military as other parts of the economy did not evolve. It was estimated by the Nigerian anti-corruption agency that in 2003 in Nigeria under a democratic government, still some 70% of oil revenues were stolen or wasted (Hanson 2007), where it is highly doubtful that this number was lower during the autocratic regimes. In 2002 oil exports still accounted for about 83% of government revenues (U.S. Department of State 2011) and Nigeria’s economy is still highly dependent on oil. It has for the most part failed to develop oil-independent industries. Its highly overvalued currency, the Naira, led to, besides other causes, cheap imports which left the utilized domestic industrial capacity pushed down to 33% (U.S. Department of State 2011). This indicates that the Nigerian economy is suffering from a *Dutch Disease*. Moreover, from 2000 on, several armed groups emerged in the Niger Delta, holding hostages for ransom, stealing oil reserves or tapping pipelines. It is proven that the environment in the Niger Delta region was subject to pollution to a severe extent which destroyed the livelihood of a big part of the indigenous population (e.g. Manby 1999). However, the *Opportunity Mech-*

anism might play a role here. For example, the Movement for the Emancipation of the Niger Delta (MEND) tried to distance itself from being criminal and stated that they are taking hostages to gain international attention in order to make the public aware of their grievance. At the same time MEND lacked a clear specified political mission in 2007 (Hanson 2007) and was suggested to be involved in taking ransom from hostages through organizations linked to them. In addition, oil companies have paid companies owned by militant leaders for providing security to oil fields (Hanson 2007) and as stated in Hanson (2007), MEND did not suffer from a lack of money. Even though a sound statement about the intentions of MEND is hardly possible based on the article of Hanson (2007) and the grievance of the indigenous population in the Niger Delta is hardly to negate, the behavior of MEND fits to the *Opportunity Mechanism*. Concluding it can be stated that the lack of structures such as institutions and the uneven economic development seem to have facilitated the conflicts in Nigeria. If this is true, what can be done about it?

Sala-i-Martin & Subramanian (2003) argue that Nigeria rather suffers from corruption and the waste of the oil revenues than from a *Dutch Disease*. They suggest that the situation in Nigeria can be improved by distributing the oil revenues directly to the population and propose that it should be incorporated into the constitution. Every Nigerian citizen shall therefore get a direct share of the revenues generated by the oil. The authors note that they are aware of the difficulties to implement this, however they also note that even though the implementation might be defective, e.g. in respect to avoid corruption in connection with the distribution, it will still improve the situation. The money “donated” to the general population could be an catalyst for several changes in the political and economic environment. First, the incentive to join a militant group will be reduced, as the general situation of the population will improve. Second, the domestic demand will be increased which might spur economic growth. Third, the governmental work might be improved due to two reasons. The government income will be lower, leaving a smaller rent to seek for which could reduce corruption within the government. In addition, as the value of capturing the state will be lessened, the incentives of the future leaders might be to actually spur the development of the country instead of just taking the rent. Whether this idealistic assumption is proved to be right or proved to be naive has to be seen in the future.

Crucial for the succession of all this is an independent institution which has to be created to distribute the revenues generated by oil. As already outlined and as stressed by Sala-i-Martin & Subramanian (2003) in their conclusion, oil “(...) certainly has a seriously detrimental impact on the quality of domestic institutions(...)” (Sala-i-Martin & Subramanian 2003, 23), which puts the likelihood that such an institution will be created to question. Furthermore, this approach might be an option to states with a co-operative government, though autocratic rulers will most probably not agree to the idea. How autocratic governments are supposed to be pushed to such a reform remains an unanswered though crucial question.

5 Conclusion

It has been shown that the adverse effects of the discovery of oil on a weak state are, from a theoretical point of view, definitely particular eminent. The negative effects can manifest themselves through different ways. The economy can suffer from an overvalued currency and the dependency on the oil price which leads to a higher volatility of economic cycles. In addition, rent seeking, corruption and the independency of the ruling caste from the general economic development leads to embezzlement and misallocation of capital. Secessionist tendencies can evolve with the result of a civil war. Further, militant groups can arise which see a profitable opportunity in looting some of the revenues generated by the oil. All this can be expected to be more eminent in weak states as the theoretical foundation indicates. Some empirical evidence can be found in Humphreys (2005), however the evidence is far from being unambiguous. If one is thinking outside the box, further evidence in favor of the proposition of this work is provided by the indicators used in the FSI. Since the factors that are identified to be important for the adverse effect to take place are particularly prevailing in failed states by definition, it can be expected that either more of the adverse effects occur or that they occur more intensive.

Following the expectations of a disproportional development of oil demand and oil production, the struggle for oil might intensify. States could face a dilemma, as depicted in the game theory model. If they compete with other states for oil reserves they will have to restrain their idealistic investment creed in order to get access to crude oil. However,

not only will the struggle intensify on an international scale but within the country. Due to the increased scarcity, the oils value will rise, making it more attractive for all kind of actors. Due to this outlook, new questions arise: Will the international community be able to circumvent the investment dilemma? How can intensified struggle for resources between groups within a weak state be faced? How is it possible to reverse the impact of oil on weak states in order to improve the situation within the country? These are some of the questions which remain unanswered here, but have to be inquired elsewhere.

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