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The Political Economy of Oil in Equatorial Guinea

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Abstract: This paper analyzes the political economy of oil in Equatorial Guinea, one of Africa's newest and most important oil producers. It begins with a brief history of the country and its recent experience with oil-led development. The paper then moves on to integrate the experience of Equatorial Guinea into the literature linking natural resource abundance to poor development performance, authoritarianism, and civil conflict, respectively. The paper concludes by arguing that oil has exacerbated already present pathologies in Equatorial Guinea's political economy, paving the way for future problems of underdevelopment, instability and authoritarian rule, problems that could all be alleviated to some degree by changes in U.S. foreign policy towards the region.

INTRODUCTION

In March of 2004 the government of Equatorial Guinea arrested nineteen soldiers accused of plotting a coup in this tiny, oil rich African country. Meanwhile, the Zimbabwean government arrested another seventy soldiers supposedly en route from South Africa to support the coup. Led by South African mercenary Mark du Toit and financed by, among others, Sir Mark Thatcher, the coup plotters hoped to replace President Obiang Nguema with the long-exiled opposition leader Severo Moto.[1]

This dramatic turn of events highlights the renewed interest in this former Spanish colony in west Central Africa. The recent discovery of massive oil reserves just off the country's Atlantic shores has already made Equatorial Guinea Africa's third largest producer of oil, with an estimated 181,400 barrels producing each day.[2] Foreign investment has flown in from around the globe, especially from the U.S. Economic growth has been the fastest in the world and the IMF predicts a staggering 45.1 percent rate of growth for 2005.[3] This rapid growth, coupled with the country's miniscule population of less than 500,000, has brought GDP per capita estimates (PPP) to an astounding $50,240, the second highest in the world after Luxembourg.[4] Equatorial Guinea's oil wealth could transform the country from an impoverished backwater into an economic powerhouse. Yet few benefits have accrued to the masses -- rampant poverty, disease, and inequality persist.[5] Life expectancy has stagnated at a dismal 49 years while unemployment

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exceeds thirty percent.[6] Oil rents have consolidated President Nguema's brutal, authoritarian regime and helped further criminalize one of the world's most criminal states. Growing ethnic and regional tensions, the recent coup plot, and an earlier such attempt in 2003 point to rising political instability in the years to come.[7]

This combination of poor development performance, entrenched authoritarianism, and political instability mirror the experiences of other natural resource abundant countries throughout the world. The so-called "resource curse" has thwarted the hopes of many poor, primary commodity exporters and spawned an extensive academic literature intent on explaining this seemingly paradoxical outcome. This diverse literature can help explain Equatorial Guinea's current plight and shed light on what lies ahead -- further underdevelopment, few opportunities for democratization, increased political instability, and violence. As the best work from the resource curse literature acknowledges, however, the political economy of oil in Equatorial Guinea will follow its own, often idiosyncratic, path. Equatorial Guinea's tiny size, the extraordinary pervasiveness of criminality at high levels of government, the unique nature of its regional and ethnic cleavages, its history of extreme personal rule, its strategic importance to the United States, and the offshore nature of its oil reserves will condition the country's experience of the resource curse in important ways. Ultimately, Equatorial Guinea's predicament lends further credence to the central arguments of the resource curse literature and offers an extreme example of the pitfalls associated with resource-led development in very weak states.

This paper analyzes the political economy of oil in Equatorial Guinea with special attention to the academic literature on the resource curse. It begins with a brief history of the country and its recent experience with oil-led development. The paper then moves on to integrate the experience of Equatorial Guinea into the literature linking natural resource abundance to poor development performance, authoritarianism, and civil conflict. The paper concludes by arguing that oil has exacerbated already present pathologies in Equatorial Guinea's political economy, paving the way for a future of underdevelopment, instability and authoritarian rule, problems that could all be alleviated to some degree by changes in U.S. foreign policy towards the region.

EQUATORIAL GUINEA: FROM TROPICAL BACKWATER TO AFRICA'S KUWAIT

Equatorial Guinea remained until quite recently one of Africa's backwaters. Rio Muni, a small sliver of the African mainland between Congo-Brazzaville and Gabon, and Bioko Island make up this tiny country of less than half a million residents. Under Spanish colonization cocoa exports dominated the economy and foreigners, mostly Spanish and Nigerian, controlled the small service sector. The vast majority of Equato-Guineans remained subsistence farmers with little or no integration into the market economy. Limited health and education services and almost no infrastructural development outside the main towns left the colony in a state of gross underdevelopment. Colonialism, therefore, created neither a unified national market, nor effective state institutions and left the masses egregiously impoverished.[8]

Unfortunately, independence heralded an even worse period marked by economic decay and brutal dictatorship. Macias Nguema, the country's first president, came to power in 1968 through relatively democratic means. He then installed one of post-colonial Africa's most oppressive regimes, rivaled only by Idi Amin in Uganda. Nguema's rule combined the worst characteristics of the Latin American *caudillo* and the African "Big Man," centralizing power and cultivating a menacing cult of personality.[9] He executed a classic purge of the opposition, especially targeting

traditional leaders and intellectuals. His reign of terror killed or forced into exile between a third and a half of the country's population. The purge also drove the country into economic free-fall: the expulsion of Nigerian and Spanish expatriates triggered a ninety-percent drop in GDP as the cocoa industry virtually disintegrated.[10]

Nguema filled most government posts with members of his family and his Esangui clan, a subset of the Fang people who dominate mainland Rio Muni. He discriminated openly against the Bubi people, the dominant ethnicity on Bioko and killed almost all of Bioko's Bubi politicians.[11] This widespread brutality and favoritism bred ethnic tensions between the Fang and Bubi, who together make up ninety-percent of the country's population, and also fostered divisions between the various Fang clans. Because the Fang dominate the mainland and the Bubi the island, these tensions took on a decidedly regional component.[12]

Eventually, Nguema began murdering increasing numbers of his own clan and family, alienating even his closest supporters. Teodoro Obiang Nguema, Macias' nephew, initiated a violent and successful coup in 1979 and came to power under the title "liberator." His regime ended the reign of terror but continued the police state and dictatorial apparatus installed by Macias. Obiang remains in power to this day, his ruling Esangui clan retaining almost complete control of the country. Human rights groups routinely describe him as one of the world's worst dictators, pointing to gross human rights abuses and tight restrictions on civil and political freedoms.[13]

Under Obiang, Equatorial Guinea became a classic criminal state, with many top-level institutions involved in various illicit behaviors. Bayart, Ellis and Hibou, in their seminal work on the criminalization of the African state, list Equatorial Guinea as one of only three African countries already worthy of the moniker 'criminal state' in that the apparatus of rule had become intimately intertwined with wide-scale criminal activity.[14] Robert Klitgaard's *Tropical Gangsters* describes his years working there for the World Bank. It depicts an amazingly impoverished people led by corrupt and ultimately inept gangsters engaged in massive criminal activity and human rights abuses.[15] Criminal industries already known to flourish in Equatorial Guinea include toxic waste dumping, drug trafficking, pirate fishing, arms and aircraft smuggling, and forced labor of children.[16]

By the mid-1990s Equatorial Guinea had become a quintessential criminal state, retaining its autocratic political system, witnessing ethnic and regional tensions, and continuing to suffer from extreme under-development and human rights violations. Great hopes for a change came in 1995 when Mobil struck offshore oil at its Zafiro prospecting site. Since then, oil has been found in many other sites off the coasts of both Bioko and Rio Muni, making Equatorial Guinea Africa's most important new oil producer. Economic growth has averaged around 41 percent per-annum, and a building boom has gripped the capital of Malabo and the oil towns of Luba on Bioko and Bata on the mainland. Energy companies have invested billions of dollars in the country over the past decade, and the weekly "Houston Express" flies directly from Malabo to Texas.[17] The benefits of development remain concentrated in the hands of a very small elite, however, with very few trickle-down effects for the masses. The oil industry only employs approximately 10,000 people, mostly expatriates or migrants from the U.S., Nigeria, the Philippines, and Cameroon. Furthermore, few oil rents have been invested in programs to improve the quality of life for the people, with spending on health services averaging a mere 1.23 percent of GDP.[18] Clearly, the boom has done little to improve life for the majority of Equato-Guineans.

While of limited importance to most of the country's people, oil has certainly brought

massive wealth to Obiang's ruling clique. Misallocation of oil rents for lavish personal expenditures have grown to ridiculous proportions. Obiang just bought a multimillion dollar mansion outside Washington D.C. His son Teodorin has become a regular in Manhattan, Hollywood and Paris, where he is famous for driving his many fancy cars up and down the Champs-Elysses. He has even begun his own Los Angeles-based music company. A recent corruption scandal involving Washington D.C.'s Riggs Bank implicated the bank and Obiang for illegally siphoning off millions of dollars from Equatorial Guinea's treasury into personal accounts. Furthermore, most of the money Obiang spends inside the country goes to seemingly misguided huge projects, such as building a new capital, Malabo 2, rather than for roads between villages, new schools, or new hospitals.[19]

Despite Obiang's obviously unpalatable record on human rights, corruption and criminality, the U.S. government has worked assiduously to improve relations with Equatorial Guinea. In its efforts to reduce dependence on Mid-East oil, the U.S. has invested heavily in West Africa. Equatorial Guinea provides a particularly attractive investment for American (and other) companies because its leaders have been willing to grant far more lucrative offers than have other African leaders. According to a 1999 IMF report, for instance, oil companies received by far the most generous tax and profit sharing packages in the region.[20] President Bush has reopened the U.S. Embassy in Malabo, in spite of protests from human rights groups, and has met with President Obiang personally to discuss oil security in the region, indicating how important the region has become to U.S. foreign policy. The U.S. has thus far eschewed attempts to promote either democracy or a more equitable distribution of income in its dealings with Equatorial Guinea. The recent coup attempts have only strengthened the resolve of the U.S. to support the regime, as future instability in the region could radically impact oil production. A nationalist expulsion of foreign workers, in particular, could prove catastrophic to the oil interests of the U.S. and others. The U.S. should, however, change its policy in this regard and promote democratization and more equitable economic development in the country.[21]

Equatorial Guinea's future experience depends to a great degree on the role of exogenous factors, such as U.S. support, foreign-born coup attempts, and the extent of future oil discoveries. Moreover, its unique history will condition the effects of oil on the economy, polity and society in powerful ways. Nevertheless, the broad similarities among resource exporters demand a thorough, comparative analysis of the political economy of natural resources.

NATURAL RESOURCE WEALTH AND POOR ECONOMIC DEVELOPMENT

Economic Approaches

The oldest branch of the resource curse literature focuses on the tendency of natural resource abundant countries to suffer from low economic growth and disappointing development outcomes. Latin American economists Hans Singer and Raul Prebisch were two of the first scholars to address the issue. They argued that primary commodity exporters suffer declining terms of trade over the long run. Prices for commodity exports on the world market will, they claimed, fall relative to prices for manufactured goods, leaving commodity exporters with balance of payment problems and slow economic growth.[22] Evidence to support their claim has proven mixed, with some studies showing declines and others showing steadier terms of trade. Cuddington and Wei, for instance, found no support for the Prebisch-Singer hypothesis in a

statistical analysis.[23] Sapsford and Balasubramanyan, on the other hand, found evidence to support Prebisch and Singer.[24] Since the 1980s, however, terms of trade have declined worldwide for primary commodities and greater consensus has arisen that, at least for this time period, declining terms of trade have presented a problem for many countries.[25] While declining terms of trade have not yet affected Equatorial Guinea's oil industry, the economy is becoming centered around oil production to such a degree that future declines in the terms of trade would prove devastating to the Equato-Guinean economy.

Economists have argued that natural resource wealth may have other negative affects on economies. Some have suspected that rapid fluctuations in commodity markets might make commodity-dependent economies especially prone to boom and bust cycles and discourage private investment.[26] In volatile markets, such as oil, this may prove especially problematic. We will have to wait for the next fluctuation in oil prices, however, to see if this will affect Equatorial Guinea in any meaningful way, but every indication suggests that a dramatic reduction in oil prices would devastate the country's economy, as ninety percent of all exports come from oil.[27] The very volatile nature of oil markets since 1971 suggests that future fluctuations are likely and that they may prove dangerous for Equatorial Guinea in the future unless the country's leaders can adopt effective policies to counter these effects,

Another aspect of resource-led development that has received scholarly attention addresses the minimal linkages between the booming sector and the rest of the economy.[28] So far this problem has bedeviled Equatorial Guinea greatly. Since most of the inputs needed for the oil industry come from abroad, indigenous industry has not benefited from the boom, and even the service industry relies mostly on imports. The oil industry in Equatorial Guinea remains, essentially, an enclave with little impact on the rest of the economy. If enclave economies properly invest their resource rents in other parts of the economy as well as in infrastructure and human development, however, they can create growth in other sectors or, improve the quality of health and education services. Theoretically, Equatorial Guinea's enormous per-capita oil revenues should make either of these options far easier than in countries with much lower per-capita resource exports. Equatorial Guinea, however, like most oil producers, has failed to act in this direction, leaving the lack of linkages between the oil and non-oil sectors as a fundamental economic problem for the country. The Equato-Guinean leadership's failure to implement policies to create linkages also points to the importance, well-supported in the literature on the resource curse, of incorporating both political and economic analysis in studies of natural resource-driven development.[29]

The most well-known and best-studied variant of the resource curse literature, Dutch Disease theory, further highlights the need to integrate economic and political explanations into the analysis of resource exporters. The Dutch Disease gets its name from the effects of oil discoveries on the economy of the Netherlands in the 1960s and 1970s. The newfound oil created an export boom, but the domestic economy soon suffered from inflation and a decline in manufacturing exports that led to lower economic growth and rising unemployment. The oil boom of the 1970s and 1980s produced similar outcomes in countries as varied as Saudi Arabia, Nigeria, and Mexico. This seemingly paradoxical phenomenon occurs when the export boom leads to inflation and a consequent appreciation of the real exchange rate. This makes domestic producers in fields other than the commodity sector less competitive and, hence, less profitable. This decline in the strength of other sectors in the economy is the crux of the Dutch Disease.

Corde and Neary have found ample support for the hypotheses of Dutch Disease in their

theoretical analyses.[30] Other studies confirm the influence of Dutch Disease on economic outcomes empirically. In a comprehensive statistical study, Sachs and Warner examine ninety-seven countries over a nineteen-year period and show that states with a high ratio of natural resource exports to GDP in 1971 had unusually slow growth rates between 1971 and 1989. They explain this phenomenon largely through a Dutch Disease effect.[31] Case studies also provide ample support for Dutch Disease. Gelb, for instance, documents six cases of Dutch Disease: Algeria, Ecuador, Indonesia, Nigeria, Trinidad and Tobago, and Venezuela.[32] One of his case studies shows how Nigeria suffered from an extreme instance of the "Disease" in the 1980s. Spikes in oil prices in 1973-74 and 1979-80 led to a large oil windfall for the government, but this windfall and its concomitant spending increases spurred inflation, an exchange rate hike and, consequently, a ninety percent decline in the non-mining sector.[33] Gabon, Equatorial Guinea's neighbor in the Gulf of Guinea, has also suffered from Dutch Disease. While the country has developed a prosperous oil industry, other sectors of the economy, most notably agriculture, have crumbled while inequality and poverty persist. Economic growth has stagnated. The rapidly approaching end to the country's oil reserves has prompted many to fear almost total economic collapse in the near future unless new reserves are found.[34]

Despite the common Dutch Disease experience, many critics have argued that this ailment affects developed economies far more than it affects under-developed ones and that its effects vary greatly by country. Benjamin et al., for instance, show that in Cameroon Dutch Disease affected agriculture but not manufacturing.[35] Ross further argues that thoughtful policies can counteract most Dutch Disease effects.[36] In the words of Terry Karl, "The Dutch Disease is not automatic. The extent to which is takes effect is largely the result of decision-making in the public realm."[37] Furthermore, as Chaudhry points out, the pursuit of substantively different sectoral and industrial strategies in different oil producers "belies the uniform outcomes posited by the Dutch Disease."[38] Some countries, including Iraq, Malaysia, Iran and Algeria, have "countered the pressures against investment in tradeables by initiating industrialization programs."[39]

The experience of Botswana stands as a remarkable example of how sound economic policy can prevent Dutch Disease, even in a poor and highly mineral-dependent economy. Upon independence from Great Britain in 1966, Botswana remained one of the poorest and least developed countries on earth. The discovery a few years later of the world's largest diamond deposits prompted a massive export boom that made Botswana the fastest growing economy in the world between 1970 and 1990. Rather than watch the rest of the economy crumble, however, competent policy-making warded off the worst effects of Dutch Disease. The government adopted effective macroeconomic policies to keep the real exchange rate stable. To do this they both kept a hold on public spending and built up massive foreign reserves. Rather than borrow from the IMF like most African countries, Botswana now lends the IMF hard currency.[40] Botswana also managed to keep its largest parastatal, the Botswana Meat Commission, competitive on international markets and has spent government revenues responsibly on effective social programs and infrastructure, not frivolous white elephants. Consequently, Botswana remains Africa's most successful economy and democracy, thirty-five years after the beginning of diamond production.[41]

While effective policy-making shielded Botswana from Dutch Disease, Equatorial Guinea's experience more closely resembles Nigeria's. Inflation has grown rapidly, hurting the purchasing power of the impoverished masses and prompting a fifteen percent exchange rate appreciation

between the end of 2001 and the middle of 2003 alone.[42] Cocoa production declined by thirty percent between 1996 and 2001, as investments shifted rapidly to the oil sector and exchange rate hikes made cocoa producers less competitive.[43]

Declining terms of trade and price fluctuations are likely to create serious future problems for the economy of Equatorial Guinea, as they have in other oil producers. Poor linkages to the rest of the economy and Dutch Disease already have affected the economy and they threaten to further inflict pain on the economy down the road. Feasible policy solutions exist for both ailments however, but most resource dependent countries have proven incapable of handling these problems politically. What makes resource rich countries more prone to the policy failures exhibited by Nigeria and less likely to respond to resource booms in the way exemplified by Botswana? Political scientists have addressed these failures in myriad ways, many of which remain crucially important to the case of Equatorial Guinea.

Political Science Approaches

Political scientists have focused primarily on poor policy-making, bad institutions, or some combination of the two to link natural resources to disappointing economic outcomes. Middle East specialists, for instance, have linked the rentier nature of the region's oil economies to their generally disappointing development performance. Beblawi defines a rentier state as one that derives the bulk of its revenue from external rents, rather than productive enterprises.[44] Luciani draws a similar distinction "between 'allocation' and 'production' states, depending on which of these two functions – mere allocation or production and reallocation – is the necessary task of the state."[45]Mahdavy was the first to address the peculiarities of the rentier state in his analysis of Iran.[46] He argued that oil wealth makes leaders shortsighted and encourages the promotion of economic policies favoring stability and the status quo en lieu of growth and industrialization. Others claim that oil rents make governments less accountable and, therefore, less responsive, to the needs of the people.[47] Shambayati similarly argues that low taxes and extensive welfare programs shield rentier states from pressure to create effective development programs.[48]

Equatorial Guinea qualifies as a rentier state in Beblawi's definition, as oil rents constitute the vast majority of the economy. Nevertheless, Equatorial Guinea differs in crucial respects from the Middle East's rentier states. Its extraordinarily weak government institutions and the dearth of social welfare programs, in particular, make it unlikely that Obiang's regime will manage to buy the acquiescence of the masses in the same way as Kuwait or Saudi Arabia. Furthermore, the criminality of the state has facilitated a far more corrupt management of rents than in the Middle East, which may possibly contribute to greater levels of opposition from the masses to the current economic situation. The neo-patrimonial nature of Equatorial Guinea's regime, however, makes it likely that any attempts by Obiang to quell opposition will take the form of greater spending on clientelism, patronage, and granting of prebends, rather than widespread benefits to the masses.[49]

Beyond their limited applicability to Equatorial Guinea, the theories of the rentier state suffer from two important flaws. First, as Chaudhry rightfully asserts, "theories of the rentier state far outstrip detailed empirical analysis of actual cases."[50] Pure rentier states do not exist and the various so-called rentier states exhibit important differences in political and economic outcomes. Furthermore, despite their origin in political science, theories of the rentier state remain overly economistic. In the words of Okruhlik, "The rentier state framework is limited because it

relegates political choices to the back seat, behind structural economies."[51]

The combination of important insights from the rentier state perspective and the lack of empirical evidence for its claims has prompted more nuanced studies of the relationship between resources and development. Chaudhry, for instance, posits that because oil exporting states form weak extractive institutions, they lack the requisite information needed to formulate and implement effective development policies. Furthermore, without adequate information at their disposal, public spending will be informed by primordial cleavages rather than economic rationality.[52] For Chaudhry, the decline of extractive institutions engenders a decline in overall institutional quality, national integration, state building and, ultimately, development outcomes, building on Delacroix's classic theorization of how distributive states will differ fundamentally from "normal" states in their process of state formation.[53] She traces institutional development in oil producing Saudi Arabia and labor exporting Yemen, demonstrating, in particular, the marked deterioration in extractive institutions.[54]

Equatorial Guinea's almost non-existent extractive institutions lend credence to Chaudhry's assertions. With little knowledge as to what occurs in the remote regions of the country, it is unlikely that Obiang and his cronies could ever develop effective development programs. Weak extractive institutions, however, predate the oil boom and, therefore, are not the consequence of oil, though the resource boom may further erode these institutions, contributing even further to economic backwardness. Overall, Equatorial Guinea's weak institutions and poor policy-making have made the economic problems associated with oil-led development, e.g. Dutch Disease and poor linkages to the rest of the economy, extremely severe. How much oil will continue to contribute to this unfavorable economic situation remains unclear.

The track record of other weak states in Africa suggests that Equatorial Guinea's institutions will remain weak and its policy-making poor. In Gabon, oil facilitated the growth of an enclave economy that brought little in the way of development to the areas outside the capital, Libreville. Angolan leaders, rather than invest oil rents in roads or human capital, have plundered as much as $4.2 million over the past few years alone.[55] Nigeria remains the preeminent example of the deleterious effects of oil on institutions and policy-making in Africa. In Nigeria, oil played a critical role in the creation of a predatory state under Babangida that paved the way for economic disaster. Rather than facilitate the growth of effective institutions or good policies, oil allowed Babangida to spend carelessly and permit institutions to deteriorate.[56] Equatorial Guinea is unlikely to fare much better than its petro-state neighbors in Africa, especially given the particularly venal policies of Obiang and his circle. Unless the institutions of government change markedly, the chance for a better economic future appears quite bleak. Unfortunately, oil-led development has also had deleterious effects on other important political circumstances, namely the levels of democracy and political stability.

Natural Resource Wealth and Authoritarianism

An important strand of the resource curse literature argues that resource abundance may significantly hinder democratic development. Proponents of the rentier state thesis have long argued that oil wealth has sidelined democratic development in the Middle East. Others make similar arguments about resource rich states in Africa and Central Asia. Ross has shown that natural resource wealth (especially oil) and democracy are significantly negatively correlated.[57] Lam and Wantchekon, after "…controlling for GDP, human capital, income inequality and other

possible determinants,…find a robust and statistically significant association between resource dependence as measured by the ratio of fuel and mineral exports as a percentage of total exports and authoritarianism."[58] Wantchekon further finds that a one percent increase in resource dependence as measured by the ratio of exports to GDP leads to a nearly eight percent increase in the probability of authoritarianism.[59] This overwhelming statistical relationship and the remarkable paucity of democracy in resource-rich countries have prompted something of a scholarly consensus that, at least under some circumstances, natural resource wealth may prove inimical to democracy. No consensus has arisen, however, as to what causal mechanisms link natural resources to authoritarianism. The current literature is dominated by four possible mechanisms: a rentier effect, a repression effect, a modernization effect, and a freedom from international pressure effect.[60]

Scholars of the Middle East have long relied on the rentier state notion, or some related variant, to explain the lack of democracy in that region. Others have begun to apply similar arguments to other regions of the world, most notably Africa. Rentier state theories argue that the freedom from taxation in many resource-rich countries precludes mass movements for representation. Similarly, resource windfalls allow the elites to consolidate power and buy off consent from the masses through government spending.

The rentier state literature emphasizes the close historical relationship between taxation and democratization, reversing the common refrain of "no taxation without representation" to "no representation without taxation." Free from the need to tax its population, fiscally autonomous states feel no pressure from below to democratize and become able to mollify dissent through spending on patronage and welfare programs. Huntington, for instance, has argued that "the lower the level of taxation, the less reason for the public to demand representation."[61] Anderson further argues that for oil producers "…such revenues release the state from the accountability ordinarily exacted by the domestic appropriation of surplus. In countries like Kuwait and Libya, the state may be virtually autonomous from its society, winning popular acquiescence through distribution rather than support through taxation and representation."[62] Mahdavy argued early on that rentier states should demonstrate limited pressure from below for democratization. Chaudhry echoes this sentiment by pointing out that demands for political participation have more often than not been in response to taxation.[63] Crystal further argues that oil wealth in Kuwait and Qatar obviated any need to tax the merchant class, who subsequently gave up any demands for participation.[64] Crystal's argument retains particular relevance in light of the tendency in Western political science to link the rise of democracy to the rise of the merchant middle class.[65] A variation on the taxation-representation link emphasizes the ability of rentier states to spend a great deal of money on patronage and other programs that may, in effect, buy off the population's acquiescence.[66]

Many African oil-producers have followed a similar path, using oil revenues to further their patronage networks and, therefore, quell opposition. Leaders in the Democratic Republic of Congo, Gabon and Angola, for instance, have proven able to consolidate their autocratic rule through patronage politics. Leonard and Straus argue that "enclave" economies are a foundation for personal rule on the continent because they centralize state resources and facilitate patronage. According to them, "an enclave economic base allows personal rule to sustain itself over the long run both because enclaves themselves are susceptible to state predation and because enclaves do not depend on widespread productivity for their sustenance. Thus, the state's primary function can be private patronage distribution…"[67] It is no wonder that many of Africa's longest running

dictators, from Bongo in Gabon to Mobutu in Zaire, were also leaders of "enclave" states.

Equatorial Guinea, much like Angola, the Democratic Republic of Congo and Angola, has yet to develop effective extractive institutions, and its incoming petro-dollars will certainly provide a disincentive for future development of these resources. Moreover, its tiny population and massive oil reserves should make it quite easy for Obiang and his cronies to further consolidate rule through patronage, and public spending.[68] While petro-dollars will likely free the government from taxation needs, it remains to be seen, however, whether or not the country will begin spending money on social programs and other projects that have the potential to buy mass acquiescence. So far spending remains abysmally low, though growing opposition to the regime may force the government to increase its spending on services and patronage. The potential certainly exists for a rentier effect to take hold in Equatorial Guinea, whereby the absence of taxation and abundant government spending discourage the growth of movements for democratization.[69]

In the near-term, however, Equatorial Guinea is unlikely to develop similar distributive policies to either the rentier states of the Middle East or African enclaves due to the extreme pervasiveness of criminality in the state itself. Obiang will continue to funnel oil rents into illicit enterprises, rather than distribution. This could spur opposition to the regime from the masses and spawn widespread democratization pressures from below. If such pressures do develop, however, they will probably not spur democracy. Obiang will have access to immense patronage resources to buy off key constituencies (ala the rentier state hypothesis) if he needs to. Moreover, transitions from democratization in extreme cases of personal rule – like Equatorial Guinea – rarely lead to democratic stability.[70] Consequently, any transition that the masses could push through would have little chance of survival. In this case, transition would most likely engender further authoritarianism, especially given the access to oil rents that any autocrat would have. Moreover, Obiang's massive access to resources for could allow him to build up immense repressive government structures to discourage democratization movements.

Repression has served as a mechanism linking resource wealth to authoritarianism in other primary commodity exporters.[71] Some resource rich countries are able to build up strong enough repressive apparatus' to quash any and all democratization movements and/or discourage the masses from pursuing such aims. Iraq under Saddam Hussein, the Democratic Republic of Congo under Mobutu Sese Seko, Saudi Arabia under the House of el Saud, among others, provide vivid demonstrations for this possibility in the real world. Not all resource-rich regimes, of course, have followed this path of repression. Botswana used its mineral-wealth to improve state capacity, build infrastructure, develop poor relief programs and build up foreign reserves so as to avoid Dutch Disease. The example of Botswana showcases the importance of political history in shaping the outcomes of resource booms in different countries. Botswana was a young but functioning democracy when diamonds were discovered, with a history marked by a relatively benign and un-invasive colonial legacy, postcolonial stability and astute, responsible leadership.[72] The Democratic Republic of Congo, on the other hand, had a long history of extreme colonial exploitation (even by African standards), ethnic conflict, and unproductive state institutions when Mobutu came into power.[73]

Equatorial Guinea's history, unfortunately, resembles that of the Democratic Republic of Congo far more than that of Botswana. The Spanish colonial regime, then under the throes of Francoism, left in power one of post-colonial Africa's most brutal and feared dictators, Macias Nguema. Nguema ruled with an iron fist and either killed or forced into exile more than a third

of the country's population. Macias typified the personal rule endemic to Africa at the time, but he brought this rule further than almost anyone.[74] He ruled the country as his own personal fiefdom, going by the names "Leader of Steel," "The Sole Miracle of Equatorial Guinea," and "President for Life." Macias was rumored to practice witchcraft and even cannibalism. Whether or not he did, the people generally believed that he did and lived in extreme fear of him. While Obiang Nguema's regime has proved less brutal than Macias', yet it remains one of the world's most oppressive.[75]

This record of repression and authoritarianism has not subsided since the discovery of oil. Continued human rights abuses and repression persist. If anything, the government's newfound wealth has increased its repressive capacities. Malabo's Black's Prison has garnered a particular reputation for extreme torture and violence in light of publicized accusations of abuse by the arrested coup plotters in 2003.[76] Repression, therefore, continues to hinder progress towards democracy in Equatorial Guinea.

A third possible link between natural resources and authoritarianism is what Ross calls an anti-modernization effect, which has its roots in modernization theory.[77] Economic development and industrialization, many scholars suggest, create large middle classes, "modern" mentalities, rising education, improved living standards and, consequently, demands for democratization.[78] This argument has often been used to explain the lack of democracy in much of the world's poor countries and the rise of democracy in the wealthy West. It has gained renewed credence in recent years, especially in the wake of statistical studies showing a huge correlation between democracy and high per-capita incomes. Przeworski et al., for instance, find a huge correlation between wealth and democratic consolidation, though not democratic transition.[79] The relationship between modernization and democratization remains unclear. Nevertheless, many scholars suspect that some affinity between levels of development and democracy does exist.

If natural resource wealth can sideline development, as much of the literature suggests, then it can indirectly sideline democracy, as well, according to modernization theory. Ross presents statistical support for this hypothesis.[80] The applicability of this argument for Equatorial Guinea will rest on the role of oil in fostering or sidetracking economic development. So far, the dismal record of persistent poverty, agricultural decline and limited employment creation certainly bodes poorly for any future democracy if, indeed there is a relationship between development and democracy. Education and health are improving only marginally, with very little investment going into these sectors. Industrialization has yet to occur, what exists of a middle class is primarily foreign (i.e. Cameroonian and Nigerian), and the modernization of the economy does not appear to be happening.[81]

A fourth possible link between natural resource wealth and authoritarianism lies in the freedom from international pressure to democratize effect. Englebert and Boduszynski, for instance, show that African transitions to democracy have occurred mostly in resource-poor, aid-dependent states. They argue that the quality of this democracy is generally weak, and, moreover, primarily instrumental, i.e. regimes democratize to placate the wishes of the aid distributing international organizations. Oil and mineral rich states, on the other hand, have been able to avoid democratization due to their resource wealth.[82] This most certainly applies to Equatorial Guinea, as petro-dollars obviate the need for development aid, thereby shielding the regime from foreign pressure. Were the U.S. and other countries that currently invest in the country's oil to change their policy to require democratization measures on the part of the Nguema regime, this could change drastically. A change in policy appears unlikely, however, as

U.S. officials continue to promote the idea that the best thing for the future of democracy in Equatorial Guinea is oil-led economic development. We can, therefore, expect the freedom from international pressure effect to persist in the case of Equatorial Guinea.[83]

The rentier, repression, modernization, and freedom from international pressure effects may all contribute to Equatorial Guinea's current authoritarianism. Repression, in particular, appears likely to continue to hinder democratic developments in the country. While none of these mechanisms brought about the country's authoritarianism, they have likely furthered its development, suggesting that Equatorial Guinea's oil boom has exacerbated the country's political problems. Furthermore, oil wealth has the potential to trigger yet another problem for the country, political instability.

Natural Resources and Violent Conflict

A third variant of the resource curse links resource abundance to violent conflict and political instability. The recent coup attempts in Equatorial Guinea highlight the particular importance of this literature for understanding current events in the country. Many scholars stress the potential for ethnic and regional conflicts in resource rich states. Others emphasize the incentives for rebel-groups created by extensive resource rents. What form, if any, future oil-inspired instability may take in Equatorial Guinea remains unclear. The country's Fang/Bubi tensions, its division between the island and the mainland, and the vast inequalities induced by oil-led development pose serious threats to stability, however.

Many scholars of the Middle East argue that distributive states are bound to suffer from extensive racial, ethnic, religious or regional conflicts. Delacroix, for instance, asserts,

> the organizational base of challengers in a distributive state cannot be class. Therefore, other structures of social solidarity will have to be activated. Alternative structures are, by default, traditional structures. The more recently incorporated into the world economy a society, the more available are its traditional social structures. Hence, a distributive state ruling a recently incorporated society will experience a maximum of tribal, ethnic and religious challenges.[84]

Chaudhry similarly emphasizes the propensity for resource booms (and labor remittance booms) to institutionalize and exacerbate primordial cleavages in her analysis of Saudi Arabia and Yemen.[85] For Shambayati, the non-class cleavages that arise are often ideological in nature, as evidenced by the rise of Islamism throughout the Middle East and, especially, in Iran.[86] Synthesizing all of these arguments, Okruhlik states "Citizens who question the inequitable distribution of rents, the misallocation of resources and the profligate habits of state representatives have found voice in Islamic, regional and private identities. The state has reinforced social identities."[87]

Watts, in his analysis of oil politics in Nigeria, emphasizes the role of both states and multinational corporations in reinforcing social identities. To Watts

> the presence and activities of the oil companies…constitute a challenge to customary forms of community authority, inter-ethnic relations, and local state institutions principally through the property and land disputes that are engendered, via forms of

> popular mobilization and agitation. These political struggles are animated by the desire to gain access to (i) company rents and compensation revenues, and (ii) federal petro-revenues by capturing rents, (often fraudulently) through the creation of new regional and/or local state institutions.[88]

Watts' account of endemic ethnic violence in the Niger Delta region and the suppression by the central government of movements for environmental, ethnic and economic justice shows the explosive potential for ethnic violence in poor, institutionally weak, resource rich environments.

The potential for oil to exacerbate ethnic and regional tensions poses a serious threat for Equatorial Guinea. The country has a long history of ethnic conflict between the Bubi and Fang. That most of the beneficiaries of oil-led growth are Fang has spurred widespread animosity among the Bubi, especially since most of the country's oil lies closer to Bioko than to Rio Muni. Movements for secession have grown in Bioko and among Bubi exiles in Spain. As Equatorial Guinea continues on its path of inequitable economic development, the chances of ethnic and regional violence will only increase.[89]

The recent literature on ethnic and civil wars often emphasizes the effects of natural resource wealth on conflict. Collier and Hoeffler, for instance, find that states heavily reliant on natural resources face a much higher risk of civil war than resource-poor states. They emphasize the greed of rebel groups, as opposed to political or economic grievances, as the prime motivation for civil conflict. Access to resources to fund their rebellions and the prospect of monetary reward present the link between resource wealth and violence in their analysis.[90] Fearon and Laitin, using a different data set, find that countries exporting oil, but not other primary commodities, are more likely to undergo a civil war. Rather than emphasize 'greed' over 'grievance,' they focus on factors conducive to insurgency. Low weight, high value resources such as oil, diamonds, coca, and opium promote civil war by making it easier for rebels to finance rebellion.[91] Fearon argues that, because oil weakens state institutions, it fosters state decay and, consequently, rebellion, a finding later supported in an econometric analysis by Humphreys.[92] The findings of Fearon and Laitin, Fearon, and Humphreys all point out the complexity of the relationship between resources and violence. Resources alone cannot spur war, but they can contribute to violence in many ways.

Englebert and Ron further demonstrate the conditional nature of the relationship between primary commodities and conflict. In their analysis of the civil war in Congo-Brazzaville, for instance, they show that while oil did contribute to the war, it was not sufficient to spur violence. Furthermore, they argue that the offshore nature of Congo's oil reserves concentrated conflict in the capital city because only control over the state could bring oil revenues to the rebels.[93] This insight of Englebert and Ron's suggests that any conflict over resources in Equatorial Guinea will also likely concentrate on the capital, as all of the country's resources are offshore. Only complete control of the state will ensure control over oil rents in Equatorial Guinea making state control, not regional control, the primary objective of any war aimed at oil rent capture. The recent coup attempts both aimed at full control of Malabo, lending further support to this claim.

Ross presents another possible mechanism through which oil may promote instability in Equatorial Guinea: what he calls "booty futures" – the selling of future exploitation rights to natural resources.[94] Ross postulates that the market for these futures may be unique to Africa and may help explain the preponderance of civil wars and coups on the continent. Ross labels the 2004 coup-attempt in Equatorial Guinea as an example of a "booty future"-spurred coup,

whereby the perpetrators were granted offers for future oil revenues. The extraordinarily large oil reserves in Equatorial Guinea, and the potential for future oil discoveries, makes it likely that further "booty future" sales could encourage more coups and, conceivably, even lead to a toppling of the government.

Equatorial Guinea's leaders face numerous obstacles if they hope to prevent future political instability. The tendency for resource rich countries, particularly oil producers, to suffer from high levels of political violence and ethnic conflict, the extremely unequal current distribution of oil benefits, and the long history of Fang/Bubi and Bioko/Rio Muni conflicts may combine to bring the country into political violence of some form. The recent coup attempts demonstrate this possibility. Moreover, the offshore nature of the country's oil reserves suggests that attempts at widespread violence will center on the capital city and on the aim of gaining full control over the government, as occurred in Congo-Brazzaville. As mentioned earlier, these attempts to capture control of the state are not likely to prompt a transition to democracy. Rather, they are likely to spur greater repression by Obiang if unsuccessful and further instability and authoritarianism if successful.

CONCLUSION

Equatorial Guinea has already become one of the largest per-capita oil producers in the world. Yet the majority of Equato-Guineans live in abject poverty under one of Africa's worst dictators. The literature on the resource curse suggests that these problems will persist, if not worsen, as the country continues to develop its oil industry. Moreover, the proclivity among oil producers for ethnic and regional conflict casts doubt on the country's future stability. While oil has only been pumping for a decade, all signs indicate that Equatorial Guinea is, in fact, marching towards further development failures, authoritarianism, and political instability, thereby vindicating much of the resource curse literature.

The country's unique political and economic situation, however, will condition the country's political economy of oil in ways that might differ from the general prescriptions of the resource curse. The country's tiny size and massive oil reserves may allow the country to follow a path of development that brings greater wealth to the masses through large-scale social and public services. The current regime shows no sign of an interest in this prospect, though growing opposition from the masses may force this on the leadership. More likely, the extensive criminalization of the Equato-Guinean state may exacerbate the problems of oil-led growth by prompting the elite to engage in even fewer productive or even redistributive activities than occurs in most petro-states. The country's regional and ethnic split between Bubi and Fang will likely lead to conflict along those lines, as the two lines of cleavage overlap and also coincide with differences in access to oil revenues. The offshore nature of oil reserves further indicates that civil wars linked to resources in Equatorial Guinea will likely follow a similar pattern to those in Congo-Brazzaville, where oil is also offshore as opposed to Nigeria, where oil is both offshore and in the Niger Delta inland.

The increasingly close relationship between the U.S. and Equatorial Guinea will serve as a final and, perhaps especially important, factor in determining the future of the country's political economy. U.S. strategic interest in the region has thus far prompted an attempt to improve relations between the two countries and maintain stability so as to keep oil production flowing. The U.S. has turned a blind eye to the human rights abuses, criminal behavior, and brutality of

the current regime in exchange for easy oil access. Equatorial Guinea remains at least as dependent on American investors, however, as the U.S. is on the country's oil. Consequently, a genuine attempt on the part of the U.S. to promote a more equitable development pattern or improve political and civil rights, could, conceivably be quite successful. The U.S. government could, quite easily, use economic leverage to force democratization and/or more equitable development outcomes on Obiang. For instance, the U.S. could easily make oil contracts conditional on policy changes and monitor these changes carefully. The U.S. could also offer effective security to the regime along with these economic incentives to force change. Equatorial Guinea's tiny size and massive oil reserves mean that even reforms could provide improvements in the lives of Equato-Guineans. Unfortunately, however, no change appears on the horizon, thereby increasing the likelihood that Equatorial Guinea will continue down its current path of criminality, corruption and autocracy.

NOTES

1. Mark du Toit is a former member of Executive Outcomes (EO), the infamous, now defunct mercenary group. EO has worked, to great success, across the continent, most notably during the Liberian war of the 1990s. EO formed out of the ashes of the Buffalo Battalion, South Africa's paramilitary army that fought in Namibia and Angola during the 1970s and 1980s. Du Toit is known to maintain relations with many old members of the Battalion.
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12. Liniger-Goumez, 1989.
13. Ibid.
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16. For a detailed account of these illegal activities, see Wood, 2004. For a somewhat

outdated account, see Bayart, et al.

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21. See the conclusion for more on this.

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