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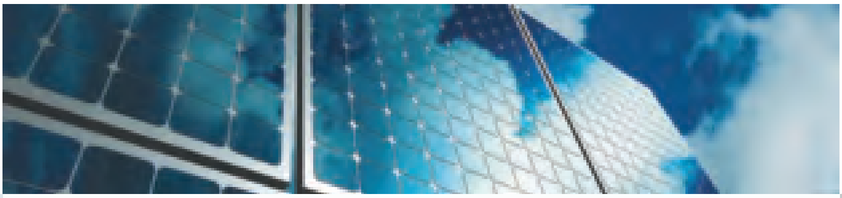

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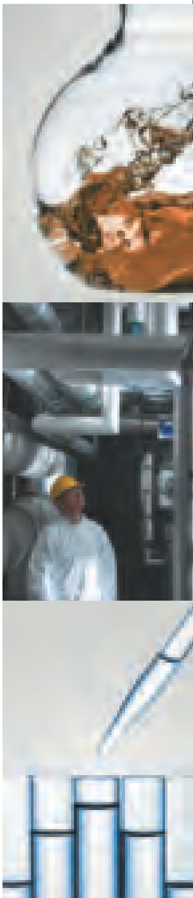

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Eni wishes to thank all the scientists and researchers who took part in the initiative.

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Oil-producing states today host about a third of the world's civil wars, both large and small, up from one-fifth in 1992.

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Blood Barrels

Why Oil Wealth Fuels Conflict

Michael L. Ross

The world is far more peaceful today than it was 15 years ago. There were 17 major civil wars—with "major" meaning the kind that kill more than a thousand people a year—going on at the end of the Cold War; by 2006, there were just five. During that period, the number of smaller conflicts also fell, from 33 to 27.

Despite this trend, there has been no drop in the number of wars in countries that produce oil. The main reason is that oil wealth often wreaks havoc on a country's economy and politics, makes it easier for insurgents to fund their rebellions, and aggravates ethnic grievances. Today, with violence falling in general, oil-producing states make up a growing fraction of the world's conflict-ridden countries. They now host about a third of the world's civil wars, both large and small, up from one-fifth in 1992. According to some, the U.S.-led invasion of Iraq shows that oil breeds conflict between countries, but the more widespread problem is that it breeds conflict within them.

The number of oil-producer-based conflicts is likely to grow in the future as stratospheric prices of crude oil push more countries in the developing world to produce oil and gas. In 2001, the Bush administration's energy task force hailed the emergence of new producers as a chance for the United States to diversify the sources of its energy imports and reduce its reliance on oil from the Persian Gulf. More than a dozen countries in Africa, the Caspian basin, and Southeast Asia have recently become, or will soon become, significant oil and gas exporters. Some of these countries, including Chad, East Timor, and Myanmar, have already suffered internal strife. Most of the rest are poor, undemocratic, and badly governed, which means that they are likely to experience violence as well. On top of that, record oil prices will yield the kind of economic windfalls that typically produce further unrest.

Oil is not unique; diamonds and other minerals produce similar problems. But as the world's most sought-after commodity, and with more countries dependent on it than on gold, copper, or any other resource, oil has an impact more pronounced and more widespread.

Michael L. Ross is Associate Professor of Political Science at the University of California, Los Angeles.

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THE CURSE

The oil booms of the 1970s brought great wealth—and later great anguish—to many petroleum-rich countries in the developing world. In the 1970s, oil-producing states enjoyed fast economic growth. But in the following three decades, many suffered crushing debt, high unemployment, and sluggish or declining economies. At least half of the members of OPEC (the Organization of Petroleum Exporting Countries) were poorer in 2005 than they had been 30 years earlier. Oil-rich countries that once held great promise, such as Algeria and Nigeria, have unraveled as a result of decades of internal conflict.

These states were plagued by the so-called oil curse. One aspect of the problem is an economic syndrome known as Dutch disease, named after the troubles that beset the Netherlands in the 1960s after it discovered natural gas in the North Sea. The affliction hits when a country becomes a significant producer and exporter of natural resources. Rising resource exports push up the value of the country's currency, which makes its other exports, such as manufactured and agricultural goods, less competitive abroad. Export figures for those products then decline, depriving the country of the benefits of dynamic manufacturing and agricultural bases and leaving it dependent on its resource sector and so at the mercy of often volatile international markets. In Nigeria, for example, the oil boom of the early 1970s caused agricultural exports to drop from 11.2 percent of GDP in 1968 to 2.8 percent of GDP in 1972; the country has yet to recover.

Another facet of the oil curse is the sudden glut of revenues. Few oil-rich countries have the fiscal discipline to invest the windfalls prudently; most squander them on wasteful projects. The governments of Kazakhstan and Nigeria, for example, have spent their petroleum incomes on building new capital cities while failing to bring running water to the many villages throughout their countries that lack it. Well-governed states with highly educated populations and diverse economies, such as Canada and Norway, have avoided these ill effects. But many more oil-rich countries have low incomes and less effective governments and so are more susceptible to the oil curse.

Oil wealth also has political downsides, and those are often worse than the economic ones. Oil revenues tend to increase corruption, strengthen the hands of dictators, and weaken new democracies. The more money the governments of Iran, Russia, and Venezuela have received from oil and gas exports, the less accountable they have become to their own citizens—and the easier it has been for them to shut up or buy off their opponents. A major boom in oil prices, such as the one that took the price of a barrel from less than $10 in February 1999 to over $100 in March 2008, only heightens the danger.

OIL ON FIRE

For new oil and gas producers, the gravest danger is the possibility of armed conflict. Among developing countries, an oil-producing country is twice as likely to suffer internal rebellion as a non-oil-producing one. The conflicts range in magnitude from low-level secessionist struggles, such as those occurring in the Niger Delta and southern Thailand, to full-blown civil wars, such as in Algeria, Colombia, Sudan, and, of course, Iraq.

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Oil wealth can trigger conflict in three ways. First, it can cause economic instability, which then leads to political instability. When people lose their jobs, they become more frustrated with their government and more vulnerable to being recruited by rebel armies that challenge the cash-starved government. A sudden drop in income can result in internal strife in any country, but because oil prices are unusually volatile, oil-producing countries tend to be battered by cycles of booms and busts. And the more dependent a government is on its oil revenues, the more likely it is to face turmoil when prices go south.

Second, oil wealth often helps support insurgencies. Rebellions in many countries fail when their instigators run out of funds. But raising money in petroleum-rich countries is relatively easy: insurgents can steal oil and sell it on the black market (as has happened in Iraq and Nigeria), extort money from oil companies working in remote areas (as in Colombia and Sudan), or find business partners to fund them in exchange for future consideration in the event they seize power (as in Equatorial Guinea and the Republic of the Congo).

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

This is not to say that petroleum is the only source of such conflicts or that it inevitably breeds violence. In fact, almost half of all the states that have produced oil since 1970 have been conflict-free. Oil alone cannot create conflict, but it both exacerbates latent tensions and gives governments and their more militant opponents the means to fight them out. Governments that limit corruption and put their windfalls to good use rarely face unrest. Unfortunately, oil production is now rising precisely in those countries where wise leadership is often in short supply. Most of the new energy-rich states are in Africa (Chad, Côte d'Ivoire, Mauritania, Namibia, and São Tomé and Príncipe), the Caspian basin (Azerbaijan, Kazakhstan, and Turkmenistan), or Southeast Asia (Cambodia, East Timor, Myanmar, and Vietnam). Almost all are undemocratic. The majority are very poor and ill equipped to manage a sudden and large influx of revenues. And many also have limited petroleum reserves—just enough to yield large revenues for a decade or two—which means that if they succumb to civil war, they will squander whatever chance they had of using their oil windfalls to escape from poverty.

DIAMONDS IN THE ROUGH

Since the early 1990s, the international community has developed an effective set of tools for ending insurrections. These include cutting off foreign aid to rebel groups, using diplomatic and economic sanctions to bring governments to the negotiating table, and deploying peacekeeping forces to monitor any agreements that might result from the pressure. Combined with the demise of the Soviet Union, such methods helped reduce the number of civil wars in non-oil-producing countries by over 85 percent between 1992 and 2006.

CORBIS

The cost of resource wealth: Nigerian soldiers patrolling a natural gas loading facility in the Niger Delta, 2004

They have also been effective against insurgencies fueled by diamond wealth. In 2000, six diamond-producing states in Africa were trapped in civil wars; by 2006, none was. Much of this success is the result of sanctions that the UN Security Council started to impose in 1998 against so-called conflict diamonds—diamonds sold by African insurgents or their intermediaries—and the adoption in 2002 of the Kimberley Process, an agreement by an unusual coalition of governments, nongovernmental organizations, and major diamond traders to certify the clean origins of the diamonds they trade. After these measures were taken, rebels in Angola, Liberia, and Sierra Leone lost a key source of funding, and within a few years they were either defeated in battle or forced to sign peace agreements. In the mid-1990s, conflict diamonds made up as much as 15 percent of the world's diamond trade. By 2006, the proportion had fallen to one percent.

SEE-THROUGH

Curtailing rebellions in oil-producing states will be harder. The world's thirst for oil immunizes petroleum-rich governments from the kind of pressures that might otherwise force them to the bargaining table. Since these governments' coffers are already overflowing, aid means little to them. They can readily buy friends in powerful places and therefore have little fear of sanctions from the UN Security Council. In any event, the growing appetite of oil-importing countries for new supplies makes it easy for exporters to bypass such restrictions. The government of President Omar al-Bashir has used Sudan's oil sales to China to deflect diplomatic pressure from Western states asking it to stop the killings in Darfur. Myanmar's military government is following the same strategy: in exchange for Myanmar's selling its natural gas to China, Beijing is blocking tougher