

## A Review of *Untapped: The Scramble for Africa's Oil*

by

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### Introduction

Basil Enwegbara provides critical insight into the vast economic potential of Africa when considering, relative to world supply, it has the bulk of diamonds, over 90% of the cobalt, 70% of the cocoa, 64% of the manganese, 60% of the coffee, 50% of the phosphates, 50% of gold production, 40% of the platinum, 30% of the uranium, and 20% of the petroleum.<sup>1</sup>

John Ghazvinian's *Untapped: The Scramble for Africa's Oil* looks at one aspect of the economic and social impacts of this resource abundance, namely oil. To explain the economic forces at work in Africa this paper is divided into four parts. The first section provides an overview of the book itself. The goal was not to rehash Ghazvinian's trek but to provide one who had not read the book with an understanding Ghazvinian's main points. The second and third sections provide opposing views by accomplished economists on "resource curse" veracity. The final section looks at another possible economic factor: globalization. It will consider the rise of the African Union as a result of globalization and the potential for Africa Command (AFRICOM) to leverage it.

### Untapped Overview

John Ghazvinian's *Untapped: The Scramble for Africa's Oil* provides an engaging account of his travels through twelve African nations. His work reads like a combined

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<sup>1</sup> Basil Enwegbara, "The Importance of an African Union." *The Tech Online Edition*, Volume 121, Issue 18. <http://www-tech.mit.edu/V121/N18/col18basil.18c.html> (accessed 28 May 2008).

journal, James Bond adventure, and commentary on Africa's economic and social condition resulting from the unintended consequences of oil abundance.

Given the world's increasing energy demands and undeniable oil dependency, oil discovery and extraction in Africa is big business. Instability in the Middle East only increases Africa's strategic importance. Ghazvinian describes the "oil curse" from the bottom up, sometimes through imprudent adventures such as a trip deep inside the dangerous Niger Delta.

Two key examples of his bottom up look include illegal bunkering and local bunkering. Bunkering, controlled by expansive criminal networks, is the systematic theft of oil by tapping into oil pipelines and selling stolen crude on the black market.<sup>2</sup> Millions are spent bribing local officials, police, and even ship's captains. Bunkering syndicates invest heavily in weaponry to protect their networks, adding to the areas dangerous instability. Local bunkering, by contrast, is the poor man's version of bunkering.<sup>3</sup> In Nigeria, for example, laid off Shell workers were paid to tap natural gas lines in riverbeds. Local criminals steel the gas to create highly volatile kerosene, which they sell to other locals. The kerosene is significantly cheaper than its commercial counterpart - a veritable win-win if you are not one of those burned or killed when it explodes.

Ghazvinian expounds on two economic principles applicable to Africa's condition: "Dutch Disease" and rentierism. "Dutch Disease" was coined in an *Economist* article in 1977.<sup>4</sup> In sum, a large influx of foreign currency artificially inflates the local

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<sup>2</sup> Ghazvinian, John. *Untapped: The Scramble for African's Oil* (Orlando, FL: Harcourt Publishing Company, 2007): 45-47.

<sup>3</sup> *Ibid.*, 47-48.

<sup>4</sup> *Ibid.*, 96.

currency, making imports cheaper. Locals switch to imported goods under the false perception they are better and local industries eventually collapse. Rentierism affects a nations governmental leadership.<sup>5</sup> Since the government's income is based on "renting" oil vice taxation of its people, there is no incentive to invest in creating a productive population. As a result, domestic industries are not fostered and the people become increasingly reliant on government jobs or handouts.

Taken at face value, Ghazvinian seems to have irrefutably shown that oil is a curse, more broadly referred to as a "resource curse" by economists. Although very entertaining and eye opening, *Untapped* does not provide a robust theoretical foundation for resource abundance as a curse. The following two sections will present economic models that argue for and against a curse.

#### Economic Theory Supporting "Resource Curses"

Sachs and Warner's 1995 seminal work "Natural Resource Abundance and Economic Growth" spawned a host of follow-on studies. Their work examined the economic growth of 95 countries from 1970-1990, contrasting resource rich and resource poor economies.

Jeffrey D. Sachs is currently the Director of The Earth Institute and a Special Advisor to United Nations Secretary-General Ban Ki-moon. He previously served as the Director of the UN Millennium Project.<sup>6</sup> In 1995, he was a Professor of International Trade at Harvard University. Andrew M. Warner was a Research Associate at the time.

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<sup>5</sup> Ibid., 103-107.

<sup>6</sup> Jeffrey D. Sachs. "Biographical Information," (The Earth Institute, 2008), <http://www.earth.columbia.edu/articles/view/1770> (accessed 28 May 2008).

They analyzed each country's annual growth rate relative to its natural resource-based exports in 1970, measured as a percent of GDP. Resource-based exports included agriculture, minerals, and fuels.<sup>7</sup> A key variable to remember is the measure of exports (SXP) determined by the ratio of primary-product exports to GDP. Basically, they use the percentage of resource exports compared to GDP to define the level of resource abundance for a given nation. Sachs and Warner show, through complex economic modeling, an inverse relationship between resource abundance economic growth.<sup>8</sup>

In 1997, they updated their work to reflect what were likely criticisms of their initial effort. In sum, areas they considered included state driven development strategies, decreased capital accumulation, increased rentierism, and development of large governmental bureaucracies.<sup>9</sup> Thus they updated their model to include integration into the global economy, capital accumulation, institutional quality, and global commodity price shocks.<sup>10</sup> Their updated analysis, again, showed that SXP remained significant.<sup>11</sup>

In 2001, they further extended their research. Working to prove the “curse” is real, they point to two anecdotal observations: (1) There is almost no overlap between the list of resource-rich countries and those with high GDP levels; and, (2) Oil rich countries, such as Nigeria, have not had sustained economic growth despite vast oil reserves.<sup>12</sup>

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<sup>7</sup> Jeffrey D. Sachs and Andrew M. Warner. “Natural Resource Abundance And Economic Growth.” (Cambridge, MA: Harvard University, 1997): 2.

<sup>8</sup> Ibid., 11.

<sup>9</sup> Ibid., 12.

<sup>10</sup> Ibid., 13.

<sup>11</sup> Ibid., 14.

<sup>12</sup> Jeffrey D. Sachs and Andrew M. Warner. “The Curse of Natural Resources.” *European Economic Review* 45 (2001): 828.

Further, they show that the curse is more than a “statistical mirage” because controlling for growth rates prior to resource discovery, for geography, and for climate still fails to eliminate the impact of resource intensity on economic growth.<sup>13</sup>

In sum, Sachs and Warner believe they have reasonably proved the “curse of natural resources” through empirical data, economic modeling, and observation. Their work inspired a host of follow-on economic studies and Ghazvinian seems to corroborate their findings in *Untapped*. Despite seemingly overwhelming evidence of the “curse”, not all economists buy their hypothesis.

#### Economic Theory Countering “Resource Curses”

Christa Brunnschweiler is a Chair of Economics for the Center of Economic Research at University of Zurich. She argues, in her 2006 “Cursing the Blessings”, that there is no “resource curse” when also properly factoring institutional quality and resource endowment.

Her root issue with the Sachs/Warner model is the measure of SXP in primary exports in GDP. Brunnschweiler believes SXP may not accurately reflect a country’s resource endowment because: (1) The resource export variable is so volatile; and, (2) Natural resource exports, rather than an indicator of resource wealth, could simply indicate macroeconomic distortions vice a “curse”.<sup>14</sup> She adds that subsequent studies analyzing various SXP constructs have cast significant doubt on the “resource curse” theory.<sup>15</sup>

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<sup>13</sup> Ibid., 831.

<sup>14</sup> Christa Brunnschweiler. “Cursing the blessings? Natural Resource Abundance, Institutions, and Economic Growth.” (Zurich, Switzerland: University of Zurich, 2006): 3.

<sup>15</sup> Ibid., 3.

Brunnschweiler acknowledges the widely held consensus that abundant natural resources often lead to rent-seeking behavior and corruption, which can reduce economic growth.<sup>16</sup> The key variable, then, is institutional quality and not resource abundance.<sup>17</sup> Sachs and Warner, in their modeling formula, account for institutional quality through a single value, corruption.

Brunnschweiler adds two new measures to the analysis: Rule of Law and Government Effectiveness based on World Bank governance indicators. Rule of Law focuses on contract enforcement and the likelihood of crime or violence.<sup>18</sup> Government Effectiveness measures the quality of bureaucracy and public services.<sup>19</sup>

The results of the new model, with these variables included, reveal a stark contrast to the Sachs/Warner data. SXP is shown to be substantially less significant when the more robust measures of governance are included. Moreover, the data shows positive economic growth despite large resource abundance, when measuring per capita wealth.<sup>20</sup> Moreover, Brunnschweiler asserts that a one percent increase in per capita subsoil wealth increases economic growth by 0.15 percent.<sup>21</sup> In sum, the data consistently shows positive economic growth, especially when coupled with high-quality institutions.<sup>22</sup> In testing the robustness of her findings she added a number of control variables. She found

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<sup>16</sup> Ibid., 7.

<sup>17</sup> Ibid., 7.

<sup>18</sup> Ibid., 9.

<sup>19</sup> Ibid., 9.

<sup>20</sup> Ibid., 9.

<sup>21</sup> Ibid., 13.

<sup>22</sup> Ibid., 13.

that ethnic fractionalization<sup>23</sup> and years of schooling had significant impacts on economic growth as well.<sup>24</sup> She further adds that resource abundance does not, in and of itself, negatively impact institutional quality.<sup>25</sup> Brunschweiler concludes that using resource abundance measured against capital per capita with the two governance variables demonstrates that resource abundance does, in fact, have a positive impact on economic growth.

This runs counter to Ghazvinian's observations. In truth, because the economy has grown it does not necessarily mean the few who benefit will pass it along. Hence, so many African's in oil rich countries remain impoverished.

Two respected economists have thus presented highly credible but distinctively different conclusions. Approaching the issue from a common sense perspective, Brunschweiler's conclusion that, in effect, it is about governance and not a "resource curse" resonates.

### Globalization, Regionalism, and AFRICOM

Globalization is likely one of the most vaunted economic terms in circulation today. With this in mind, this section attempts to quantify the extent of global integration and determine its impact on Africa. Furthermore, it is this author's contention the world is becoming increasingly regionalized as a result of globalization. This section will look at the rise of the African Union (AU) and potential avenues for AFRICOM to leverage African regionalization.

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<sup>23</sup> Colonization forced together extremely diverse ethnic populations. In Nigeria, for example, over 200 minority tribes were forced together with just three majority tribes controlling the wealth.

<sup>24</sup> Ibid., 15.

<sup>25</sup> Ibid., 15.

Both economists, discussed above, factored “openness” to the world economy in their models – seemingly a measure of a countries global integration. Considering both also weighted their respective “openness” variables in favor of global integration, the first task was to quantify globalization as a whole. According to the Swiss Economic Institute’s KOF Index of Globalization 2008, global integration has nearly doubled to 58 percent over the last 35 years.<sup>26</sup> Globalization indices for economic, political, and social integration also increased by 24-27 percent over the same period.<sup>27</sup> Contrary to both economists’ models, data from several international organizations seems to suggest that globalization has not served Africa well.

IMF analysis globalization has caused the internal populations of developing nations to suffer from growing income disparity.<sup>28</sup> In part, foreign direct investment and technology is blamed for tilting the advantage to the educated. Brunnshweiler’s model also highlighted the importance of education. Perhaps globalization coupled with rentierism is providing a double hit regarding education. Furthermore, the “UN Human Development Report 2005” highlighted several issues rising from globalization’s increased trade liberalization:

- Sub-Saharan Africa, with a population 69 times that of Belgium, accounted for a smaller share of world exports than its tiny competitor.
- If Sub-Saharan Africa had the same proportion of world exports as it did in 1980,

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<sup>26</sup> Axel Dreher, Noel Gaston, and Pim Martens, “KOF Index of Globalization.” <http://globalization.kof.ethz.ch> (accessed 28 May 2008).

<sup>27</sup> Ibid.

<sup>28</sup> International Monetary Fund. *World Economic Outlook October 2007: Globalization and Inequality*, (Washington, D.C.: IMF Publication Service, 2007): 135.

when corrected for inflation it would have an income eight times that of the aid received in 2003.

- Trade barriers imposed on developing countries exporting to developed ones average three to four times those of rich countries trading with one another.
- In just 15 years, the average American's wealth grew from 38 times greater to 61 times greater that of the average Tanzanian over the same period.<sup>29</sup>

Further complicating the security environment is, according to Moisés Naím, the “Five Wars of Globalization” that include: drugs, arms trafficking, intellectual property, alien smuggling, and money laundering.<sup>30</sup> Examples of nearly all of these activities are strewn throughout *Untapped*. Thus, one is now forced to question whether globalization or resource abundance is the “curse”. Perhaps, again, their negative impacts are in fact cumulative.

One could also argue the pace of global economic integration resulting from globalization has outpaced the ability of global political and security institutions to manage the change. Underrepresentation of weak states in global institutions such as the World Trade Organization, the International Monetary Fund, and the World Bank is just one example.

To better compete in a globalized world; nations are increasingly turning to regional political, economic, and security alliances to manage the negative impact of globalization. Key drivers of this new, or renewed, effort include regional trade benefits,

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<sup>29</sup> United Nations Development Programme. *Human Development Report 2005*, (Washington, D.C.: UN Development Programme, 2005): 36-37.

<sup>30</sup> Moisés Naím, “The Five Wars of Globalization.” *Foreign Policy*, (January-February 2003): 28-32.

improved resource allocation, and increased international bargaining power.

To quantify the pace of regionalization, consider when the World Trade Organization stood up in 1995 there were 125 Regional Trade Arrangements (RTA) and in just seven years that number doubled – an annual 500 percent increase over the previous 45 years.<sup>31</sup> Further, approximately 30-40 percent of these RTAs were between developing countries.<sup>32</sup>

The AU, formed in 2002, is the direct result of this regionalization. The AU's self proclaimed purpose is to accelerate "the process of integration in the continent to enable it to play its rightful role in the global economy while addressing multifaceted social, economic, and political problems compounded as they are by certain negative aspects of globalization."<sup>33</sup> Eight commissions and 14 directorates govern the AU's 53 member nations, representing 680 million people.<sup>34</sup> AU leadership rests with the Assembly – comprised of the respective heads of state.<sup>35</sup>

Coupling its vast resources with an existing \$1.8 trillion regional economy, the AU is working to mature its African Central Bank, African Investment Bank, and African Monetary Fund constructs.<sup>36</sup> The 1991 "Treaty Establishing the African Community," among other things, established a timeline for implementing free movement of peoples, a

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<sup>31</sup> Alan Mathews, "Regional Integration and Food Security in Developing Countries." *FAO Corporate Document Repository*. 2003, <http://www.fao.org/docrep/004/y4793e/y4793e00.htm#Contents> (accessed 28 May 2008).

<sup>32</sup> Ibid.

<sup>33</sup> African Union, "African Union in a Nutshell." [http://www.africa-union.org/root/au/AboutAu/au\\_in\\_a\\_nutshell\\_en.htm](http://www.africa-union.org/root/au/AboutAu/au_in_a_nutshell_en.htm) (accessed 28 May 2008).

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> World Bank, "2005 International Comparison Program." (Washington, D.C.: The World Bank, 2007): 31.

single domestic market, and a common African currency.<sup>37</sup> Though predating the AU, these goals remain an expressed objective of many African leaders.

A review of the AU's membership precepts shows a self-imposed mandate for human rights, rule of law, and democratic governance - all in keeping with America's highest ideals. Quite frankly, the potential benefits of union are so great that regional nations are voluntarily striving to meet these high-minded requirements even without U.S. involvement. By nurturing the AU's regional construct, the U.S. can promote its core democratic ideals through national example and partnership vice coercive diplomacy and regime change.

Economic interdependence creates stability and fosters regional efforts to uplift weak economies. Coastal nations have a vested interest, for example, in uplifting its land locked neighbors because the whole of Africa will benefit from the increased trade. Growing regional economies also attract capital investment and multinational corporations. U.S. policy should promote development and investment by U.S. corporations across Africa. The more corporations inject cash and employ a region's citizens, the greater their local political influence becomes and, by association, the greater the influence of the United States government. Finally, labor migration may dilute existing societal differences and reduce the potential for future conflict.

Just as economic interdependence creates stability, it also drives the need for collective security. The AU's Constitutive Act, for example, gives "the right of the Union to intervene in a Member State pursuant to a decision of the Assembly in respect of grave

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<sup>37</sup> Information Technology Center for Africa, "Treaty Establishing the African Economic Community." <http://www.uneca.org/itca/ariportal/abuja.htm> (accessed 28 May 2008).

circumstances, namely: war crimes, genocide, and crimes against humanity”.<sup>38</sup> The African Standby Force, described below, is poised to facilitate these efforts.

The AU’s Peace and Security Council (PSC) is responsible for the prevention, management, and resolution of conflicts. Article Two of the protocol establishing the PSC mandates an African Standby Force (ASF).<sup>39</sup> ASF missions span a range of operational activities from monitoring missions to post-conflict peace building to preventative deployment.<sup>40</sup> Further expanding its mission and capabilities, the AU has mandated creation of a civilian component responsible for public information, governance, reconstruction, humanitarian liaison, and law enforcement.<sup>41</sup>

This synthesized regional effort by Africans to improve their governance and economic condition highlights the potential for an interagency Combatant Command such as AFRICOM. Because the AU’s Assembly unites its regional leaders into a single decision-making body, it also provides AFRICOM with a natural regional counterpart. Additionally, AFRICOM is uniquely positioned to provide the ASF with comprehensive, sustained military-to-military training and capacity building. Capacity building efforts should focus on standard training as well as mediation and stability/reconstruction. Finally, a capable ASF could greatly reduce or even negate the need for direct U.S. troop

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<sup>38</sup> African Union, “The Constitutive Act.” [http://www.africa-union.org/root/au/AboutAU/Constitutive\\_Act\\_en.htm#Article4](http://www.africa-union.org/root/au/AboutAU/Constitutive_Act_en.htm#Article4) (accessed 28 May 2008).

<sup>39</sup> African Union, “Protocol Relating to the Establishment of the Peace and Security Council of the African Union.” [http://www.africa-union.org/root/au/organs/psc/Protocol\\_peace%20and%20security.pdf](http://www.africa-union.org/root/au/organs/psc/Protocol_peace%20and%20security.pdf) (accessed 28 May 2008).

<sup>40</sup> APSTA, “The African Standby Force Training Support and Coordination Workshop.” <http://www.apsta-africa.org/events/asfworkshopconceptmar07.pdf> (accessed 28 May 2008).

<sup>41</sup> Accord, “Draft Policy Framework for the Civilian Dimension of the African Standby Force.” <http://www.accord.org.za/news2007/Source/060905%20Final%20WKSHP%20DRFT%20ASF%20CifV%20DM.pdf> (accessed 28 May 2008).

involvement on African soil, allowing AFRICOM to avoid unwanted political entanglements. Building regional medical organizational capacity and capability to counter chronic and infectious diseases would reduce human suffering, increase individual security, and improve the image of the United States.

AFRICOM's integration of the Department of Defense, Department of State, and USAID has great potential to effect improvement in all the areas discussed above. AFRICOM will have an interagency picture of Africa's needs and speak with one voice. Often out of sync programs like Foreign Military Sales, Foreign Military Financing, and International Military Education and Training should now be properly balanced and prioritized. AFRICOM can not only assist in critical capacity building efforts with the ASF but also coordinate external services, such as logistical support or lift. Department of State personnel in AFRICOM can bridge the gap between DoD and the region's U.S. Ambassadors.

### Conclusion

Ghazvinian has written an insightful book that provides critical insights into resource-based economies. His conversational writing style is very easy to read and his observations put a very personal face on impersonal economic theories. Sachs and Warner, over a six-year period, provide a well thought out economic model demonstrating the "curse" of resource abundance on economic growth. Brunnshweiler, alternatively, demonstrates the potential of resource abundance when coupled with quality governance. Whether as an alternative or amplifying cause, globalization further complicates Africa's problems, especially in oil rich countries. The rise of the African

Union and AFRICOM, jointly, provide the best hope for harmonizing U.S. efforts to uplift the region and provide greater security. Ghazvinian's book not only provides tremendous insight but also inspires a deeper desire for a broader understanding of global and regional economics.