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Fragile Petrostates and the Green Transition

By: Aditya Sarkar,Alex de Waal

Declining oil revenue in politically unstable petrostates invariably leads to heightened political crises and violence. Any green transition must recognise the risks from decarbonisation in these fragile states.

Petrostates are unusual, the political scientist Terry Lynn Karl once argued, because of their addiction to oil rents (Karl 1999). Addiction goes beyond dependence. In oil-addicted states with weak institutions, everything depends on the flow of petro-revenue – the functioning of elite politics, the conduct of war, the pursuit of peace, and the provision of public goods. The characteristics are not unlike the medical condition of addiction – an ever-increasing demand and tolerance for the addictive substance, and painful withdrawal reactions to its denial (Gaddy and Ickes 2010).

Yet, almost all existing research on petrostates focusses on what happens when countries start producing oil. We know far less about the effects of a decline in oil revenues. This question acquires greater significance as countries begin to transition away from fossil fuels in their efforts to address the effects of climate change. How will decarbonisation affect the political order, particularly in petrostates with weak institutions, many of which are already affected by conflict? And what will this mean for a green transition?

The prognosis is grim. In fragile oil-producing states, the loss of oil usually causes political and economic crises. Leaders try to hold on to power and ride out processes of decarbonisation using a combination of strategies, but oil shocks rarely lead to the policy changes required for an energy transition. In reality, existing conflicts are transformed, new violence erupts, and the precarity experienced by common people deepens.

This essay draws on research funded by the US Institute of Peace and the World Peace Foundation, in particular on case studies of Ecuador, Indonesia, Iraq, Nigeria, Sudan, South Sudan, Timor-Leste, and Venezuela. Global decarbonisation has yet to occur, but looking at a range of countries that have either lost oil permanently or experienced declining oil revenues allows us to examine its likely effects.

Unplanned and traumatic

Decarbonisation refers to the replacement of fossil fuels by renewables or “cleaner” forms of energy. It is essential for limiting global warming to 1.5° Celsius or 2°C and achieving net zero emissions by 2050. This is likely to be the most significant political-economic transition of our times. Success, by any measure, will require overcoming the logic of industrial capitalism and global finance, and addressing the demands of lower- and middle-income countries that they should be allowed to pollute to develop.

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One of the consequences of decarbonisation will be a decline in demand for fossil fuels (particularly, petroleum and natural gas) over the medium term. Notwithstanding periodic spikes, such as those caused by wars in Ukraine and Gaza, oil-producing states will have to contend with falling revenues. Some countries are already planning for this transition. But others are not, and fragile states are quite ill prepared for this shift. Fragility is an imprecise term, and the way it is usually used – to refer to the likelihood of state failure – has been widely critiqued (Boege et al. 2009, de Waal 2020). Nonetheless, the utility of term lies in that it can be used as shorthand for states with weak institutions, which is the sense in which the expression is used here.

Depending on how one counts, around one-third of the world’s proven oil reserves are in countries that the World Bank classifies as fragile or experiencing conflict. In many of these fragile fossil fuel producers, political leaders are focused on short-term survival, and oil plays a key role in those survival strategies. Leaders rely on oil money to enrich themselves, instrumentalise state institutions, build coalitions, exert control over armies and militias, and construct patronage networks. Oil revenues also fund public goods and services, and public sector employment—and help build the leaders’ political constituencies.

Since oil is critical to leaders' political strategies, they have no incentive to decarbonise, even in the face of successive oil price shocks, or even when the loss of oil revenues can be clearly foreseen. Unlike the planned, gradual decarbonisation process envisaged by global energy strategists, their loss of oil revenues is likely to be sudden, unplanned, and traumatic. The existing research on oil, governance, and conflict does not equip us to understand its likely effects.

Oil and politics

Most of the research on the politics of oil-producing countries focusses on the relationship between resource dependency, conflict, regime types, and/or economic development at a very general level. This resource curse literature treats 'oil' as shorthand for 'oil revenue' and is concerned with the capture of these rents by the political class. As with prevalent social views on substance addiction, the literature sees oil addiction as the result of a political class lacking self-control rather than as a pathology of state institutions. It concludes that dependence on oil revenue makes autocratic regimes more durable, increases corruption, and is associated with the onset of conflict in low- and middle-income countries (Ross 2015, 2018; Smith 2006). Petrostates are also less likely to diversify economically, a phenomenon known as the "Dutch Disease" (Brahmbhatt et al. 2010).

One major problem with this literature is that it rarely examines the diversity amongst states' political institutions. Oil-producing countries include Norway, Russia, Iran, Indonesia, Venezuela, Iraq, Nigeria, Libya, and the United States. They are extraordinarily diverse in terms of geography, history, and governance systems. By treating them as belonging to the same broad group, the resource curse literature not only exaggerates the power of oil, but also provides a curiously blunt account of the political systems in places where oil is associated with conflict and political turmoil.

The focus should instead be on the nature of the political settlements within the states: the elite agreements, the balance of power, the role and functioning of institutions, and the very context-specific role of oil in them. At the risk of stretching the analogy with substance addiction too far, the pathology lies in the political systems of fragile fossil fuel producers. Focusing on oil as the sole determinant of conflict and political dysfunction is missing the point.

Oil in fragile countries

To understand what happens when oil revenues decline, we first need to understand the role of oil in the politics of fragile fossil fuel producers. Four related mechanisms can be observed:

First, and most obviously, oil money is stolen by elites – whether they are part of the government, or outside it. Second, oil revenue is used to prop up authoritarian rule. Oil revenues can fund redistribution or pro-poor policies, generating support for rulers. This occurs most obviously in the gulf monarchies such as Saudi Arabia, Qatar, and the United Arab Emirates (UAE), but has also been a feature of left populist regimes such as Venezuela under Hugo Chávez, and Ecuador under Rafael Correa (Burgess and Corrales 2024). Oil revenues can also fund an expansion of the public payroll – as has been the case in Iraq where parties use control over ministry budgets to employ supporters, and reward friends and family.

This has led to ballooning state budgets dependent entirely on increasing oil revenues and a three-fold expansion of those employed in government jobs. In a context dominated by civil service and military employment, this was an obvious way in which constituencies could be satisfied, at least temporarily, by political parties (Al Kli et al. 2024). Finally, oil can fund a large military security apparatus to both effectively repress dissent within a state, and to negate external threats.

Third, oil funds elite transactional politics. In many fragile fossil fuel producers, politics is based on personal transactions where political loyalties and services are sold to the highest bidder in a competitive manner. Politics is based on constant elite bargaining rather than the rule of law (de Waal 2015). Access to discretionary sources of money in these countries allows politicians to purchase or rent the loyalty of other elites, armed militia, vigilantes, and security operatives. Oil rents are an excellent source for this type of 'political finance' because they are highly centralised, plentiful, and easily diverted.

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Fourth, oil rents fund peace agreements, which are, in effect, elite payouts. This was the case in Sudan and South Sudan, discussed below, but also in both Papua and Aceh, in Indonesia. In general, during periods of high oil prices, when there is a lot of money to go around, there is a greater incentive for leaders to establish a more inclusive political bargain. When oil prices fall, however, these peace agreements and the elite bargains underpinning them tend to crack.

Aceh is an interesting example of a peace agreement that has not fallen apart despite the depletion of the natural gas fields on whose revenues the agreement was originally predicated. Foreseeing a political crisis in the absence of funds, special autonomy laws diverted additional development funds to the Acehnese elites. At the same time, Acehnese political leaders turned to environmentally destructive palm oil plantations to fill their coffers, dispossessing large numbers of farmers with small holdings. Scholars call this a "predatory peace" (Lund 2018).

Of course, oil can be used to sustain diversified economies in authoritarian countries (such as Russia), and give rise to resistance movements within countries amongst groups that are either opposed to extraction (such as the indigenous movements in Ecuador) or feel like they are not receiving their fair share of oil revenues (as in Nigeria).

Sudan and South Sudan

The cases of Sudan and South Sudan illustrate the dangers of unplanned decarbonisation in fragile polities. Sudan has been at war almost continuously since the early 19th century, with only brief intervals of peace. Its political economy is deeply inequitable. Patterns of extraction, dating back to the Egyptian conquest of Sudan in 1821, created a country divided between rural peripheral regions, which provided raw commodities and labour, and the export-oriented enterprises and elites, which were based in areas within a day's drive of the capital, Khartoum.

These spatial inequalities only increased after independence, and grievances around inequitable development contributed to the first Sudanese Civil War between the government and rebel groups in southern Sudan (Thomas 2015). Although a peace agreement formally ended the war in 1972, Sudan's politics remained turbulent. Oil was discovered in 1979, predominantly in the southern part of the country. By the early 1980s the Sudanese government had begun to arm nomadic groups to forcibly displace southern Sudanese from oilfields, a pattern of outsourced state violence that would be repeated through the years.

When oil exports finally began in 1999, Sudan experienced an economic boom. President Omar al-Bashir and a small clique within the ruling Sudanese National Congress Party used oil revenues to enrich themselves, to create patronage networks, and assuage the economic grievances of middle-class Sudanese, most of whom lived in northern Khartoum or its surrounding areas. Oil revenues also allowed President Bashir to rent the loyalty of armed groups in southern Sudan to fight the government's main military rival, the Sudan People's Liberation Movement/Army (SPLM/A).

The Comprehensive Peace Agreement of 2005 ended fighting between the Sudanese government and the SPLM/A, and South Sudan became independent in 2011. As a result, Sudan lost three-quarters of its oil, and 40% of its export earnings. President Bashir and his allies turned to artisanal gold mining as their main source of revenue, but this brought in far less money than oil. Starved of funds, President Bashir's carefully managed patronage system began to unravel, as a macro-economic crisis took hold in the country. Paramilitary groups controlled the gold-mining areas grew in prominence. The most important among them were the Rapid Support Forces (RSF) led by General Mohamed Hamdan Dagalo 'Hemedti'. Following widespread protests, President Bashir finally fell in April 2019.

Hemedti joined the head of the official Sudan Armed Forces (SAF), General Abdel Fattah al-Burhan in overthrowing the short-lived civilian government that took over. By 2023, the two generals had turned on each other. The fighting between the SAF and RSF has left thousands dead, more than eight million displaced, and 17.7 million facing acute food insecurity.

South Sudan has not fared much better. After gaining control of oil revenues in 2005, South Sudan's rival elites used oil money to buy the loyalty of armed groups and centralise power under the presidency of Salva Kiir. Commanders and provincial leaders would periodically mutiny for an increased share of government payoffs. The government of South Sudan would fight back – to lower the price to be paid – and the cycle of violence would continue until a formula for allocating money had been agreed.

Peace could only be maintained by continually increasing payouts. In 2012, leaders deliberately shut down their domestic production to avoid sharing revenue with Sudan, which received a cut based on trans-shipment to Port Sudan for export. Oil revenues collapsed, and there simply was not enough money to pay all the men with arms, and civil war broke out once again (de Waal 2014).

Results of decarbonisation

Three key conclusions can be drawn from the case studies. First, decarbonisation leads to political crises, although the trajectory and outcomes of crises vary. The fall in oil revenues deprives elites of political finance, and elite bargaining intensifies. Without oil money, politicians look for alternative revenue sources and make calculations about which constituencies need to be satisfied immediately and which can be postponed, discarded, or violently suppressed.

> Just the likelihood of decarbonisation can be sufficient to precipitate political crises.

Leaders can go to extreme lengths to stay in power. Common tactics include cutting spending on public goods and services to facilitate discretionary political spending, mortgaging future oil production for loans (often at large discount) and looking for alternative funds through a range of legal and illegal means. In extreme cases, politicians resort to direct pillaging and plunder of the population. Violence intensifies as elites fight over scarce resources or to retain power.

In Venezuela, for instance, mismanagement of the oil sector caused a drop in oil production even before prices fell dramatically in 2014-15. President Nicolás Maduro responded by repressing protests but also by expanding the role of the military in economic activity (especially mining) and allowing elites to divert funds from state-owned enterprises for their own enrichment. The military was given special powers to manage mines in the Orinoco mining arc, rich in gold, copper, and iron. Investigative journalists claim that the regime also collaborated with narco-traffickers to shore up its power. All through this, the ruling hardline coalition remained cohesive to stave off outside challenges.

Just the likelihood of decarbonisation can be sufficient to precipitate political crises. In Yemen, the ruling coalition, which had been sustained by oil rents, began to fragment around 2002, just as Yemen's oil exports were projected to decline.

Second, the rules of politics are sticky.

There is a difference between the logic of the rules by which politics is conducted within a country and the formal mechanisms of governance. Decarbonisation does not necessarily change the rules of the political game, but may lead to the reorganisation of the formal mechanisms of governance. The relative prominence of political elites can also change.

In Sudan, the rise of the RSF had much to do with the process of decarbonisation and the subsequent turn towards gold as the basis for the patronage system. In Iraq, a financial crisis caused by the fall in oil prices in 2014 led to an abortive decentralisation process (under the conditions of an International Monetary Fund bailout), and a reorganisation of how civil service jobs were allocated.

Instead of being allocated by political parties solely on the basis of ethnicity and sect, they were decided through a much more active process of bargaining between political parties and prominent new businessmen (Al Kli et al. 2024). The elite and the often predatory nature of politics did not change in either country.

Immiseration of the people

Widespread immiseration usually follows loss of oil revenues in fragile countries, though decarbonisation is not its sole cause. Revenue declines cause budgetary shortfalls and macroeconomic crises. Where leaders are more concerned with their own survival and prioritise the search for alternative sources of revenue (often using violence) over responding to crises, they are likely to exacerbate the misery of the populace.

Take Nigeria. During the Covid-19 pandemic, the price of Nigerian crude oil dropped to $15.54 from $65.89. Tankers of oil were floating off the Nigerian coast with no buyers. Nigerian President Buhari initially responded with promises to cut corruption and leakages from oil revenue. By the time the final budget was released, however, items such as "zonal projects", which were historically used for patronage and corruption, remained intact, while basic healthcare and education were cut in the middle of a health and learning crisis. Massive loans made up the deficit.

Only rarely do governments choose a different path. In Ecuador, the government responded to falling oil revenues by exercising fiscal restraint and shoring up the non-extractivist sectors of the economy. In that case, mass protests by indigenous groups against extractive industries and a split in the ruling party played a key role in shaping the government's response (Riofrancos 2020).

Rethinking the transition

A transition away from fossil fuels is essential. But there is a need to rethink how it is likely to occur, and what some of its unintended impacts may be. Thus far, the literature on decarbonisation has focused on job losses within communities dependent on fossil fuels, or on the challenges of developing states reliant on oil revenues for their development. Far less attention has been paid to the politics of decarbonising fragile states. This needs to change.

Decarbonisation is usually thought to be a product of clear policy signals from a national leadership that has a clear understanding of the climate crisis, and how to respond to it (Rietig and Dupont 2021, Rogge and Reichardt 2016, Tobin 2017). Unfortunately, the empirical evidence suggests that there is little likelihood of leadership and vision allied to policy in this sense in fragile fossil fuel producers, or even in more institutionalised states such as Indonesia and Ecuador.

> The challenge for policymakers now is to recognise and mitigate the risks posed to the political order […] even during a planned global decarbonisation process.

A second strand of climate scholarship argues that decarbonisation is likely to be a product of institutions interacting during periods of time that are amenable to policy change, such as oil price shocks (Aamodt and Stensdal 2017, Dubash et al. 2021). The evidence from fragile fossil fuel producers suggests that political incentives trump the functioning of climate institutions. Oil shocks do not necessarily hasten desirable climate policies and planning for longer term change. Instead, elites try to ride out the shocks using a combination of strategies. They may even increase their dependence on lower carbon rents to sustain their political bargains.

Very few, if any, fragile countries will move towards a productive, development-focused economy because of the energy transition. The challenge for policymakers now is to recognise and mitigate the risks posed to the political order in these countries even during a planned global decarbonisation process.

Aditya Sarkar is a Ph.D. candidate at the Fletcher School, Tufts University, and a researcher with the World Peace Foundation and the Peace and Conflict Resolution Evidence Platform. Alex de Waal is executive director of the World Peace Foundation, and a research professor at the Fletcher School, Tufts University.

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