



# Ownership matters: Natural resources property rights and social conflict in Sub-Saharan Africa<sup>☆</sup>



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## ABSTRACT

Empirical tests of the “resource curse” thesis have provided inconclusive evidence for the claim that natural resource abundance increases the risk of social conflict. The present article argues, based on a novel political economy framework and a new data set, that it is important to analyze how states regulate the access to their natural resources to understand the interrelationship between resources and public resistance against resource extraction arrangements. We claim that international rather than state resource ownership fosters the regional protest potential and overshadows the efficiency gains that foreign investment might create. Especially the siphoning of resource rents to international owners instigates resentment among the local population. Distinguishing between private, public, domestic and international ownership arrangements, we assess the effects of natural resources control rights regimes on state repression using new GIS-based data on diamond and gold mines as well as oil and gas fields in Sub-Saharan Africa. Our multilevel analysis shows that repression as an answer to societal dissent is particularly likely in grids hosting international oil companies. Furthermore, we find that international oil firms further state repression especially under insecure property rights.

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## 1. Introduction

According to the think tank *Revenue Watch Institute* (2013: 3), the fate of the resource-rich countries crucially hinges “on how they manage their oil, gas and minerals.” This observation reflects the emerging consensus in policy circles that these states can avoid the ills of resource abundance, such as slowing development and an increased risk of political violence, through good governance. Yet, the empirical literature on the resource curse continues to provide mixed results. While *Ross* (2012, 2015) establishes that oil and gas wealth undermines democracy, slows (with some exceptions) economic growth, and increases the risk of civil war, other

researchers have come up with less clear-cut results (e.g. *Alexeev & Conrad, 2009; Brunnschweiler & Bulte, 2008; Haber & Menaldo, 2010*).

Studies on the resource-conflict nexus have so far neglected the question of how states regulate the access to their natural resources. We maintain that the disruptive effects of natural resources are not merely a function of, for instance, resource type, resource location, mode of extraction or the point in time at which revenues are recovered, as frequently discussed in the literature (see, for example *Humphreys, 2005; Le Billon, 2008; Lujala, 2009, 2010; Lujala, Petter Gleditsch, & Gilmore, 2005; Snyder & Bhavnani, 2005*). Rather, we seek to highlight one important and widely ignored condition under which resources may unleash violence: the question of whether resource-extraction is publicly, privately, domestically or internationally controlled.

The resource-conflict literature has, in our view, not provided conclusive findings because of its focus on large-scale conflicts such as civil wars and its frequent reliance on aggregate data that typically use the country year as the unit of analysis. Addressing these shortcomings, this article advances a political economy framework of the resource-conflict nexus and empirically tests the impact of different resource control rights regimes on state repression. The ownership of resource-extracting companies may in this

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perspective affect the local conflict risk in different ways. On the one hand, multinational companies may adopt modern and environmentally-friendly technologies and corporate social responsibility (CSR) practices more easily than local firms, thereby reducing the potential for local socio-environmental grievances (Cole, Elliott, & Strobl, 2008; Eskeland and Harrisson, 2003; Zarsky, 1999). At the same time, domestic state-owned enterprises are more frequently involved in distributional conflicts over resource rents (Karl, 1997; Mommer, 1996). On the other hand, foreign-controlled resource extraction often instigates resentment through the perception that the foreign owners act like neo-imperialists (Kohl & Farthing, 2012; Oneal & Oneal, 1988). Especially the employment of foreign workers fuels this grievance. In addition, international companies tend to operate at their capacity limit due to expropriation fears, thereby being less likely to internalize their socio-environmental costs.

Testing the impact of ownership rights on the resource curse has so far been nearly impossible in light of the huge variation of arrangements within the same country. In this article we examine the influence of resource control rights regimes on social conflict by employing a disaggregated analysis. To this end, we develop a new theoretical argument that links commodity-driven societal dissent and state repression to control rights regimes of diamond and gold mines as well as oil and gas fields in Sub-Saharan Africa. The analysis of over 8400 grid cells in 38 African states for the period from 1997 to 2014 reveals that internationally-controlled hydrocarbon production increases the incidence of governmental violence against civilians. Furthermore, we show that this effect is particularly strong in an environment in which property rights are only insufficiently protected.

## 2. Natural resource and intrastate violence: under what conditions?

Studies on the link between natural resources and intrastate conflict have grown steadily in recent years. The empirical evidence, however, is mixed.<sup>1</sup> While several quantitative studies find a positive association between resource extraction and armed conflicts or civil wars (Collier and Hoeffler, 2004; Lei & Michaels, 2014; Lujala, 2010; Ross, 2006, 2012), others question the conflict-enhancing effect of resources (Brunnschweiler & Bulte, 2009; Smith, 2004; Thies, 2010). Recent work stresses the need to examine the precise conditions under which primary commodities act as a catalyst for violence (for example, Basedau & Richter, 2014). Contextual conditions identified in the literature include the characteristics of the available resource (Le Billon, 2008; Lujala, 2010; Ross, 2003, 2012; Snyder & Bhavnani, 2005), the ratio between resource abundance and dependence (Basedau & Lay, 2009) or the socio-political environment under which resources are extracted (Basedau & Pierskalla, 2014; Sorens, 2011; Wegenast & Basedau, 2014).

Furthermore, the resource curse literature has increasingly considered institutions as a mediating variable between resource wealth and social inequities. Rent-seeking models found that political and social entrepreneurs try to monopolize the profits that natural commodities create. Inequality and social conflict, both in their violent and non-violent manifestations, are the direct

consequences of these resource-grabbing activities (e.g. Torvik, 2001, 2002). Subsequent refinements of these models account for the incentives generated by political institutions (see, e.g. Mehlum, Moene, & Torvik, 2006). Using country-level measures of institutional quality, Mehlum et al. (2006: 13) find “that the resource curse is weaker the higher the institutional quality.” Robinson, Torvik, and Verdier (2006) similarly stress in an alternative model that institutions promoting accountability and state competence ameliorate the curse as they prevent politicians from over-extracting the resources to pay off their supporters and to strengthen their hold on power.

These institutional explanations of the resource curse have intensified the debate centering on whether or not institutional quality and comparable indicators are truly mediating the impact of resource richness on development, intrastate stability, and other key outcomes. Recent studies have shown that institutions such as federalism, for example, may mediate the effect of natural resources on intrastate conflict (Arellano-Yanguas, 2011; Farzanegan, Lessmann, & Markwardt, 2013). In a recent working paper, O’Reilly and Murphy (2015) show that strong economic and political institutions, including democratic regimes and free and open economies, mitigate the risk of territorial conflicts after major oil discoveries.

The present article builds on this literature that links resource extraction and institutions to the occurrence of violent and non-violent intrastate conflict. Our approach explicitly departs from existing studies by introducing a micro-level perspective that takes the diversity of ownership arrangements in resource-abundant states into account. We believe that investors who are trying to maximize the profitability of investments in the resource sector have to reckon with both the national institutions as well as the way in which the extraction is managed locally. Although most of the previous studies have relied on country-level evidence, we suggest that a more disaggregated research design is better suited to address the resource violence nexus.

So far, only a few studies have tested the impact of natural resources on intrastate conflict through the lenses of a disaggregated analysis. Two recent papers rely on georeferenced data in analyzing the impact of mining on the risk of local conflict. Berman, Couttenier, Rohner, and Thoenig (2017) find that mining activity increases the probability and intensity of local violence, such as riots, protests or battles, in Africa. Using georeferenced data on oil and mineral discoveries in Africa, Arezki, Bhattacharyya, and Mamo. (2015) questions the link between natural resources and local conflict. They conclude that there is “no evidence of natural resources triggering conflict in Africa after controlling for grid-specific fixed factors and time varying common shocks” (Arezki et al., 2015, p. 1). We maintain that the disregard of local ownership arrangements accounts for the conflicting evidence that current scholarship presents, showing that control rights regimes are crucial to better understand the link between commodities and local conflict.

Moreover, and in marked contrast to most of the previous studies, our examination does not assess the impact of natural resources on major forms of violence such as armed conflict or civil wars. Rather, we focus on state repression as a proxy for societal dissent and local grievances. In contrast to geographically dispersed armed conflicts that are not bound to a particular resource-producing region, repression is a more local phenomenon that can be causally linked to specific regional characteristics.

Few studies address the impact of natural resources on minor forms of conflict. On the country-level, de Soysa and Binningsbø (2009) show that mineral and oil wealth increases repression. This finding is corroborated by DeMeritt and Young (2013) who find a positive relationship between a state relying on oil and the

<sup>1</sup> For comprehensive overviews of the causal mechanisms linking natural resources to economic, political and social development, see Ross (2015) or Van der Ploeg and Poelhekke (2017). For a summary of the different channels through which natural resources may influence countries’ risk of experiencing internal conflict, see Collier and Hoeffler (2012). For a more general discussion of the natural resources and conflict linkage, see Koubi, Spilker, Böhmelt, and Bernauer (2014) and Cotet and Tsui (2013).

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