



**RESEARCH TITLE: STATE OWNERSHIP, PETROLEUM REVENUE, AND THE ENDURING LEGACY OF AUTHORITARIANISM IN ANGOLA.**

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**A minor dissertation submitted in partial fulfillment of the requirements for the award of the Master of Arts in International Relations**

**Faculty of Humanities  
University of Cape Town**

**2020**

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## TABLE OF CONTENTS.

ACKNOWLEDGEMENTS.....	iv
ABSTRACT.....	v
CHAPTER ONE: INTRODUCTION.....	1
<i>Aim and research question</i>	
<i>Argument and rationale</i>	
<i>Roadmap for the study</i>	
CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK	
2.1 INTRODUCTION.....	6
2.2 TAXATION AND STATE-BUILDING.....	6
2.3 DIAGNOSING THE PROBLEM.....	9
<i>The Dutch Disease model</i>	
<i>The institutional model</i>	
<i>The rentier state model</i>	
<i>The centralized political economy model of the resource curse</i>	
2.4 CONCLUSION.....	23
CHAPTER THREE: RESEARCH METHODOLOGY	
3.1 INTRODUCTION.....	25
3.2 RESEARCH DESIGN.....	25
<i>Case study selection</i>	
<i>Classifying political regimes in oil-rich developing countries</i>	
<i>Methodological approach</i>	
<i>Data collection</i>	
3.3 CONCLUSION.....	33
CHAPTER FOUR: BACKGROUND TO THE STUDY	
4.1 INTRODUCTION.....	35
4.2 THE BIRTH OF A NATION.....	35
4.3 CONCLUSION.....	41

CHAPTER FIVE: STATE OWNERSHIP, PETROLEUM REVENUE, AND THE ENDURING LEGACY OF  
AUTHORITARIANISM IN ANGOLA

5.1 INTRODUCTION.....42

5.2 STATE OWNERSHIP, PETROLEUM REVENUE, AND AUTHORITARIAN  
PERSISTENCE: 1976-1991.....43

5.3 STATE OWNERSHIP, PETROLEUM REVENUE, AND AUTHORITARIAN  
PERSISTENCE AMID DEMOCRATIC REFORMS: 1991-2017.....49

5.4 CONCLUSION.....55

CHAPTER SIX: CONCLUSION

6.1 FRESH ROOM FOR THINKING.....57

REFERENCES.....60

## **ACKNOWLEDGEMENTS.**

First and foremost, I would like to thank the Postgraduate Centre and Funding Office (PGFO) of the University of Cape Town for funding my master's degree. This dissertation would not have been possible without the PGFO's financial support. Perhaps the most exciting aspect of researching and writing this dissertation was the opportunity to work with Ms. Alecia Ndlovu who has provided me with uncompromised supervision to guide the scholarship in the study of how state ownership, petroleum revenue, and authoritarian persistence mix in the Angolan context. She has grace. I have gratitude.

I also owe a debt of gratitude to my family's support as the research and writing dragged on. In Pankop, I especially thank my mother, Evah Pule, for her unwavering belief in my work. She has always been behind this dissertation from the very start. My dad and siblings were, as always, unfailing in their support. In Cape Town, I am grateful to the Kekana family who were a wonderful moral support, and I thank them for being endlessly patient and kind. Many thanks too, to my late sisters, Matshidiso and Karabo Pule, whom this dissertation is dedicated.

## **ABSTRACT.**

In the post-independence period, Angola's political economy has been shaped by the petroleum industry. After gaining independence in 1975, Angola turned authoritarian and subsequently, Sonangol, a state-owned oil company, was created. Once established, authoritarianism in Angola persisted for a long period, with oil playing a major role. This study investigates how the state's ownership of Sonangol has reinforced authoritarianism in Angola. Theoretically, it builds on the ideas of the resource curse hypothesis, which refers to the adverse effects of abundant non-renewable resources on a country's socio-economic and political outcomes. In addition to these findings of an adverse impact of non-renewable resources, this study argues that the type of resource ownership matters. Specifically, state ownership adversely affects political regimes. The rentier state model and the centralized political economy model of the resource curse are applied to investigate how the interaction between state ownership and petroleum revenue has reinforced authoritarian persistence in Angola. Building on Ross' quantitative cross-national findings of this interaction, this study uses process tracing research method to provide an in-depth investigation of Angola. There are two central findings. First, state ownership (with control) in the oil sector enabled the Angolan state to capture petroleum rents directly. This direct access to rents granted the state autonomy from having to formulate its goals under the scrutiny of its citizens, and thus undermined the state-society bargaining dynamic. Second, the incumbent's discretionary power over the distribution of petroleum rents as patronage increased the value of staying in power and provided sufficient incentives for authoritarian practices to persist.

## CHAPTER ONE: INTRODUCTION.

### *Aim and research question.*

The resource curse perspective asserts that oil-rich developing countries fail to benefit from their petroleum revenues. The abundance of petroleum revenues makes authoritarian regimes stronger and hinders the emergence of democratic institutions. Angola, a classic example of the resource curse view, has been marked by unusual authoritarian longevity on the one hand, and a combination of authoritarian and democratic institutions on the other. While the question of “why petroleum revenue<sup>1</sup> had such perverse effects in Angola” is amongst the most fundamental questions in the resource curse perspective, many explanations offered to answer it have been unsatisfactory. Consider, for example, some researchers argue that institutions are decisive for how petroleum revenues affect the economic and political development of a country (Mehlum, Moene & Torvik, 2006; Menaldo, 2016). Although the argument that causality runs more strongly in the direction of institutions to development is hard to ignore, it remains ambiguous in the sense that institutions can simultaneously affect or be affected by petroleum revenues (Ross, 2014: 250). Further complicating this argument is that oil-rich developing countries like Angola have developed institutions, making it deceptively hard to identify the exact relationship between institutions and development (Chang, 2011: 477).

Some researchers place explanatory emphasis on whether petroleum revenues are private or state-owned (Mitchell, 2012; Ross, 2012). In other words, a far-sighted answer to what is behind the curse of petroleum revenue in Angola therefore awaits a complete answer to the question about what the outlook of the ownership structure in the oil sector is. The variation in the ownership structure proposed often ranges from state ownership with control, state ownership without control, private domestic ownership, and private foreign ownership (Jones Luong & Erika Weinthal, 2010, cited in, Menaldo, 2016: 155). For Ross, the nationalization of oil reserves in the 1970s and the subsequent creation of National Oil Companies (NOCs) that swept oil-rich developing countries offered these countries privileged instruments to politicize petroleum revenues (Ross, 2012). Ross (2012) tends to cast doubt on nationalization’s appropriateness to economic and political conditions in oil-rich developing countries. To be more specific, state ownership with control, which is the byproduct of nationalization, enables NOCs to capture high petroleum revenues on behalf of oil-rich developing countries – whether for the political purposes of keeping authoritarian governments in power and weakening the emergence of democratic institutions

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<sup>1</sup> Petroleum revenue is used in a singular term when referring to a single country, especially in the Angolan context, but it encompasses all sources of revenue from the oil sector such as oil profits, oil royalties, oil taxes, oil-backed loans, and so on.

or for circumscribing the reach and competence of governments' institutions as well as their accountability to the citizenry. Apart from all this, state ownership with control has adverse economic effects in oil-rich developing countries, including the failure to boost private-sector growth due to the "Dutch Disease" and causing large fluctuations in governments' budgets (Ross, 2012).

The aim of this study is to develop a framework that shows that authoritarian persistence in Angola can be best comprehended not only in the context of petroleum revenue but also in the context of the state ownership-petroleum revenue interaction. The first objective of this study is to extend Ross' earlier work by introducing the reader to the period of oil nationalization in Angola – a move that saw a National Oil Company (NOC) being established, and the colonial traditional concessionary contracts being modified. This move situates the state ownership-petroleum revenue interaction as an alternative explanation which needs to be fruitfully explored, but which has received little attention. This study intends to fill that gap.

The second objective of this study is to trace the ways in which the state ownership-petroleum revenue interaction is responsible for authoritarian persistence in Angola. This objective has two implications. On the one hand, authoritarianism was firmly entrenched prior to the period of oil nationalization in Angola, and this is probably the reason why the interaction of interest did not cause, but instead strengthened authoritarianism. On the other hand, when democratic reforms were introduced as a moral imperative in Angola, their development was undermined and thus the existing authoritarian practices were entrenched. Like much of the implications noted above, this interaction was responsible for reinforcing authoritarian persistence amid democratic reforms.

The third objective of this study is that since there are parallel literatures within the resource curse perspective that connect petroleum revenues to either authoritarianism and/or lower levels of democracy or incumbency advantage, this study intends to set these differences aside. That is, the point of departure here is a framework that captures both – namely, that the state ownership-petroleum revenue interaction prevents a state-society bargaining dynamic and gives a sizable incumbency advantage, and is thus responsible for reinforcing authoritarian persistence in Angola.

The fourth objective of this study is to link the state ownership-petroleum revenue interaction and authoritarian persistence in Angola to President Eduardo Dos Santos' tenure as the leader of the country. Furthermore, since Dos Santos ceded power in the Angolan state and relinquished his control of the Angolan NOC, there is, in this

regard, the question: can the regime change and usher in a democratic-developmental path? Although, of course, this question matters greatly, this study does not attempt to provide answers to it but rather it teases out some of the constraints that are essential for understanding the prospects of the Angolan democratic-developmental trajectory.

Following these objectives noted above, this study begins its inquiry with the following research question: *How has the state's ownership of Sonangol reinforced authoritarianism in Angola?* Here, the explanatory variables are the type of ownership structure (state ownership with control) and petroleum revenue (a broad concept which encompasses all sources of revenue from the oil sector). As already indicated, this study is primarily concerned with the interaction between these two variables, denoted as *the state ownership-petroleum revenue interaction*. The outcome that this study seeks to explain is authoritarian persistence. In chapter three, this study uses a two-dimensional dichotomous approach to define what authoritarianism is. Specifically, this study is a theoretical causal mechanism which intends to analyze the causal process whereby the state's ownership of Sonangol grants the Angolan government a much larger claim to petroleum revenue, and allows it to depend on this revenue without having to tax non-resource sectors as well as Angolan citizens. The rentier state model and the centralized political economy model of the resource curse are the two approaches that hypothesize how this interaction is negatively associated with authoritarian persistence – a point that will be made clearer further ahead.

#### *Argument and rationale.*

This study's central argument is as follows. Founded in 1976 as the essential tool for the maximization of public revenue and the enhancement of developmental spillovers from the oil industry, Sociedade Nacional de Combustíveis de Angola (Sonangol) has made the problems of Angola a lot worse. For concreteness, petroleum revenue accruing to the Angolan state through Sonangol has (1) increased the dependence of the government on petroleum revenue and reduced its reliance on domestic tax revenues and (2) increased the value of staying in power (Ross, 2012: 5-6). This central argument contributes towards the key observation that authoritarian persistence in Angola can be best comprehended in the context of the devastating effects of the state ownership-petroleum revenue interaction. As clear predictions of political regime outcomes flow from this interaction, this study provides evidence that generally validates this central argument. It offers two explanations to support this central argument. The first is the rentier state model explanation which is narrowed into the "taxation effect" and the "spending effect" to explain the economic structure and state-society relations that the state ownership-petroleum revenue interaction attract. The second is the centralized political economy model of the resource curse

which helps to analyze how the state ownership-petroleum revenue interaction increases the value of staying in power by offering politicians governing resource abundant economies the means to either resist the pressure to democratize or enhance their popularity.

The rationale for choosing Angola as a case study was pedagogical in nature. That is, no formal qualitative inquiry using the rentier state model and the centralized political economy model of the resource curse has been conducted, especially in relation to the implications of the state ownership-petroleum revenue interaction on the political regime in Angola. In *The Oil Curse, 'how petroleum wealth shapes the development of nations'*, Michael Ross was the closest to study Angola in this regard (Ross, 2012). However, Ross' study was a cross-country study, with an illustrative discussion of Angola, without any qualitative focus on the country. While it was informative in describing the perverse effects of the state ownership-petroleum revenue interaction on political regime in Angola, no qualitative evidence specific to Angola was provided.

#### *Roadmap for the study.*

The second chapter begins by outlining the central role of war in the development of taxation and the development of democratic institutions in early modern European states. As will be emphasized here, war created the need to extract revenues that could only be met through taxation. The general rule seems to have operated like this: because taxation provoked popular resistance, rulers had to devise consensual mechanisms with taxpayers to obtain the revenues they needed to finance war efforts. The net result was the implementation of the fiscal social contract that put bargaining between rulers and citizens at the heart of state-building, and the more this contract was enforced, the greater was democratization residue. Ironically and perversely, there is no historical precedent for this fiscal social contract in most oil-rich developing countries. This default scenario, this chapter shows, can be traced to state ownership with control which guaranteed oil-rich developing countries a source of revenues apart from general taxation. This chapter uses the rentier state model and the centralized political economy model of the resource curse explanations to present this argument with a great precision. There, this study immerses itself in the afore-mentioned explanations to provide hypothesized causal mechanisms that indicate how the state ownership-petroleum revenues interaction has antidemocratic effects in oil-rich developing countries.

The third chapter outlines the research design. It begins by justifying the case selection of Angola. Furthermore, it briefly discusses how and why this study uses Ross' earlier studies to have a better sense of the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence in Angola. Moreover, it

analyzes the relevance of process tracing research methodology in this study. Lastly, it demonstrates the ways in which data will be collected to provide evidence about the expected causal relation in Angola.

The fourth chapter provides a truncated account and interpretation of the colonial and postcolonial Angolan political economy. It basically relaxes the oldest assumption in political economy that a country's development is hindered by its geographic features, and shows that in some instances, a country's resource endowment determines its economic and political development. As this chapter will make it clear, Sonangol and the oil endowment that underpins it are the centerpiece that defines the postcolonial Angolan political economy trajectory. Following Terry Lyn Karl's assumptions that the ways in which a state earns a living affects its pattern of institutionalization, the postcolonial Angolan political regime type reflects the reliance of the state on petroleum rents, the lack of need for taxing citizens, as well as how this unusual revenue autonomy gives the state discretionary powers to distribute petroleum rents according to a political logic.

The fifth chapter conducts a detailed qualitative analysis that lends support to the causal mechanisms linking the state ownership-petroleum revenue interaction to authoritarian persistence in Angola. As Ross' studies quantitatively tested the causal relation between this interaction and the outcome of interest and used similar causal mechanisms to demonstrate that the relation is causal, therefore the goal of this chapter is to provide qualitative evidence consistent with the quantitative evidence in the case study of Angola.

The sixth chapter concludes by highlighting the extent to which reforms in the Angolan oil sector might precipitate a political regime change. Of course, reforms in the Angolan oil sector will probably be a catalyst for political regime change, but such reforms will weaken the ruling party's survival strategies as petroleum revenue secures its grip over political power on the one hand, while the relative stickiness of the current political equilibrium impinges upon such reforms from materializing, on the other.

## **CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK.**

### **2.1 INTRODUCTION.**

When (if at all) does the state ownership-petroleum revenue interaction begin to have pro-authoritarian effects in oil-rich developing countries? Most scholars immersed in the resource curse perspective say little about or have been slow to grasp the effects of the state ownership-petroleum revenue interaction on political regimes in oil-rich developing countries. To begin to answer this question, this chapter outlines and analyzes the fiscal social contract, specifically, how this contract reduced problems of credible commitment and fiscal transaction costs in early modern European states. This framework speaks directly to the broad hypothesis that “taxation leads to representation”. Stated briefly, in the early modern European experience, representation was predicated on bargaining over taxing and spending. The underlying assumption in this case was that rulers that depended on taxing citizens to finance wars made concessions (guarantees of rights, court of appeal, representative institutions, etc.) to their citizens on the one hand, and provided public goods to their citizens on the other. These factors reduced fiscal transaction costs – that is, they raised revenues for rulers – and consolidated a credible commitment by rulers to services that their citizens valued. In turn, this fiscal social contract increased the demand for democracy, particularly in the expansion of the right to representation and pressures on rulers to be accountable to their citizens.

A dissimilarity with state-building in oil-rich developing countries best makes the point. This chapter shows that state ownership with control, by implication of guaranteeing oil-rich developing countries with a source of income, and ultimately relieving these countries of the burden to tax their ordinary citizens, undermined the emergence of the fiscal social contract necessary for democracy. The absence of the fiscal social contract, its robustness in most oil-rich developing countries, and the fact that it undermines the possibility of democratization, suggests that authoritarianism thrives in this context. Furthermore, this trend hints that there is a need to understand a set of mechanisms that entrench authoritarianism for an elongated period in oil-rich developing countries. Here, the rentier state model and the centralized political economy model of the resource curse explanations are used to explore key causal mechanisms of the state ownership-petroleum revenue interaction that produce and maintain pro-authoritarian effects in oil-rich developing countries.

### **2.2 TAXATION AND STATE-BUILDING.**

In *War making and state making as organized crime*, Charles Tilly remarked that “any state that failed to put considerable effort into war making was likely to disappear” (Tilly, 1985: 184). Douglaas North, John Wallis,

and Barry Weingast follow this line of thought and argue that every state must deal with the problem of violence, and if we begin thinking about the state by positing a single actor that enjoys sovereignty over the monopoly on violence, we must assume away the fundamental problem of violence (North, Wallis & Weingast, 2009: 30). To address the arrant problem of violence that had beset early modern European states, Tilly argues that the agents of states carried on four different activities (Tilly, 1985: 181):

1. War making: Eliminating or neutralizing their own rivals outside the territories in which they have clear and continuous priority as wielders of power.
2. State making: Eliminating or neutralizing their rivals inside those territories.
3. Protection: Eliminating or neutralizing the enemies of their clients.
4. Extraction: Acquiring the means of carrying out the first three activities – war making, state making, and protection.

In this idealized sequence, war making, state making, and protection depend on the ability of rulers or their agents to demonstrate the increased capacity to extract revenues (Karl, 2007: 260). There are two somewhat different approaches to extract revenues: taxation or borrowing (Karl, 2007: 260). Since borrowing depended on a state's ability to demonstrate a secure revenue base, extracting revenues through taxation made a whole lot of sense. Mick Moore argues that taxation allowed shrewd rulers trying to survive in war and violent environments to kill two birds with one stone. Taxation guaranteed the necessary revenues to pay for war making, state making and protection activities (Moore, 2008: 34-36). Taxation also enabled states to leverage their revenue-raising capacity to solicit loan financing, both domestically and abroad (Moore, 2004, cited in Karl, 2007: 261). How much of a difference does taxation make? Ross (2012: 68) asserts that ordinary citizens usually prefer governments that take little from their pockets (in the form of taxes) but give them much (in the form of public goods and representation rights). Menaldo (2016: 46) suggests that Ross' assertion takes cue from Tilly who put the fiscal social contract between rulers and the ruled at the foundation of state-building. In its basic logic, the fiscal social contract "holds that if a ruler wishes to collect revenues by taxing his citizens, he must make concessions in exchange for compliance" (Menaldo, 2016: 46). Because there was a need for rulers to develop linkages with their subjects to raise the revenues they needed, there was a pressing and obvious need for a fiscal social contract in early modern European states.

How do these novel contributions help us to understand the relationship between taxation and political regime type? A paper by Michael Ross suggests that there are two possible ways in which taxation can lead to democracy (Ross, 2004). Ross (2004: 234) reasons that "if taxes are increased in a non-democratic state, they will increase

the demand for democracy, which will in turn produce a more democratic government”. This is termed the ‘pure anti-tax’ model (Ibid). Alternatively, if taxes are increased without a commensurate increase in desired services, citizens will protest for representation (Ross, 2004: 234; Brautigam, 2008: 10). Consider, for example, “when citizens are faced with an undemocratic government that is charging unreasonably high prices for its services, they tend to demand democratic reforms” (Ross, 2004: 248; Brautigam, 2008: 10). This is termed the ‘cost-benefit’ model (bid). Ross’ paper statistically tested both models and found support for the ‘cost-benefit’ model, which lends support to the fiscal social contract. That is, rulers who wished to raise revenues by taxing their citizens reciprocated tax revenues with political representation and public goods (Menaldo, 2016: 46-47). This ‘cost-benefit’ model, if achieved, institutionalized the creation of the notion of bureaucratization (to administer, monitor and regulate society, and extract revenues from it); the evolution of the rule of law to ensure compliance from the ruler and the ruled; and the facilitation of representative institutions that could provide for some citizen input (Karl, 2007: 260). This implies that mechanisms that enable authoritarian governments to lower the price of government services will ultimately have pro-authoritarian effects (Ross, 2004: 247). In the case of this study, petroleum revenue reduces the state’s reliance on domestic taxes, lowers the price of government services, and fosters authoritarian persistence.

However, Menaldo argues that there are many reasons to doubt the logic and evidence outlined by Ross (Menaldo, 2016: 50). In other words, the fiscal social contract in general, and the ‘cost-benefit’ model in particular, is neither adequate nor appropriate. Menaldo argues that it is not usually the bargaining between a ruler and citizens that matters for state-building, political stability, political and economic development, but the negotiations between factions within a ruling coalition (Menaldo, 2016: 51). There are two factors concerning why citizens command less leverage and influence than the fiscal social contract assumes. The first is that ordinary citizens usually fail to overcome the collective action costs in their efforts to sway concessions from rulers (Radnitz, 2012: 71, cited in, Menaldo, 2016: 52). The second is that, unlike International Oil Companies (IOCs) that have exit options if they are taxed excessively, average citizens do not have exit options at their disposal when it comes to their wealth and are thus at the mercy of rulers (Menaldo, 2016: 53). The upshot is that IOCs have power and influence than the unorganized and vulnerable ordinary citizens.

In response to Menaldo’s arguments, Moore points out that the early modern European states were organized in a way that fostered incentives to engage in revenue bargaining (Moore, 2008: 51). The argument runs as follows. Taxpayers were independent of rulers, thereby suggesting that state elites were vulnerable to negotiate with

taxpayers to pay for war making, state making, and protection activities (Brautigam, 2008: 26; Moore, 2008: 51). Additionally, taxpayers were homogenous and therefore enjoyed conditions conducive to the collective action that was necessary to sway state elites into institutional arrangements that placated taxpayers with political representation and public goods (Moore, 2008: 51). These arguments show that different sources of revenue have contrasting political implications for state-building and democratization.

### **2.3 DIAGNOSING THE PROBLEM.**

As dissected in the introduction chapter of this study, the resource curse literature is broad. Therefore, a full-fledged literature review is out of the scope of this section. This section is restricted to reviewing a set of representative contributions that indicate the different mechanisms that may be driving the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence in oil-rich developing countries.

#### *The Dutch Disease Model.*

Economist have come close to capturing the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence in oil-rich developing countries. Economists argue that the Dutch Disease concept provides a powerful explanation for this causal relation in resource rich countries. In this context, the Dutch Disease is “a process whereby a boom in a country’s resource sector causes a decline in its agricultural and manufacturing sectors” (Ross, 2012: 48). Economists note that this process has two effects: the ‘resource pull effect’ and the ‘spending effect’. As regards the resource pull effect, a boom in the resource sector shifts labour and capital away from the agricultural and manufacturing sectors (Humphreys et al, 2007: 5; Ross, 2012: 48). During the resource pull effect, the price of labour and capital rises in the domestic market; and in turn increases the costs to producers in the agricultural and manufacturing sectors (Humphreys et al, 2007: 5). As regards the spending effect, a boom in the resource sector increases the value of exports which in turn produces an appreciation in the real exchange rate (Humphreys et al, 2007: 5). Consequently, this makes it cheaper to import non-resource commodities than to produce them locally (Ross, 2012: 48).

Thus, the agricultural and manufacturing sectors lose their competitiveness on the domestic and international markets because of cheaper imports and higher costs of production. Given that the Dutch Disease is more pronounced in oil-rich developing countries, and since oil sectors are mostly state owned, economists believe that this process gives us a much broader view of the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence. To elucidate, the Dutch Disease posits that the state ownership-

petroleum revenue interaction shifts economic activity from the private sector to the state. This shift gives rise to rent-seeking behaviour and, rent-seeking behaviour, in turn, leads to a “socio-political stagnation and inertia” whereby state elites in oil-rich developing countries devote a portion of petroleum revenues to jealously guard against the status quo, to the detriment of socio-economic outcomes (Yates, 1996: 21). In other words, the ways in which state elites collect petroleum revenues and the uses to which they put these revenues define the nature of political regimes in oil-rich developing countries (Karl, 1997: 13). Thus, it should not be surprising that oil-rich developing countries are authoritarian or become less democratic as rent-seeking behaviour enables state elites to develop and value these political pathologies (Menaldo, 2016: 79). The Dutch Disease model provides compelling evidence for why most oil-rich developing countries are authoritarian or become less democratic. But by almost exclusively looking at a one-sided direction of causality, that is, from rent-seeking behaviour to authoritarian persistence, the Dutch Disease model discourse gives us only a partial picture.

The state ownership-petroleum revenue interaction does not automatically produce rent-seeking behaviour in the way the Dutch Disease model assumes. The model ignores the underlying political processes that set off rent-seeking behaviour in the first place (Karl, 1997: 5). This is the reason why the rentier state model presents a superior alternative to the Dutch Disease model that underpins so much of economics. The rentier state model indicates that the extent to which rent-seeking behaviour takes effect is largely as a result of the absence of the fiscal social contract which stems from the state ownership-petroleum revenue interaction’s tendency to reduce the state’s reliance on domestic taxation. For example, rent-seeking behaviour is not in itself a destructive force, and thus major explanatory power cannot be attributed solely to its peculiar character or even to the political pathologies it encourages. Simply stated, rent-seeking behaviour can be good for political development if it complements productive activities, and bad for political development if it competes with productive activities (see Halvor Mehlum, Karl Moene & Ragnar Torvik, 2006). The Dutch Disease model does not tell us how rent-seeking behaviour transforms in a manner that subsequently discourages productive outcomes in oil-rich developing countries. The centralized political economy model of the resource is significant in that, unlike the Dutch Disease model, it dissects factors that induce state elites’ preferences to invest resource wealth in unproductive activities that consolidate their power.

#### *The institutional model.*

In contrast to the Dutch Disease model, some economists and political scientists posit that institutional quality is a far-sighted causal mechanism which determines the causal relation between the state ownership-petroleum

revenue interaction and authoritarian persistence in oil-rich developing countries. Two imperative explanations are possible: the endogenous and the exogenous perspectives. In the endogenous perspective, state ownership with control in the oil sector (and by virtue of guaranteeing oil-rich developing countries high petroleum revenues), leads to weak state institutions (Ross, 2015: 249). Jones-Luong and Weinthal's study on five oil-rich developing states of the former Soviet Union found strong evidence that confirms this argument (Menaldo, 2016: 59-60). Hazem Beblawi (1987), Kiren Aziz Chaudhry (1989) and Terry Lyn Karl (1997), for example, argue that the state ownership-petroleum revenue interaction hurts institutional quality by undermining a state's capacity.

Menaldo (2016: 84) postulates that the fiscal and legal capacity constitute the most important aspect of state capacity. To be more specific, the state ownership-petroleum revenue interaction engenders different levels of transaction costs, including forestalling a state's capacity to extract domestic taxes (Ross, 2015: 249; Menaldo, 2016: 59). A paper by Nathan Jensen and Leonard Wantchekon demonstrates that when a state's fiscal and legal capacities are weak, incumbent politicians tend to have discretionary powers over the allocation of petroleum revenues (Jensen & Wantchekon, 2004: 821). Thus, institutional quality provides several reasons why the state ownership-petroleum revenue interaction might increase the chances of political support and political survival, and more broadly authoritarian persistence.

In the exogenous perspective, the key mechanism linking the state ownership-petroleum revenue interaction and authoritarian persistence is the prior regime experience and/or international influence. This perspective maintains that economic and political institutions, once they are established in a society, have a strong tendency to persist for an elongated period (Robinson, 2010; Acemoglu & Robinson, 2012). For example, colonialism in Africa introduced extractive economic and political institutions designed to enrich elites and safeguard their power at the expense of most citizens in a society (Acemoglu & Robinson, 2012). In the case of Jones-Luong and Weinthal's study, the five oil-rich developing countries took over the extractive institutions of the Soviet Union based on the ideology of Marxism-Leninism (state ownership with control, the abolition of private property rights, and so on). The essence of these examples is that changing extractive institutions is a daunting task.

From the exogenous perspective, the state ownership-petroleum revenue interaction is part of the extractive institutions recreating themselves, especially in the case of oil-rich developing countries in Africa, due to their contingent path of history with colonialism and cold-war politics. To better understand this, the state ownership-petroleum revenue interaction is used to cement and reproduce the power of the ruling elite that inherited

extractive institutions – either of colonial or cold-war politics origin (Acemoglu & Robinson, 2012). Thus, extractive institutions have a large impact on the state ownership-petroleum revenue interaction, which in turn leads to authoritarian persistence. Quite interestingly, Jensen and Wantchekon found empirical evidence that the effects of extractive institutions depend on the colonial history of the country (Jensen & Wantchekon, 2004: 827). For example, former British colonies appear more democratic than former Portuguese colonies. This is particularly so because the British rule provided crucial learning experiences towards democracy which had a positive impact on the rule of law and bureaucratic structures in former British colonies (Anyanwu & Erhijakpor, 2013: 17).

The institutional model, while also initially attractive, is not applied in this study. The main reason is that the model suggests that new, improved, and strong institutions need to exist to mitigate the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence. However, Anthony Bebbington and his colleagues indicate that this model illustrates less about the conditions that would need to exist for such institutional changes to arise and be effective in the first place (Bebbington et al, 2018: 1-10). In the Angolan context, for example, democratic reforms introduced inclusive institutions and the state claimed to adhere to the best practices endorsed by continental and global bodies such as Extractive Industries Transparency Initiative (EITI). However, the presence of these institutions and practices did not retard authoritarian persistence.

#### *The political settlement approach.*

The political settlement approach posits that compromises between powerful groups (economic and political elites) in a society, not petroleum revenues or institutions, shape the political regime of a country (Bebbington et al, 2018: 7). Or put differently, negotiations between factions within a ruling coalition matter the most for political stability and political and economic development (Menaldo, 2016: 51). The underlying effect of this approach is that it pays attention to the developing countries in which there is small formal sectors and revenues generated from those sectors are not sufficient enough to define the broad distribution of power in those countries (Khan, 2010: 5). Instead, negotiations between powerful groups determine the control over the state and the distribution of opportunities (political and economic) and rights in a society. Particularly, Khan argues that the ways in which these negotiations between powerful groups are managed is contingent upon what he refers to as “holding power” – that is, the capability of an individual or group to engage and survive in conflicts (Khan, 2010: 6). The components determining the holding power can either be economic or non-economic capabilities (Khan, 2010: 6). In other words, powerful groups possess wealth, connections and specialized knowledge about the economic

and political systems, and then use these advantages to shape the rules of the game and public policy (Albertus & Menaldo, 2018: 8-9). Thus, a settlement is what holds those negotiations and distributions of power together in a stable form (Bebbington et al, 2018: 8).

Interestingly, Khan argues that political settlements in the developing countries are “clientelist political settlements” (Khan, 2010: 5). There are two possible reasons as to why this is the case. The first is that most societies in the developing countries are a paradigmatic example of what North et al terms “natural states” – a state whose social order is achieved by forming a dominant coalition that limits access to valuable resources (land, labour and capital) and control over valuable activities like trade (North et al, 2009: 30-35). To be sure, the political system of a natural state regulates the economic system in such a way that guarantees the rents that secure a social order (North et al, 2009: 18). In this way, patron-client networks emerge. The second is that most developing countries do not have productive sectors that generate significant incomes that can constitute the dominant sources of holding power (Khan, 2010: 54). On the contrary, sources of holding power in the developing countries are based on political processes and organizational capabilities like the ability to organize clients and mobilize co-ethnics, and use them in political confrontations (Khan, 2010: 54; Menaldo, 2016: 85). These sources of holding power are not aligned with formal, but informal institutions. To be more specific, political processes and organizational capabilities constitute the exercise of informal political power which allows competing factions to threaten significant costs on society if they are not permitted to capture informal benefits and distribute those benefits to themselves (Khan, 2010: 53-55). Thus, competing factions use this informal political power to create patron-client networks to capture their desired benefits.

If this is the case, who is the head of patron-client networks? The stark way to respond to this question is to link Khan’s “clientelist political settlement” and Bebbington et al’s “dominant party/leader political settlement”. Because patron-client networks are informal organizations between elite leaders and their clients, they often operate through formal organizations like political parties or forms of leadership which are dominant (Khan, 2010: 5; Bebbington et al, 2018: 8). Therefore, informal organizations like patron-client networks can assist to form a defined political settlement if they generate distributions of privileges, rights and benefits that bring the overall distributions of these components into line with the distribution of power.

There is no doubt that the clientelist and dominant leader/party political settlement perspectives can help to provide powerful insights into Angola’s authoritarian trajectory. Yet, as this study argues, there are reasons to be

skeptical of the political settlement approach. Take for example. Dos Santos' grip over the Angolan state for more than three decades partially corroborates the clientelist and dominant leader/party political settlement perspectives. Of course, Dos Santos as a dominant leader of a dominant party possessed a rare concentration of petroleum revenue and the means for their distribution that afforded him a high degree of protection from domestic and international pressures (De Oliveira, 2015: 36). But the patron-client network under the auspices of Dos Santos was not in the traditional sense of relationships that reflected the negotiations between powerful groups or the distribution of power<sup>2</sup>. Ironically, by virtue of controlling Sonangol and petroleum revenue it generated for the Angolan state, Dos Santos was the holding power. Thus, the patron-client network reflected the choices of Dos Santos himself, especially concerning how he recruited and sustained supporters to remain in power before 1992 and to assume power after 1992. For yet another example, Angola's oil sector was productive as it generated high petroleum revenue and Sonangol which was responsible for managing this sector was an island of competence (De Oliveira, 2015: 22). Therefore, the clientelist political settlement's basic assumption that developing countries do not have productive sectors that generate incomes that can constitute sources of holding power can be misleading as an analytical framework for explaining Angola's authoritarian trajectory.

#### *The rentier state model.*

In the rentier state model, Ross argues that much of the politics of oil is shaped by the struggle between IOCs and oil-rich developing countries for the control of petroleum revenues (Ross, 2012: 36). This study's finding is that after a rash of nationalizations, a stronger sense of politics that shifted power to oil-rich developing countries was incorporated. To be sure, before the 1950s, International Oil Companies (IOCs) controlled 98 percent of traded oil meanwhile in 2011 National Oil Companies (NOCs) controlled 90 percent of the world's oil reserves (Ross, 2012: 37; Menaldo, 2016: 155). Since oil reserves are nationalized and National Oil Companies (NOCs) manage them, oil-rich developing countries capture a higher portion of petroleum revenues. Such arrangements, according to the rentier state model, reduce oil-rich developing countries into rentier states because these states depend on petroleum revenues that emanate from what Phillip Le Billon refers to as 'point resources'. Point resources are easier for governments to control and capture as rents (Le Billon, 2005: 32-36). Le Billon's definition of point resources is closely related to Beblawi's definition of the rentier state – a state in which the government is the principal recipient of the external rent in the economy and plays the crucial role of the prime mover of economic activity as well (Yates, 1996: 14-15).

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<sup>2</sup> Note that Angola had a political settlement which entailed some sort of power-sharing arrangements between the powerful groups in the 1990s. However, this political settlement did not last as the country soon returned to civil war.

In *The Rentier state in Africa, 'oil rent dependency and neocolonialism in the Republic of Gabon'*, Douglas Yates argues that Beblawi's definition is usually paired with Giacomo Luciani's definition of the rentier state (Yates, 1996). While Beblawi's definition places emphasis on the structure of the state revenue, Luciani's definition emphasizes the origins of state revenue (Yates, 1996: 14-15). For Luciani, there are two aspects of states that must be kept in mind: allocative and productive functions (Luciani, 1987: 63). In this proposed categorization, a productive state relies on taxation of the domestic economy for its revenue whilst an allocative state is itself the primary source of revenue in the domestic economy (Yates, 1996: 15). From an allocative state perspective flows Luciani's definition of the rentier state as one "whose revenues derives predominantly (more than 40 percent) from oil or other foreign sources and whose expenditure is a substantial share of GDP" (Yates, 1996: 15).

Now that we know exactly the structure and the origins of state revenue in the rentier state, a paper by David Wiens, Paul Poast, and William Clark suggests that the structure and the origins of the state revenue free oil-rich developing countries from the need to raise revenue via domestic taxation (Wiens, Poast & Clark, 2014: 784). The core argument of Wiens, Poast, and Clark's paper is that oil-rich developing countries lack the fiscal social contract in the conventionally defined European sense because they depend on a largely fixed asset (oil) which putatively yields unearned revenue. According to this logic, Karl argues that oil grants oil-rich developing countries access to easy revenue, thereby compelling these countries to stop exerting the efforts needed to supplement their revenue through substantial increases in domestic taxation (Karl, 1997: 61; Menaldo, 2016: 47-48). It therefore follows that the fiscal social contract is likely when capital is hard-to-tax (Menaldo, 2016: 47) and unlikely when capital is generated by a depletable commodity (Karl, 1997: 58).

In turn, a paper by Nazneem Barma posits that petroleum rents, by limiting a government's need for domestic tax revenue generation, lead to the erosion of credible commitments to citizens and, along with it, the incentive to establish full democratization in oil-rich developing countries. Even worse, Karl argues that in the absence of the fiscal social contract, oil-rich developing countries suffer from at least two types of stateness deficits: *information* and *participation*. As regards information deficit, citizens in oil-rich developing countries have no complete knowledge concerning whether their demands on the government's expenditure are reasonable or effective (Karl, 2007: 265). As regards participation deficit, the absence of the fiscal social contract decreases any sense of ownership of public resources (Karl, 2007: 265).

Quoting Luciani, Yates argues that an allocative state perspective postulates that the primary goal of the rentier state is spending (Yates, 1996: 15). This is what Ross terms the “spending effect” (Ross, 2012: 33). Perhaps the spending effect argument is promising because massive expenditure would give the rentier state a short-cut to further balanced and sustainable development. This prediction draws inspiration from the dependency development theory (associated with Fernando Cardoso, Peter Evans, and Thomas Biersteker) which reasons that resource abundance would help the developing countries, not harm them (Ross, 1999: 301). While Stephen Haber and Victor Menaldo uncover evidence for a resource blessing in support of the dependency development theory view, there is, of course, a huge difference in the levels of development between oil-rich developing and developed countries (Haber & Menaldo, 2011).

The main point of the “spending effect” is that petroleum revenues are usually spent on political activities that decrease incentives for revenue bargaining and destroy rather than build state-society relations and democratization. Even though the “spending effect” is highly influential, it is often accused of over determinism. In other words, the spending effect’s tendency to determinism leads to sameness in how scholars comprehend the rentier state model – that is, petroleum revenues invariably induce greater spending on patronage; this in turn dampens state-society bargaining dynamic and pressures for democratization (Ross, 2001: 333). Notwithstanding this weakness, this study contends that the spending effect’s utility could be enhanced by linking it with the centralized political economy model of the resource curse. The substantive link between the “spending effect” and the centralized political economy model of the resource curse provides an alternative conceptual schema for thinking about the distribution of petroleum revenues in oil-rich developing countries. It does this by providing the range of privileged mechanisms that enable incumbents to politicize petroleum revenues, which in turn determine the distribution of these revenues in oil-rich developing countries.

#### *The centralized political economy model of the resource curse.*

Following the rentier state model, Benjamin Smith argues that as soon as petroleum revenues increase to the point at which they dominate a government’s revenue source, the government shifts from an extractive state to a distributive one (Smith, 2004: 33). A corollary to this view is that the resource rents from publicly owned resources accrue to the public sector, and the government and the incumbent must decide ways to distribute them (Robinson et al, 2006: 449). Karl (2007: 259) posits that distributing petroleum revenues is precisely the dilemma of oil-rich developing countries. It is a dilemma because the centralized political economy model of the resource curse posits that oil-rich developing countries can either distribute petroleum rents in activities that increase the

value of staying in power or activities that increase the productive potential of the economy (Kolstad & Wiig, 2009: 5318). The nuances of these activities are important. A paper by Halvor Mehlum, Karl Moene, and Ragnar Torvik suggests that activities that increase the value of staying in power are those where rent-seeking and production are competing activities, while activities that increase the potential of the economy are those where rent-seeking and production are complementary activities (Mehlum, Moene & Torvik, 2006: 3).

The underlying assumption behind Mehlum et al's argument is that institutions are decisive for how petroleum rents are distributed towards either of these activities. Consider, for example, Mehlum et al assert that activities that increase the value of staying in power are a direct consequence of a weak rule of law, corruption, and malfunctioning bureaucracy (Mehlum et al, 2006: 3). As argued in this study, the fiscal social contract was responsible for bureaucratization, accountability, representation, and the strong rule of law in early modern European states. It is therefore plausible to argue that activities that increase the value of staying in power are often the byproducts of the absence of the fiscal social contract. This argument seems to support the rentier state model's "spending effect" assertion that as soon as the state ownership-petroleum revenue interaction decreases incentives for revenue bargaining, incumbents appropriate an unusual degree of independence which enables them to invest in activities that increase the value of staying in power (Karl, 2007: 263). Therefore, the forthcoming question is this: what are the factors that induce incumbents in oil-rich developing countries to invest in activities that increase the value of staying in power in the first place?

Ross (2012: 216-221) recognizes four sets of factors that influence incumbents' preferences to invest in activities that increase the value of staying in power: uncertainty among rulers, the selection of rulers, the role of citizens, and the role of credit markets. To evaluate these factors, this section employs a framework that facilitates the analysis of the nature of interest-group politics with power rivalry. A paper by Macartan Humphreys and Martin Sandbu suggests that most oil politics entails a struggle between competing interests, and the competition for power among different groups breeds perverse incentives to distribute petroleum revenues (Humphreys & Sandbu, 2007: 200). Under the assumptions of Humphreys and Sandbu's model, the uncertainty among rulers is a ruler's probability about how long they will remain in office (Ross, 2012: 216). Consider, for example, when the incumbent is guaranteed that she will be in office for a foreseeable future, her distribution of petroleum revenues will be efficient in the sense that there will be no distribution that can allow anyone group to do better without making the other group worse off (Humphreys & Sandbu, 2012: 202). Alternatively, if the incumbent is uncertain about how long she will remain in office, she will prefer an inefficient distribution of petroleum

revenues (Humphreys & Sandbu, 2007: 202-203; Ross, 2012: 2016-217). In this case, the higher the likelihood of imminent change in office and the deeper the division among competing groups, the more pronounced is the incentive to prefer inefficient distribution of petroleum revenues (Humphreys & Sandbu, 2007: 203-204). Andersen and Aslaksen (2013: 92) argue that inefficient distribution of petroleum revenues includes the expansion of the public sector employment, patronage and clientelism; and these are deliberate strategies by the incumbent to remain in power.

The crux of the selection of rulers is the following. All politicians who seek power face a myriad of problems that complicate their ability to consolidate that power (Menaldo, 2016: 85). As politicians foresee these consequences, they begin to assemble what Menaldo refers to as launching organizations (LOs) to catapult them into power (Menaldo, 2016: 85). There are some interesting properties of LOs. Most obviously is their wealth, ability to organize co-ethnics, weapons, or association with a compelling ideology. As Ross puts it, in democratic societies, the candidate who can assemble strong LOs is likely to win elections (Ross, 2012: 218). However, it is worth mentioning that LOs are not peculiar to democracies only, that is, the same dynamic can occur in authoritarian countries. It is perhaps of interest to understand what happens when the politician is launched into power. After ascending to power, Menaldo writes, the incumbent must credibly commit to their LOs and vice-versa (Menaldo, 2016: 86). The forthcoming question to ask is this: how do powerful individuals who make up LOs credibly commit to each other?

The logic of LOs follows from how they solve the problem of distrust. There are several mechanisms through which distrust may be limited – some mechanisms exacerbate the problem meanwhile others alleviate the problem (Humphreys & Sandbu, 2007: 206). The selection of rulers concentrates on the latter type: mechanisms that alleviate the problem. A common way for incumbents to alleviate the problem of distrust is to regulate the economy for political gain (Menaldo, 2016: 86-87). However, there are many varieties of experiments in which incumbents regulate the economy for political gain. One variety common in oil-rich developing countries is to design a stable rent-sharing setting and engage in aggressive distribution of resources. This politicized exhibition allows incumbents who are driven by their desire for power to kill two birds with one stone: regulating the economy for political gain creates a revenue base to dispense patronage, and it cultivates loyal political supporters who come to depend on incumbents for their livelihoods (Humphreys & Sandbu, 2007: 207; Menaldo, 2016: 19). The bottom line is this: the more pronounced regulating the economy is for political gain, the more states are

unable to make credible commitments to a majority of their citizens, and thus preclude an otherwise organic taxation and state-building nexus from emerging (Menaldo, 2016: 47-85).

The role of citizens stems from the study of political budgets cycles. The basic notion in this study is that the self-objective preferences of citizens are to support governments with large budgets and lower taxes. This implies that citizens are concerned both about their taxes and government benefits (Ross, 2012: 66-67). But what does this tell us about distributing petroleum revenues? To arrive at answers to this question, this section divides the resource curse perspective into two theoretical strands: the “demand-side” and the “supply-side”. On the demand-side, most scholars (Mahdavy, 1970; Beblawi, 1987; Karl, 1997; Ross, 2001; Ross, 2012) argue that petroleum revenues free oil-rich developing countries from the need to raise revenue via domestic taxation (Wiens et al, 2014: 784). While lower tax rates may be welcomed by citizens, this often comes at a steep, long-run cost. That is, in the absence of the need to generate citizens’ tax compliance, leaders may disregard institutional limits on their exercise of political power in exchange for revenue (Wiens et al, 2014: 784). Moreover, given that oil-rich developing countries are not built on direct taxation, the pressures for more fair distribution of petroleum revenues and the rule of law are weak (Karl, 2007: 216).

On the supply-side, petroleum revenues empower incumbents to consolidate their hold on political power. Often, this can be explained in a two-pronged approach. First, as already argued in this study, citizens prefer governments with large budgets, that is, a large government’s spending-to-revenue ratio. Ross (2012: 78) suggests that there is a plethora of evidence indicating that oil-backed leaders spend petroleum revenues to satisfy popular demands. Take for example. Citizens in oil-rich developing countries prefer cheap gasoline, and thus governments subsidize fuel prices to meet this demand. This may sound like a contradiction of the earlier argument that lower tax rates lead to less representation of citizens, but it is not. According to Menaldo (2016: 78), “politicians do not pursue economic strategies for the sake of development”. This implies that government subsidies are handmaidens of political strategies pursued by shrewd politicians trying to survive in oil-rich developing countries. In a rather stark way, government subsidies are sometimes the results of these strategies, but development is rarely explicitly intended (Menaldo, 2016: 78-79). Second, if citizens are unsatisfied with government benefits, petroleum revenues enable incumbents to invest in repressive apparatuses to shield them against protests (Smith, 2004: 234). Most important, when incumbents control the distribution of petroleum revenues, it becomes easier to buy the loyalty of the armed force (Ross, 2012: 271).

What about the role of credit markets? Considering that petroleum revenues are contingent upon oil price fluctuations, the rentier state model posits that the bust periods make it unsustainable to continue patronage and high government spending (Smith, 2004: 233). Moreover, as oil-rich developing countries are bureaucratically anemic – they do not rely on domestic taxation for the bulk of their revenue – and lacking in transparency, these make it unsustainable to extract revenues from domestic sources in the case of bust periods (Smith, 2004: 233). Apart from the perverse effects of bust periods, modern contracts between IOCs and oil-rich developing countries can be marred by “the variation overtime in rates of extraction” and “the variability in timing of payments” (Humphreys, Sachs & Stiglitz, 2007: 6). Or simply put, “years may pass between the day that a valuable oil field is discovered and the day it begins to yield significant revenues for the government” (Ross, 2012: 220). Under such circumstances, most oil-rich developing countries borrow money against their future oil production. In much the same way as lowering taxes: borrowing money against future oil productions increases the value of staying in power as it enables incumbents to maintain patronage, high government spending or even subsidies without closing budget deficits by raising domestic taxes. Ross (2004: 235-247) notes that by reducing the need to raise domestic taxes, international or private domestic borrowing retards the democratic pressures that oil-rich developing countries would otherwise face.

If indeed the state ownership-petroleum revenues interaction is responsible for authoritarianism in oil-rich developing countries through the abovementioned hypothesized causal mechanisms, what explains the profound political regime distinctions between Angola, Venezuela and the rentier-states in the Middle East? Most rentier states in the Middle East nationalized their oil reserves and have created NOCs to manage them. Most importantly, these rentier states are non-democratic. But this does not mean that this study’s independent variable – the state ownership-petroleum revenue interaction – is responsible for the political regime type in these countries. There are several reasons as to why this is the case. The first is that rentier states in the Middle East are not authoritarian, but monarchical (Menaldo, 2016: 309-314). The second is that monarchical political culture, not the independent of variable of interest, explains why rentier states in the Middle East have proven to be politically stable and resilient. Menaldo (2016: 313-314) shows that monarchies are more effective at creating and broadcasting a political culture through, for example, monarchical rituals like coronation ceremonies which serve as platforms that facilitate elite coordination, standardize beliefs and disseminate regime norms. One of the advantages of a monarchical political culture is that it further bolsters monarch’s legitimacy, and thus he/she remains in office until they die or abdicates (Menaldo, 2016: 305-313).

The third is that a monarchical political culture predates the discovery and exploitation of oil. That is, the state ownership-petroleum revenue interaction does not begin to explain relations between the ruler and the ruled or the absence of democratic institutions (Menaldo, 2016: 315). The fourth is that rentier states in the Middle East are not predicated on the fiscal social contract, but this does not minimize demands for representative governments. There are cases that show that rentier states in the Middle East invest a lion's share of petroleum rents in public goods and economic activities that benefit ordinary citizens (see Menaldo, 2016).

Venezuela closely resembles Angola in one fundamental respect. Like Angola, Venezuela nationalized its oil deposits in 1976 and subsequently created a NOC called Petroleos de Venezuela SA (PDVSA) (Hammond, 2011: 363). As Hammond and Karl indicate in their studies, nationalization is identified with maximum petroleum revenues from the oil industry to the state in Venezuela (Hammond, 2011; Karl, 1997). As in Angola, the state ownership-petroleum revenue interaction was also evident in Venezuela, with two intrinsic similarities. Although PDVSA and Sonangol were nationalized, they operated much as private transnational oil companies, embracing capitalist efficiency instead of domestic policy fads and political demands (Hammond, 2011: 363; De Oliveira, 2015: 31). Moreover, they were internationalized as they invested in related and unrelated business opportunities where they could profit (Hammond, 2011: 364; De Oliveira, 2015: 35). These conditions enabled both companies to generate long-term flows of petroleum revenues for their respective states. Despite this sound management style which permitted a steady flow of petroleum revenues, PDVSA and Sonangol share a disappointing common background. That is, petroleum revenues they generated contributed to a sizable incumbency advantage in both countries, but there are subtle differences in how these countries distributed their petroleum revenues – this point will be made clearer below (Hammond, 2011: 356-371). In Venezuela, petroleum revenues helped to empower incumbency advantage and regime stability. Take for example. Petroleum revenues gave Alfonso Perez and Hugo Chavez – the longest serving Presidents after the nationalization of the oil sector – greater popularity and extraordinary powers, including the popularity to get reelected and the powers to weaken the influence of democratic institutions such as the parliament and courts (Ross, 2012: 86-90).

Ironically, Venezuela is an exception to this study's central argument that the state ownership-petroleum revenue interaction shapes authoritarianism or authoritarian persistence in the oil-rich developing countries. Two exceptions stand out. The first is that this interaction turned the Venezuelan state into a rentier state. One alleged effect of the rentier state model is that states that depend on petroleum revenues as opposed to direct taxation are not built on the fiscal social contract – a central component of state-building and a catalyst of democracy (Ross,

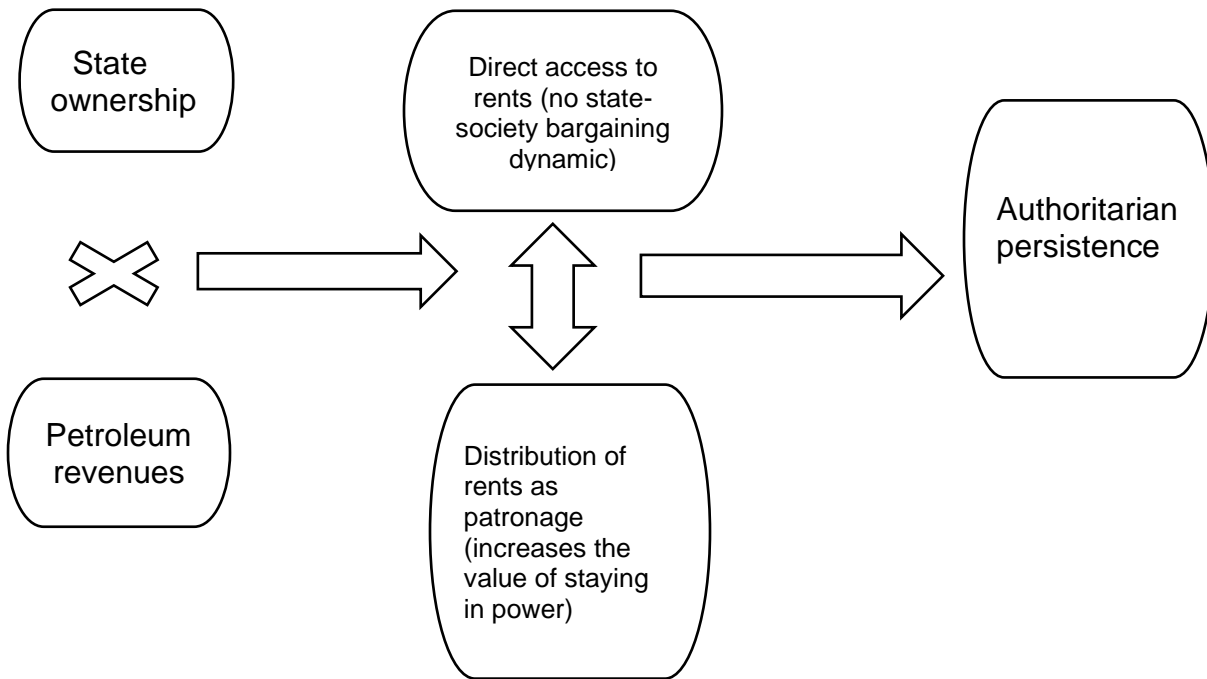
2001: 327-328). Because the Venezuelan state had its own guaranteed source of income from the oil sector, the state was automatically immune from internal countervailing pressures such as political representation, transparency, accountability, and more crucially, democracy (Karl, 2007: 262-263). Hammond and Karl show that despite its efforts to diversify the economy, the Venezuelan state remained dependent on the oil sector, implying that outside of this sector, there is no alternative source of state revenue (Karl, 1997; Hammond, 2011). To the contrary, less reliance on domestic taxes (and by implication the absence of the fiscal social contract) in Venezuela did not result in authoritarianism like the rentier state model assumes. This is particularly so because Venezuela was already a democratic country by the time it nationalized its oil reserves, and thus dependence on petroleum revenues helped Alfonso and Chavez accumulate political power and influence, but the former and the latter did not use these advantages to turn Venezuela authoritarian (Ross, 2012: 87).

The second is that in the absence of the fiscal social contract, the centralized political economy model of the resource curse argues that incumbents in oil-rich developing countries tend to have discretionary power over how petroleum revenues are spent. Often, incumbents spend petroleum revenues on activities that increase the value of staying in power like distributing these revenues to powerful groups that in turn extend their protection to incumbents (Kolstad & Wigg, 2009: 5318). The Venezuelan state exemplifies this effect in one respect and defies it in another. Under Alfonso's democratic regime, the distribution of petroleum revenues was limited to the powerful groups that made political compromises that designed what Karl terms "pacted democracy" (Karl, 1996: 93). Not surprisingly, this produced clientelism, patronage and political rent-seeking behaviour which were responsible for regime stability (Karl, 1996: 92-93). But this elitist distribution of petroleum revenues was exorcised by Chavez's democratic regime. Hammond (2011: 366) lends a powerful support to this argument by showing how Chavez's regime invested petroleum revenues in the empowerment of the poor and the working class, including investments in health care, job training, education, urban infrastructure in shantytowns, subsidized food, and so on.

Figure 1 is a summary of the hypothesis used in this study to answer the research question. Several details stand out: in figure 1, "X" represents the joint interaction between state ownership and petroleum revenues. The impact of the state ownership-petroleum revenue interaction on regime outcomes is linked to the following hypothesized causal mechanisms: oil-rich developing countries with state ownership (with control) in the oil sector have easy access to petroleum revenues which undermines the state-society bargaining dynamic. They use these revenues to invest in activities that increase the value of staying in power. These revenues offer incumbents the means to

resist the pressure to democratize and to enhance their popularity. These hypothesized causal mechanisms are clearly described through both the rentier state model and the centralized political economy model of the resource curse. The substantive link between the state ownership-petroleum revenue interaction and these causal mechanisms is argued to shape authoritarian persistence in the case study of Angola.

Figure 1: State ownership, petroleum revenue, and authoritarian persistence.



## 2.4 CONCLUSION.

This chapter analyzed that the dividing line between early modern European states and oil-rich developing countries is the fiscal social contract. In the former case, this contract increased the demand for democracy. Meanwhile in the latter case, state ownership with control in the oil sector (and by implication of guaranteeing high petroleum revenues) undermined the emergence of this contract. This is the reason why oil-rich developing countries are most likely to be characterized by authoritarian persistence. Furthermore, this chapter explored competing casual mechanisms that attempt to link the state ownership-petroleum revenue interaction with authoritarian persistence in oil-rich developing countries through approaches such as the Dutch Disease model, the institutional model, the political settlement approach, the rentier state model, and the centralized political economy model of the resource curse. Importantly, this chapter demonstrated that the rentier state model and the

centralized political economy model of the resource curse adequately capture the causal chain process. Not surprisingly, then, this study relies on the causal mechanisms of these two approaches to examine how the state ownership-petroleum revenue interaction has reinforced authoritarian persistence in Angola.

## **CHAPTER THREE: RESEARCH METHODOLOGY.**

### **3.1 INTRODUCTION.**

This chapter has four important goals. The first is to justify the case selection of Angola. The second is to identify what is already known about the causal relation between the state ownership-petroleum revenue and authoritarian persistence in oil-rich developing countries. This presupposes that this study is neither an exploratory nor a descriptive as there is already information about the causal relation between the state ownership-petroleum revenues interaction and authoritarianism in oil-rich developing countries that has been defined clearly. Instead, this research paper is explanatory in approach as it seeks to understand this causal relation at the level of individual case and to use those insights from the existing information to answer the research question. The third is to define process-tracing research methodology, and how theory-testing and interacting variants of this methodology help this study to build knowledge about the causal mechanisms that link the state ownership-petroleum revenue to authoritarian persistence in Angola. The fourth is to indicate how the researcher gathers information to respond to the research question.

### **3.2 RESEARCH DESIGN.**

#### *Case study selection.*

Countries such as Angola, Cameroon, Congo-Brazzaville, Gabon and Nigeria fit within the broader population of rentier oil-rich developing countries. There are several common features and patterns worth mentioning in the case of these rentier states. The most central fact of the post-independence in these states has been the nationalization of oil reserves and the creation of NOCs to manage them (Yates, 1996: 218-236). To this point, these states depend on oil to grow their economies, and petroleum revenues constitute a large part of state revenue. Before the third wave of democratization in the 1990s, these rentier states had heads of state who could be called autocrats or a political regime that could be labelled authoritarian, except for Nigeria which had a brief history of democracy from 1979 through 1983 (Baker, 2010: 115). As Baker's paper shows, four of heads of state (Angola, Cameroon, Gabon and Congo-Brazzaville) survived the period of democratization and thus transformed themselves into democratically elected leaders (Baker, 2010: 117). But a paper by Paula Roque indicates that the wave of democratization did not change the nature of authoritarianism, especially in the case of Angola (Roque, 2009: 146-149). From this point stems the concern that there is a little to guide scholarship in the study of why petroleum revenues had positive effects on regime maintenance in these four states and not in Nigeria. Nevertheless, all these states are paradigmatic examples of how the state ownership-petroleum revenue interaction contributes to authoritarian persistence. Figure 2 below depicts a selection of oil-rich developing countries in

Africa. Apart from Nigeria, countries with state ownership (with control) in the oil sector have authoritarian regimes.

Figure 2: National oil companies in some of the rentier oil-rich developing countries in Africa.

<b>National Oil Company</b>	<b>Country</b>	<b>Ownership structure</b>	<b>Regime type in 2017</b>
Sociedade Nacional de Combustíveis de Angola (1976)	Angola	State ownership with control	Authoritarian
Société Nationale des Hydrocarbures (1960)	Cameroon	State ownership with control	Authoritarian
Société nationale des pétroles du Congo (1957)	Congo-Brazzaville	State ownership with control	Authoritarian
Société Nationale Pétrolière Gabonaise (1979)	Gabon	State ownership with control	Authoritarian
Nigerian National Petroleum Corporation (1971)	Nigeria	State ownership with control	Democratic

Source: Author's, using data from Yates (1997) and Baker (2010).

Angola was selected to achieve the objectives of this study as it falls within the broader universe of cases of oil-rich developing countries that have state ownership (with control) in the oil sector and authoritarian regimes. Angola, however, is the largest oil-producer among the authoritarian cases in the table. Angola's oil production levels are second to Nigeria in the sub-Saharan Africa (SSA) region (see BP's Statistical Review of World Energy, 2019). Furthermore, Angola's NOC, Sonangol, is well established, competent and sophisticated. Sonangol enables the Angolan state to hold sway in its engagement with the international political economy of oil (De Oliveira, 2007: 614). For example, Angola is a member of the influential Organization of Petroleum Exporting Countries (OPEC) which consists of major oil-rich developing countries in the world.

Sonangol is also responsible for generating high petroleum revenue that is at the disposal of the Angolan state. This is a good example of state ownership with control in the strongest sense of the term. Consider, for example, it is estimated that around 95 percent of exports and 70 percent of state revenue are generated from the oil sector (see Hodges, 2004; De Oliveira, 2007). Importantly, the case of Angola complements the framework of this study which seeks to capture how the state ownership-petroleum revenue interaction prevents a state-society bargaining dynamic, and gives a sizable incumbency advantage, and thus leading to authoritarian persistence. In sum, the case study of Angolan will contribute to the understanding of governance and development challenges faced by oil-rich developing countries.

Aside from all this, Angola is blessed with two dominant mineral resources (diamonds and oil) which account for the largest portion of the world's mineral trade, but this study critically examines the negative effects of oil instead of diamonds on a country's political regime. There are multiple reasons that inspire the focus on oil. To begin with, the resource curse literature tries to advance our understanding of economic and political ailments that mineral resources have on a country's development, but most of the studies immersed in this literature focus on ailments that seem to be linked to oil (Ross, 2012: 3-5). For this reason, this study follows the dominant view possible in the resource curse literature and attempts to make sense of oil's alleged negative effects on political regimes in oil-rich developing countries with a specific focus on the post-independence Angola. Furthermore, post-independence Angola's diamond industry was disrupted by security problems like illegal miners and smugglers and the Empresa de Diamantes de Angola (ENDIAMA), a state-owned enterprise responsible for managing the diamond industry, was marred by the departure of managers and skilled workers after independence (Hodges, 2004: 172).

#### *Classifying political regimes in oil-rich developing countries.*

This study does not run any statistical analysis to define political regimes and to determine the persistence of authoritarianism. However, it considers how other studies have measured political regimes as a justification of classifying Angola as authoritarian. The quantitative studies cited herein complement the qualitative analysis provided in this study. There are several studies that link petroleum revenues to authoritarianism. Take for example. Jensen and Wantchekon (2004), Smith (2004) and Ulfelder (2007) support the hypothesis that petroleum revenues inhibit democratization. Although, of course, these studies use different datasets and causal mechanisms, they found that the causal relation between petroleum revenues and authoritarian persistence is robust. For yet another example, Desire Omgba (2009), Jesus Cuaresma, Harald Oberhofer, Paul Raschky (2011) and Andersen

and Aslaksen (2013) analyzed the relationship between petroleum revenues and incumbency advantage. Their main result was that high petroleum revenues increase the likelihood that the incumbent will not depart. Even though these studies are helpful for understanding the causal relation between petroleum revenues and authoritarian persistence, they are not used as a point of departure.

Instead, Ross' (2008; 2012) studies prove inordinately helpful to this study because they include state ownership as a key variable. These studies are compatible with the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence. Ross is one of the handful theorists who have written about petroleum revenues' far-reaching consequences on authoritarian persistence from the viewpoint of the rising power of National Oil Companies (NOCs).

Ross (2008) recognized that authoritarian persistence in oil-rich developing countries might come from both the increased longevity of incumbent rulers and the longevity of the regime itself. To investigate how the state ownership-petroleum revenue interaction gives incumbency advantage, Ross employed the ARCHIGOS database developed by Henk Goeman, Kristian Gleditsch and Giacomo Chiozza (Ross, 2008). ARCHIGOS is a database on political leaders from 1875 until 2004 for 188 countries, and measures the duration that the dictators assumed power and serves to construct the country-specific median survival variable, which is the median duration of political leader in a given country since 1875 (see Goemans et al, 2007; Cuaresma et al, 2011). Ross examined this database with a continuous survival model with Cox distribution and found that incumbents in oil-rich developing countries last longer due to higher levels of petroleum revenues (Ross, 2008: 12-13).

To investigate how the state ownership-petroleum revenue interaction leads to regime longevity, Ross drew inspiration from the dichotomous Democracy-Dictatorship (DD) measure of political regime coined by Adam Przeworski, Fernando Limongi, Jose Antonio Cheibub and Mike Alvarez, and modified by Jose Antonio Cheibub, Jeniffer Gandhi, and James Raymond Vreeland. Moreover, he drew inspiration from the Polity IV tradition of coding the authority characteristics of states in the world system. Thus, he used the Polity IV data set by Monty Mashall and Keith Jagers (see Ross, 2012).

Let us consider these measures of political regime. At the heart of the DD is Joseph Schumpeter's basic notion that contested elections are the nucleus of democracy – that is, a democracy is a regime in which governmental offices are occupied as a consequence of contested elections (Cheibub, Gandhi & Vreeland, 2010: 3; Knutsen &

Wig, 2014: 2). The idea of contested elections suggests that the DD is a minimalist conceptualization of democracy. In the more immediate term, the DD classifies a regime as a democracy if it represents the requirements stipulated in all of the following four rules (Cheibub et al, 2009: 3):

1. The chief executive must be chosen by popular election or by a body that was itself popularly elected;
2. The legislature must be popularly elected;
3. There must be more than one party competing in the elections; and
4. An alternation in power under electoral rules identical to the ones that brought the incumbent to office must have taken place.

It is therefore that a regime is classified as democratic if it meets these specific rules, and as dictatorial or rather authoritarian if it does not meet at least one of the rules (Knutsen & Wig, 2014: 4-5). The upshot is that the DD codes democracy (=1) and dictatorship (=0). In contrast, the Polity IV measure of political regime uses four components of authority coding: (i) competitiveness of executive recruitment; (ii) openness of executive recruitment; (iii) constraint on chief executive; and (iv) competitiveness of political participation (Jagers et al, 2018: 14-16). Both the democracy and autocracy indicators are scaled using the abovementioned components. What explains variation in political regime? Countries are scored on each of the abovementioned components and then the scores are combined into a Polity Score of a 21-point overall scale – subtracting the autocracy score from the democracy score – and the resulting combined Polity Score ranges from +10 (full democracy) and -10 (full autocracy) (see Cheibub et al, 2010; Jagers et al, 2018).

Ross used the two measures of political regime: the DD measure which he examined with a logit estimator; and the Polity IV measure which he analyzed with an ordinary least squares (OLS) estimator (Ross, 2012: 94-105). Ross' results are important for the following reasons. They were drawn from the updated DD and Polity IV data set which covered all 170 countries that were independent in the year 2000 and had populaces beyond 200 000. To be sure, Ross' logit estimations covered the years 1960-2006, meanwhile the OLS estimations covered the years 1960-2004 (Ross, 2012: 95). Ross' results indicated that the state ownership-petroleum revenue interaction's likelihood to perpetuate authoritarianism has grown since the 1970s (see Ross, 2012).

Ross' (2008; 2012) studies provide the theoretical and methodological tools needed to answer the research question in this study. First, they complement this study's framework that seeks to comprehend authoritarian persistence in Angola in the context of the state ownership-petroleum revenue interaction. Second, they help to clarify how this interaction is responsible for both incumbency advantage and regime longevity, which are

responsible for authoritarian persistence in Angola. To validate Ross' results, Dos Santos in Angola remained in power for 38 years and enjoyed the exclusive power to appoint and dismiss the prime minister, the cabinet and provincial governors (Roque, 2009: 140). Further complicating the matter, the Angolan regime had institutional procedures that limit among other things: an alternation in power, competitiveness of opposition parties, accommodation of divergent opinions and civil society organizations, and so on (Roque, 2009: 146). Although Ross did not call the methods in his studies process tracing, he focused on exploring causal mechanisms that shed light on the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence. Ross' causal mechanisms can be traced to the rentier state model and the centralized political economy model of the resource curse (see Ross 2008; 2012). This study provides qualitative evidence for the findings in Ross' studies using Angola as a case study. This study also investigates whether additional causal mechanisms, not identified in the previous studies, exist in the case of Angola.

#### *Methodological approach.*

David Collier defines process tracing as a method for drawing descriptive and causal inferences from diagnostic pieces of evidence (Collier, 2011). The descriptive inference component of process tracing attempts to characterize key steps in the process, which in turn enables good analysis of change and sequence (Collier, 2011: 824). In seeking perspective on descriptive inference, this study found that in the post-independence period, Angola went through what Jorgen Andersen and Michael Ross refers to as "the big oil change" (Andersen & Ross, 2014: 994). Seen through this prism, the government of the Movimento Popular de Libertacao de Angola (MPLA) set up a NOC, Sonangol in June 1976, and promulgated the petroleum law (Law 13/78) in 1978 (Hodges, 2004: 143). According to Hodges (2004: 143-144), this made the Angolan state the sole owner of the country's petroleum deposits and established Sonangol as the exclusive concessionaire for oil exploration and development, while permitting the state company to enter into associations with foreign companies to obtain the resources needed for exploration, development, and production. This descriptive event provides a good foundation for addressing the research question under study. Most important, this descriptive event marked the beginning of state ownership with control (and by implication the state ownership-petroleum revenue interaction) which is the key explanatory variable in this study.

Going further, the causal inference component seeks to trace the causal mechanisms that connect explanatory variables to outcomes (Beach, 2016: 463). As already indicated in this chapter, Ross' studies uncovered empirical evidence of the effects of the state ownership-petroleum revenue interaction in the process leading to authoritarian

persistence. Like this study, Ross used causal mechanisms to explore the nature of the causal relation between this interaction and authoritarian persistence. However, Ross' studies conducted cross-country research, with an illustrative discussion of Angola, without any detailed focus on the country. While they were informative in describing the perverse effects of this interaction on political regimes in oil-rich developing countries, no detailed evidence specific to Angola was provided. Moreover, "correlation is not causation", therefore, Ross' studies can take us so far concerning the case of Angola unless the causal mechanisms are looked at more closely. In this study, process tracing is used more pragmatically to trace how causal mechanisms interact in a case study. The strength of process tracing is that, unlike the quantitative studies cited, it allows for a detailed analysis of the case, and the possibility of making within-cases inferences. This study, therefore, theorizes about the causal mechanisms that link the state ownership-petroleum revenue interaction to authoritarian persistence in Angola, and analyzes the within-case of these theorized mechanisms.

It would be helpful to clarify and explore how process tracing is valuable in the case of Angola. George and Bennett (2005: 213) reason that there are in fact several distinctively contrasting types of process tracing just as there are contrasting types of causal processes. As regards types of process tracing, Derek Beach and Rasmus Pedersen recognize three variants of process tracing: theory-testing, theory-building, and explaining outcomes<sup>3</sup>. Theory-testing process tracing can be viewed as a structured empirical test which attempts to validate whether there is evidence suggesting that a hypothesized causal mechanism exists (Beach & Pedersen, 2011: 7). In other words, the major contributions of theory-testing to process tracing are legion, but the most fundamental one is that theory comes first; and what follows theory is a detailed empirical analysis of evidence gathered, aiming at testing whether the evidence predicted by the theorized mechanism is present in the case (Beach & Pedersen, 2011: 8). This is why the most significant advances within theory-testing process tracing have been to (a) conceptualize a causal mechanism between X and Y contingent upon existing theorization; (b) operationalize the theorized causal mechanism into case-specific predictions of what observable manifestations each of the parts of the mechanism should possess if the mechanism is actually present in the case; and (c) collect empirical evidence to be used to make causal inferences (Beach & Pedersen, 2011: 9-10).

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<sup>3</sup> Due to limitation in space, this study does not discuss theory-building and explaining outcomes variants of process tracing because they do not add value to this study. For more information regarding these variants of process tracing, you can read Beach & Pedersen (2011).

As regards types of causal process, Bennett and Pedersen mention *convergence* where several conditions, causal chains, and independent variables come together to produce an outcome; *interacting* where causal variables that are not independent of each other represent interaction effects; and *path-dependent* where a particular sequence of events obscures certain paths and subsequently drive an outcome in other directions (George & Bennett, 2005: 212). Theory-testing process tracing and interaction causal process complement this study's attempt to analyze the state ownership-petroleum revenue interaction, and how this interaction produces perverse effects that ultimately reinforce the legacy of authoritarianism. Or put differently, theory-testing and interaction provide a window for peering into the state ownership-petroleum revenue interaction and to test – by providing within-case evidence – whether this interaction produces the hypothesized causal mechanisms in the case of Angola. This study develops causal mechanisms using the rentier state model and the centralized political economy model of the resource curse.

#### *Data collection.*

This study relies on insights from researchers immersed in the resource curse perspective in two ways. The first is that this study uses knowledge from research on the causal relation between petroleum revenues and authoritarian persistence in oil-rich developing countries. Insights from this research help both the researcher and the reader to understand this study's attempt to develop a different framework that can make better sense of the causal relation between petroleum revenues and authoritarian persistence. The second is that this study leans on Ross' (2008; 2012) studies that best capture the underlying causal relation that the above-mentioned research grapple with. Exposure to Ross' studies enables this study to develop a framework that posits that the underlying causal relation makes sense from the context of the state ownership-petroleum revenue interaction because the nationalizations of the 1970s were a giant step forward. These nationalizations allowed oil-rich developing countries to fund themselves by selling oil through their NOCs. Due to these nationalizations, oil-rich developing countries began to capture higher petroleum revenues which also reduced their reliance on collecting domestic taxes. But these contrasting theories within the resource curse perspective are neither treated as distinct nor as rival explanations; both theories are used as part of the overall explanation of the underlying relation in the case of Angola. Nevertheless, the state ownership-petroleum revenue interaction remains an improvement to the idea that non-renewable resources, specifically petroleum revenues, are the sole independent variable responsible for authoritarian persistence. Aside from the resource curse perspective, this study relies on Angolan scholars whose research improves the researcher's knowledge about Angola, particularly regarding placing this African country within the broader arguments of the resource curse hypothesis. Lastly, this study uses data from international

organizations such as the World Bank, the International Monetary Fund (IMF) and Global Witness to substantiate its claims. These help to provide evidence that support the causal relation between the state ownership-petroleum revenues interaction and authoritarianism in the oil-rich developing countries predicted by Ross' studies.

In a way, this study reviews the existing studies. Of course, a good qualitative research that uses process tracing goes beyond a review of existing studies to include primary research like interviews. Interviews were not conducted for this research paper as a result of three reasons. The first is that the existing quantitative and qualitative studies were strong enough to complete the research. The second is that there was no budget allocated to train the researcher concerning the design, conduct and analysis of interviews, especially given that possible interviewees from Angola would had been Portuguese speaking. Finally, regardless of budget constraints, chapter 5 of this research paper was researched and written during the height of COVID-19 pandemic, which would had made it difficult to conduct interviews in any logistically viable manner.

### **3.3 CONCLUSION.**

This chapter indicated how Angola fits within the broader population of oil-rich developing countries in Africa. Angola is part of a class of cases that help us to understand the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence. Furthermore, this chapter demonstrated the ways in which the existing resource curse view may have overlooked, or misunderstood the significance of, or even failed to consider the link between state ownership and petroleum revenue as an alternative explanation of authoritarian persistence in oil-rich developing countries. As a result of this gap in knowledge, this chapter argued that Ross' studies adequately present the superiority of the state ownership-petroleum revenue interaction explanation. Moreover, this chapter demonstrated how particularly useful theory-testing and interaction variants of process tracing are in helping us understand Ross' studies, and in showing that Ross' results are expected or rather found to operate in the case of Angola.

There are limitations to the methodology and research design. Consider, for example, process tracing is a within-case methodology, thereby suggesting that the findings of this study cannot be generalized to other oil-rich developing countries. However, this study seeks to enrich the existing resource curse perspective, and to provide an in-depth analysis of causal mechanisms within a single case. Since Angola forms part of a class of cases, it is possible to expect similar interactions to occur in oil-rich developing countries. For yet another example, as this chapter pointed out that this study builds on results from Ross' cross-national design, skeptics may argue that this

dependence can provide only provisional findings. In short, given the subjectivity and vagueness that goes into the DD and Polity IV measures of political regime and the ARCHIGOS database which measures political leaders' duration in power, it becomes difficult to get a fuller sense of where this study's innovations start and end. One predictable response by Ross would be that even bad data is suggestive. To more precisely respond, both these measures of political regime and political leaders' duration in power yield similar results in uncontroversial cases where their rules apply clearly.

## **CHAPTER FOUR: BACKGROUND TO THE STUDY.**

### **4.1 INTRODUCTION.**

The central focus of this chapter is two-fold. The first is to provide a cursory late colonial background to Angola's political economy. The second is to consider briefly a moment of Angola's political economy after political independence. More generally, this two-fold approach not only enlightens a wide variety of societal issues, from little efforts to alleviate the levels of poverty and inequality to the politics of rentierism and patronage, colonialism to authoritarianism, central planning economy to economic liberalization, and authoritarianism to façade democracy. This descriptive analysis provides support to this study's central argument that Angola's pathway to these societal ills was shaped by the nature of nationalization politics which shaped the underlying structure and control of oil in the country. As will become obvious in this chapter, the nature of nationalization politics ushers in a substantial ground to argue that the causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence is robust in Angola. Furthermore, this two-fold approach meets head on the durable problem within the post-independence Angolan political economy. That is, it fleshes out reasons regarding why and how the absence of the vital link between state-building and domestic taxation can be attributed to the emergence of state ownership with control in the oil sector in Angola. Given this credible evidence, this study's aim is to use state ownership with control as the independent variable that matters most for understanding the political regime in Angola, and which until recently has been overlooked within the existing resource curse perspective.

### **4.2 THE BIRTH OF A NATION.**

De Oliveira (2007: 597) asserts that the colonial economy was vibrant and diversified: it registered an annual real growth rates of 4.7 percent between 1961 and 1974, which stemmed from unprocessed agricultural products (coffee, cotton, and sisal); mineral resources (diamonds and iron); and the thriving manufacturing sector (consumer goods and light industry). These were the main exports until 1973 when oil became the main source of export earnings, overtaking other commodities (Hodges, 2004: 143). Although there were great inequalities in the distribution of economic prosperity and access to resources, the colonial economy demonstrated the country's potential for rapid growth (Hodges, 2004). Soon after independence, the economy was plagued by bottlenecks and breakdowns in production (Karl, 1997: 4). This poor economic record can be traced to a range of carrots and sticks the MPLA employed to encourage the transfer of wealth to the Angolan state. After acquiring control of the postcolonial Angolan state, the MPLA under the auspices of Agostinho Neto espoused Marxism-Leninism as its official ideology in 1976, which marked the beginning of a Soviet-inspired system of centralized command

economy (Hammond, 2011: 357). Following ideological assumptions of Marxism-Leninism, the MPLA decided to expropriate the abandoned Portuguese property (settler farms and businesses) without compensation, and cemented central planning economy (De Oliveira, 2007: 597-598). As a result, the MPLA introduced state ownership in the thriving sectors of the former colonial economy. Consequently, the MPLA's effort to build a capable Angolan state through central planning economy turned into a pyrrhic victory – that is, it threw the economy into a crisis from which it has never recovered (Hodges, 2004: 103); or put differently, the rapid growth in the colonial period was never successfully nursed back to life (De Oliveira, 2007: 598).

Some examples are instructive. In the case of the agricultural and manufacturing sectors, the massive exodus of the Portuguese expatriates left these sectors with a shortage of qualified and skilled personnel. Hence, the state-owned enterprises in these sectors became stagnant and failed to maintain production (Hodges, 2004: 9-103). Another characteristic was that the departure of Portuguese expatriates was a disincentive to long-run agricultural and manufacturing investments (Di John, 2007: 978). To be more specific, the introduction of state ownership in these sectors meant that peasant producers and private traders that were integrated into a colonial market economy would be discriminated against since the state promoted its farms and trading companies (Hodges, 2004: 105). This paradigm is useful for explaining how central planning attracted resource misallocations and inefficiencies, which in turn led to the poor performance of the economy. In contrast, iron ore mining was discontinued definitively, and the diamond mining was characterized by intensive smuggling of diamonds which was a direct consequence of central planning's tendency to create large parallel markets (Hodges, 2004: 103-107). It was due to this intensive smuggling that the Angolan state registered minimal revenue from this sector.

In addition to the non-oil sectors which had become shells of their former selves, the deterioration in physical infrastructure and government services has impeded production in the economy. Take for example. In the case of the energy sector, low government investments in electricity and water have put many (if not most) enterprises and households out of operation (Hodges, 2004: 108-109). Drawing on the central planning logic outlined above, Hodges posits that this system enabled the Angolan state to set administratively the electricity and water tariffs below operating costs, which in turn disabled utility companies tasked for providing electricity and water from maintaining supply and making adequate investments (Hodges, 2004: 104-109). In the case of the physical infrastructure, roads, railway lines, transmission lines, bridges, etc. have dilapidated due to some extent lack of maintenance – a direct consequence of low government investments (Hodges, 2004: 108). Without a doubt, this had accelerated operating costs in the economy. To summarize, the perpetuation of central planning shifted the

economy towards a “revenue trap” where the Angolan state was unable to extract revenues from different types of economic activity and provide basic government services (Gehlbach, 2008: 15-16). Notwithstanding the MPLA’s attempts to abandon central planning for market economy, the performance of the non-oil sector has been patchy and sporadic.

What about the oil sector? De Oliveira (2007: 598) writes that the oil sector was an exception since it was spared from the suicidal central planning and permitted the freedom to flourish according to rational, modern, and pragmatic criteria. The underlying assumption behind De Oliveira’s argument is that the oil industry in Angola became both internationalized and nationalized. It became nationalized as the decision to expropriate Portuguese property gave the MPLA the necessary powers to take control of the oil company ANGOL (a subsidiary of Portugal’s SACOR) which changed its name to the new Angolan NOC, Sonangol (De Oliveira, 2007: 599). The bottom line is, however, ANGOL’s employees stayed behind after the departure of Portuguese expatriates and became Sonangol employees. De Oliveira (2007: 599) suggests that the motivating factor behind this aberration was that the MPLA leadership became aware that the economy was in tatters, and for that reason, the oil industry would indeed be the only revenue-maximizing sector of the economy. That is the reason why Sonangol was not subjected to central planning and state-led economic blueprints that characterized the economy.

Although Sonangol was kept independent and free of the race for spoils and the anti-corporate mentality that the MPLA put into practice in the rest of the economy, the ruling party was cognizant of the fact that the colonial concession system was wholly inappropriate to the new age of nationalization (Yates, 1996: 67; Hammond, 2011: 361). For this reason, Sonangol set up Joint Ventures (JVs) with IOCs which had already been producing oil in Angola, namely the Cabinda Gulf Oil Company, Petrofina and Texaco (Hodges, 2004: 143). Apart from these JVs, the Angolan state espoused the Indonesian state’s Production-sharing Agreements (PSAs) to increase its participation and profits in their national oil industry without having to undertake the unpleasant and hazardous task of actual nationalization (Yates, 1996: 71). Sonangol divided the continental shelf into thirteen blocks, which were offered in stages for bidding by IOCs. In short, this is where PSAs were signed with IOCs for these blocks (Hodges, 2004: 143). Hammond (2011: 355) asserts that in a PSA, the foreign partner pays the costs of exploration and development; it then takes all the profit from the “cost oil” until it has recovered its investment, then shares “profit oil” with the host government, so the host government does not share any risk in exploration.

After the end of the cold-war, however, a more valuable deep water technology entered the Angolan oil industry. In the light of this, deep water exploration discovered new seventeen blocks (Hodges, 2004: 143-144). Unlike the first thirteen blocks which offered the Angolan government profit oil, these newly discovered blocks offered the government ‘signature bonuses’ – that is, up-front once-off payments for exploration rights (Hodges, 2004: 145).

As mentioned that Sonangol was immune from central planning, the oil sector was to coordinate and lead development in the economy. In other words, the MPLA showed commitment to use the oil sector to grow priority sectors, and this resulted in two development policies in the oil industry without changing the original structures of ownership and control (Yates, 1996; 60). The first development policy was called Angolanization which promoted the employment of Angolans in the oil sector (Ovadia, 2016: 59). Although this policy dates to Decree 20/1982 law, the policy has been renewed since the introduction of the new Training Law (Decree 116/2008) (Ovadia, 2016: 60). Meanwhile the second development policy was known as local content which promoted Angolan companies and Angolan goods and services through subcontracting in the oil industry (Ibid). In this regard, Angolanization and local content policies attempted to diversify Angola’s enclave oil sector through production linkage (upstream and downstream linkages) and fiscal linkage (private and foreign investments) (Gelb et al, 1988: 14-16). Sarah Ovadia (2013: 42) captures this attempt succinctly,

capturing more of the capital invested in the sector will lead to significant economic growth and development, particularly if this investment encourages the oil and oil services sectors to serve as an anchor for growth and development of economic activity in related sectors, such as manufacturing and services.....it could also create significant employment, a phenomenon not generally associated with petroleum.

Unfortunately, while the MPLA’s commitment raised new prospects for diversifying the economy, Angolanization and local content policies were a deliberate high-level strategy aimed at sharing rentier opportunities and the spoils of the oil boom across the elite (De Oliveira, 2006: 608).

Four key arguments sketched above add value to this study’s theoretical approach – that is, they complement the rentier state model and the centralized political economy model of the resource curse. First, as Hodges notes, the decline in the non-oil sector of the economy denotes that state-owned enterprises in this sector are a drain on the Angolan treasury rather than a source of revenue (Hodges, 2004: 30-31). Therefore, there is reason to believe that Angola is a rentier state since it depends on unearned income in the form of petroleum rents. Second, though the oil sector is thriving, most citizens depend on the informal sector as their source of employment and income (Hodges, 2004: 32). To be more specific, Angola lacks state apparatuses aimed at extracting taxes from its

population because the informal sector is hard to tax. Third, given that the Angolan state is relieved of the cumbersome task of having to tax its own citizens, the state is automatically immune from revenue bargaining that helped to usher in democratic institutions in early modern European states (Karl, 2007: 262). Not surprisingly, then, Angola is characterized by a breakdown of public services which implies that most Angolan citizens are denied basic social and economic rights (Hodges, 2004: 34). Finally, in the absence of revenue bargaining, the oil sector is used to strategically maximize revenues for political survival of Dos Santos and the MPLA (Menaldo, 2016: 160).

Going further, Marxism-Leninism provided the ideological framework for the form of political regime in the post-independence Angola. While the political settlement prior to independence created a coalition among three liberation struggle movements as a temporary compromise that would give way to a struggle for total hegemony, the MPLA ultimately became the ruling party and proclaimed Angola a one-party state (Hodges, 2004: 48-49; Hammond, 2011: 357). Throughout its history, Angola had no experience of a pluralist political competition. In short, for varying reasons, both the colonial and the independent Angola favoured a strong centralized authority and a repressive political climate. In the colonial context, a centralized authority and a repressive political climate suppressed the freedom of press, legal opposition political parties, an independent judiciary, dissidents, and so on (Hodges, 2004: 48). In the independence context, a strong centralized authority and a repressive political climate were an optimal strategy employed by the MPLA to mitigate the internal and external conditions of the civil war faced by the Angolan state (Hodges, 2004: 49). As regards the external conditions, this civil war was motivated by geo-political rivalries of the cold-war between the United States of America (U.S) and the Soviet Union (Hodges, 2004: 8). Moreover, regional conflicts, especially the South African apartheid regime's attempts to halt the Angolan state's ability to aid liberation struggle movements in South African-ruled Namibia to the South, was also a critical motivating factor behind this civil war (Hodges, 2004: 8). As regards the internal conditions, this civil war was motivated by crude material interests – personal ambition, mutual suspicion and the prize of controlling the Angolan state (Hodges, 2004: 18-19). To be sure, Dos Santos and Jonas Savimbi were both in a quest for absolute power, which perpetuated the distrust between the MPLA and UNITA (Hodges, 2004: 19). Moreover, the control of the Angolan state meant an arbitrary access to public resources emanating from the extractive industries (oil and diamonds) and multiple opportunities for personal enrichment (Hodges, 2004: 19-20).

Due to these factors that posed a serious threat to the Angolan state's survival coupled with a careful wartime assessment, it was imperative for the MPLA and Dos Santos to concentrate power in the Presidency for more than two decades – that is, from 1979-2002 (De Oliveira, 2015: 40-47). In short, this trend towards the concentration of power in the Presidency permitted the steady flow of resources to and ensured the viability of the Angolan state under the auspices of the MPLA. Although, of course, the initial conditions of the civil war had a role to play, there is no doubt that the state ownership-petroleum revenue interaction in terms of shaping authoritarian persistence in Angola was huge (De Oliveira, 2015: 29-35). This is often precisely because state ownership with control in the oil sector enabled the Angolan state to capture petroleum rents directly, and for this reason, the MPLA had far greater resources with which to consolidate and conserve political power (Hodges, 2004: 161). While it would be fair to suggest that the MPLA introduced democratic reforms after the collapse of the Soviet Union, the MPLA's grip over power has never changed. In fact, the introduction of democratic reforms did not change the nature of authoritarian practices, but rather increased the number of people and parties to be bought off (Hammond, 2011: 358).

The role of international actors must also be factored in. Angola and Mozambique share identical historical trajectories. It is impossible to go into all details here, but it is clear that both countries were colonized by Portugal and that the post-independence dominant ruling parties in both countries espoused Marxism-Leninism, particularly the centrality of state ownership of productive resources and overall state control of the economy (Young, 1988: 170-172). Additionally, Angola and Mozambique experienced traumatic post-independence civil wars (Nino & Le Billon, 2013: 1). What is perhaps more important is that these countries abandoned Marxism-Leninism as the official regimes' ideology after the break away of the Soviet Union on one hand, and they replaced central planning economy with market liberalization on the other hand (Young, 1988; Nino & Le Billon, 2013). Nevertheless, post-independence and post-war state-building processes in the two countries depended on contrasting sources of income which had different effects on the regimes' sovereignties (Nino & Le Billon, 2013: 18). In the Mozambican context, a bulk of state revenues accrued directly from foreign aid inflows by Western donors. These foreign aid inflows strengthened the Mozambique Liberation Front's (FRELIMO) grip on the state during the civil war and continued to be an intrinsic support of the government's budget thereafter (Nino & Le Billon, 2013: 16). In contrast, a bulk of the Angolan state's revenue came from petroleum revenue (Nino & Le Billon, 2013: 16-17).

While foreign aid inflows and petroleum revenue had negative effects on the states' capacities to collect domestic taxes (and thereby aggravating the absence of the fiscal social contract), these unearned incomes had different effects on the regimes' sovereignties. Take for example. Since Mozambique's international relations were predicated on donor-recipient type of relations, this reduced the scope for revenue bargaining between the Mozambican state and its citizens. Although this was toxic to state-building, donor-imposed conditionalities filled in the void left by the reduced scope for revenue bargaining between the state and its citizens (Moore, 2008: 3). But the long-term effect of this was that the Mozambican state became more accountable to donors than to its own citizens (Nino & Le Billon, 2013: 3). For yet another example, the Angolan state's dependence on petroleum revenue was toxic to state-building as well, but this gave the state an extensive leeway in its international relations (De Oliveira, 2015: 170). To be more specific, Angola was not subjected to a weak and subordinate status in its foreign relations with superpowers (China and the U.S), emerging superpowers (Brazil, India and South Africa), old traditional allies (Cuba, Russia and Portugal), and countless other partners (De Oliveira, 2015: 165-199). The impetus behind all this is that the importance of Angola's oil has enabled Dos Santos to run foreign relations in line with the state's interests and elite agendas (De Oliveira, 2015: 166-177).

#### **4.3 CONCLUSION.**

This chapter provided a truncated description of the nature of nationalization politics and how it had shaped the postcolonial Angolan political economy. While not exactly fully concerned with how civil wars shaped Angola's political economy, it has at least discussed the MPLA's statist predilections in the strategic sectors of the economy, particularly how state ownership with control in the oil sector has brought about an unusual regime longevity. This chapter's conclusion is twofold. First, in a petro-state like Angola where state owned enterprises barely functioned and were not able to fulfil their roles, Sonangol played a key role in guaranteeing the Angolan state an external source of revenue. Second, as the Angolan state was unable to raise regular revenues beyond the oil sector, petroleum rents were not used for broad-based development, but rather were means towards consolidating the power of Dos Santos and the MPLA.

## **CHAPTER FIVE: STATE OWNERSHIP, PETROLEUM REVENUE, AND THE ENDURING LEGACY OF AUTHORITARIANISM IN ANGOLA.**

### **5.1 INTRODUCTION.**

This chapter probes the state ownership-petroleum revenue interaction, and how it has created a heritage of authoritarian persistence that could not be indefinitely eradicated in Angola. This interaction, which can be comprehended not only as an attempt to strengthen Dos Santos' power but also as a response to the persistent need for a strong centralized authority under the auspices of the MPLA, permanently stamped Angola's political regime in such a way that presented severe obstacles to democratization. To forecast this study's findings, this chapter contends that, the rentier state model and the centralized political economy model of the resource curse explanations are indeed useful for understanding the causal mechanisms of this interaction that were powerful enough to mold authoritarian persistence in Angola. The case of Angola suggests that at least two causal mechanisms shaped authoritarian persistence: easy access to petroleum rents and the politicized distribution of these rents. That such causal mechanisms existed is hardly surprising and this chapter argues that the main reason for such causal mechanisms was the state's ownership of Sonangol. In other words, the Angolan state's reliance on petroleum rents which granted the state autonomy from having to formulate its goals under the scrutiny of its citizens, and the distribution of petroleum rents as patronage to consolidate the power of Dos Santos and the MPLA, stemmed from the state's ownership of Sonangol. As argued elsewhere in this study that Ross' studies already tested these causal mechanisms, this chapter intends to show that the causal relation that Ross reported in his studies is more acute using qualitative data at the country level. It does this by examining whether the contextual factors that produced authoritarian persistence in Angola were consistent with these hypothesized causal mechanisms.

In assessing the evidence that the state ownership-petroleum revenue interaction was responsible for authoritarian persistence in Angola, this chapter will be divided into two subchapters that cover two different periods. The period after independence and the period after the introduction of democratic reforms. These two periods should not be comprehended as different case studies that sharply contrast with one another. Instead, the significance of these sections is to indicate that the two periods feature high levels of the expected causal relation of interest. In either period, the causal mechanisms of interest are responsible.

## **5.2 STATE OWNERSHIP, PETROLEUM REVENUE, AND AUTHORITARIAN PERSISTENCE: 1976-1991.**

The preceding chapter indicated that Angola's agricultural and manufacturing sectors were unproductive under the strictures of a central planning economy, and for several reasons, the oil sector became the viable choice for Angola to revive its economy. The advantage of the oil sector's viability was that it created a large state sector through the state's ownership of Sonangol, and by 1983, the Angolan state managed to surpass late colonial oil production levels (Hodges, 2004: 51; De Oliveira, 2007: 601). The oil sector's viability had a significant additional impetus. Because of the state's ownership of Sonangol, petroleum rents accrued directly to the Angolan state, further expanding the role of the public sector (Karl, 1996: 59). Of course, this is not to suggest that the oil sector's viability did not produce some negative effects along the line. Hodges (2004: 100) notes that perhaps the biggest negative effect that the MPLA encountered in its attempt to exclude the oil sector from the domain of central planning economy was to leave the Angolan state overwhelmingly depended on petroleum revenue (Hodges, 2004: 100; De Oliveira, 2007: 601). In effect, Sonangol and the oil sector that underpinned it, crafted a strong tendency towards the rentier state.

The institutionalization of the rentier state was evident in two ways in Angola. The first was that the nationalization of the oil sector expanded the role of the public sector. The Angolan government, as Beblawi puts it, became the principal recipient of petroleum rents in the economy and played the crucial role of the prime mover of economic activity as well (Yates, 1996: 14-15). The second was that Hodges and De Oliveira postulate that the oil sector earned the Angolan government between 80 and 90 percent of its revenues, except during the bust periods of oil prices (Hodges, 2004: 154; De Oliveira, 2007: 603). This was an important advance of a broader view of the rentier state proposed by Luciani – that is, the state whose revenues derives predominantly (more than 40 percent) from oil or other foreign sources and whose expenditure is a substantial share of GDP (Yates, 1996: 15). The institutionalization of the rentier state, in turn, had a dual effect. On the one hand, as the principal recipient of petroleum rents, the Angolan state never sought to augment state revenue through substantial increases in domestic taxation (Karl, 1996: 61). Thus, the performance of non-oil taxes was poor compared to taxes on petroleum (see World Bank, 1991). On the other hand, easy access to these petroleum rents encouraged rent-seeking, predation, and patronage in the society (Karl, 1996: 61).

The claim of this section is that this dual effect cannot be fully understood separately from the type of state it shaped. In short, the combination of this dual effect did not only institutionalize the rentier state, but also produced

a strong tendency towards authoritarian persistence. To sum up the claim, the immediate result of this dual effect was that it affected the potential for revenue bargaining which prevented the emergence of the fiscal social contract. The point here is that, in the absence of the fiscal social contract, the expansion of political representation, the establishment of fiscal accountability and transparency to Angolan citizens, and limits on authoritarian rule diminished (Moore, 2008: 48-49). How does Angola fit within the established explanations that make the fiscal social contract unlikely in the first place? Ross (2004) argued that the ‘cost-benefit’ model resulted in the fiscal social contract which encouraged the establishment of democratic institutions in early modern European states. The underlying assumption behind Ross’ proposition was that higher taxes relative to government services tended to make authoritarian regimes more democratic (Ross, 2004: 247). Compelling evidence indicates that the ‘cost-benefit’ model never developed in Angola in the first place. The first evidence, however, is consistent with the rentier state model explanation that petroleum rents weaken the fiscal need for domestic taxation; in turn, this leads to the erosion of credible commitments to citizens (Barma, 2014: 258). Given that the performance of domestic taxes was poor compared to taxes on petroleum, this decreased the need to make credible commitments to fiscal policies that favour Angolan citizens (Wiens et al, 2014: 785). The World Bank’s report showcases key points that contrast sharply with the ‘cost-benefit’ model which undergirds the fiscal social contract (see World Bank, 1991).

The World Bank’s report distinguishes the total expenditure into two parts: the recurrent and capital expenditures. The recurrent expenditure consists of government spending whereas the capital expenditure consists of government investment (World Bank, 1991: 46-49). Perhaps most importantly, the recurrent expenditure accounts for the bulk of the total expenditure. While this is consistent with one preference (about expenditure) that citizens hold in the ‘cost-benefit’ model, another preference (about taxes) does not hold. The report indicates that there was a major shift towards expenditure on personnel accounts (public salaries and benefits) and on defense and internal security since 1980 in Angola (World Bank, 1991: 46-47). This evidence offers several lessons. The first lesson was that while the recurrent expenditure maintained an upward trend since the nationalization of the oil sector in Angola, real spending was channeled towards politically important but economically unproductive activities (Kolstad & Wigg, 2009: 5318-5319). In a nutshell, high recurrent expenditure had coincided with the era of the MPLA hegemony under Dos Santos’ rule, and his choices as regards distributing petroleum revenues were important in accounting for outcomes. Consider, for example, Robinson et al argue that higher government spending on government employment from the incumbent’s group increases the incumbent’s probability of maintaining power (Robinson et al, 2006: 455). The recurrent expenditure was likely important for Dos Santos to

safeguard power and maintain greater opportunity for patronage (Humphreys & Sandbu, 2007: 209). The upshot is that some trend can be observed from the overall total expenditure: namely, that real spending for civilian purposes was modest (World Bank, 1991: 47; Hodges, 2004: 127). It is therefore that this section deduces that the poor performance of domestic taxes does have a direct bearing on political regime in Angola.

The second lesson considers an important stylized fact that made the fiscal social contract inevitable in early modern European states. Following Moore's argument, the 'cost-benefit' model yielded the fiscal social contract because European taxpayers were homogenous, and therefore enjoyed many of the conditions conducive to collective action necessary to sway state elites into institutional arrangements that placated them with political representation and public goods (Moore, 2008: 51). In other words, not only was domestic taxation politically important, but the very same taxation was structured in such a way that made it possible to enhance state-society relations. Given the poor performance of domestic taxes in Angola, it is perhaps no surprise that Angolan citizens remained unorganized and inactive concerning the decision-making process of the government. To put a fine point on it, the low levels of domestic taxation did not only make it difficult for Angolan citizens to organize in defense of their interests, but also provided no social protection for the weakest and most vulnerable (Hodges, 2004: 46; Gelbach, 2008: 14). Take for example. There is a great deal of evidence that real expenditure towards civilian purposes was modest in Angola (World Bank, 1991: 47; Hodges, 2004: 127). Under such circumstances, Menaldo argues that the ruling elite face deadlier set of challenges: coup d'états, revolutions, protests, etc. (Menaldo, 2016: 78). Ross (2012: 65-71) adduces evidence that generally supports Menaldo's assertion. Ross' argument, therefore, is that citizens are bound to support governments that supply them with more benefits and lower taxes and try to rebel against the ones that supply them with fewer benefits and higher taxes (Ross, 2012: 67). But Menaldo's assumption needs to be taken a bit further, for it is neither adequate nor appropriate. In the real world, Karl and Smith's studies indicate that Menaldo's assumption is untenable. This is primarily because oil-rich developing countries have been characterized by unusual regime longevity (Karl, 2007: 260) as well as the improbability of regime failure (Smith, 2004: 238). There are at least two reasons why Angola managed to maintain itself through the times of deadlier set of challenges.

The first reason was a direct consequence of the absence of the fiscal social contract: because Angola was not built on the fiscal social contract, the country suffered from what Karl referred to as stateness deficits, resulting in the lack of complete information that would enable Angolan citizens both the means and opportunities necessary to police government conduct (Karl, 2007: 265; Wiens et al, 2014: 785). In the case of Angola, this

could be explained by extra-budgetary operations. Quoting the International Monetary Fund's (IMF) 1995 report, Hodges laments that "the lack of transparency and recording of financial transactions related to petroleum, both in Banco Nacional de Angola (BNA) and Treasury accounts, makes it exceedingly difficult to obtain data on the state of public finances and the accounts of the BNA...." (Hodges, 2004: 126-127). A corollary to this argument was that the World Bank's report revealed that the total expenditure included some military and personnel accounts expenditures that were undertaken without budgetary authorization, which made it difficult for Angolan citizens to directly observe how much their government spent (World Bank, 1991: 46). The second reason was that Angola provided a particularly striking example of what Eva Bellin terms "the robustness of authoritarianism" – that is, the ability and will of rulers to repress (Smith, 2004: 234). Thus, as already indicated in this study, high expenditure on defense and internal security kept Dos Santos in power, especially in cases where Angolan citizens demonstrated dissatisfaction against low government expenditure for civilian purposes.

The evidence discussed thus far indicates that petroleum rents replaced Angola's domestic taxation base. Simply put, the impetus provided by these rents established strong characteristics that permanently undermined the fiscal social contract precisely because Angola had its own guaranteed source of revenue unrelated to domestic taxes. However, this evidence is neither the whole story nor can be said to fully capture the conditions of the dual effect. The Angolan state never sought to augment state revenue through substantial increases in domestic taxation and easy access to petroleum rents encouraged rent-seeking, predation and patronage in the society, and thus obviated the fiscal social contract. There is more compelling evidence consistent with the centralized political economy model of the resource curse explanation that oil-rich developing countries distribute petroleum rents in activities that increase the value of staying in power. As explained, there are factors that induce incumbents to invest in activities that increase the value of staying in power. This section found evidence for 'uncertainty among rulers' and 'the selection of rulers' as influencing how Dos Santos distributed petroleum rents in Angola. But the evidence is mixed for 'the role of citizens'. Not surprisingly, this influenced the politicized distribution of petroleum rents. Drawing on the role of citizens, Ross argued that oil-backed leaders spent a lot of revenues to satisfy popular demands (Ross, 2012: 78). For a country like Angola, however, there was no evidence that petroleum revenue trickled down to the ordinary Angolan citizens (see Global Witness, 2002). In short, citizens usually commanded less leverage and influence when it came to distributing petroleum revenue.

If petroleum rents were distributed, therefore, they were typically made to what Menaldo referred to as launching organizations (LOs). This dynamic was most apposite in Angola. To be sure, Hodges confirms that petroleum

revenue gave Dos Santos far greater resources with which to provide patronage than would have been the case in an oil-poor developing country (Hodges, 2004: 161). Following Humphreys and Sandbu's model that concentrated on the nature of interest-group politics with power rivalry, Hodges argues that petroleum-revenue-financed patronage was an intrinsic part of the strategy pursued by Dos Santos for the consolidation and conservation of political power (Hodges, 2004: 161). Take for example. Apart from the growing threats from UNITA and South Africa, President Neto's death in May 1979 opened a window for political competition aligned to ethnic cleavages. The more doctrinaire Marxists of whom were *mesticos* – including Lucio Lara and Henriques 'Iko' Carreira among others – and the more nationalistic black Africans of whom were of *kimbundu* (associated with Dos Santos), competed for political power and influence in the MPLA (Hodges, 2004: 51). To keep it simple, the severity of this division, for all intents and purposes, explains why Dos Santos invested petroleum revenue in political power and regime preserving activities (Ross, 2004: 246). Unfortunately, this division affected Dos Santos' survival in office, and it propelled him to favour only his group at the expense of the other (Humphreys & Sandbu, 2007: 203). In turn, this fostered the creation of a new petro-elite whose wealth depended on the distribution of petroleum rents through state spending. From these reasons flow the term "oil nomenklatura" or a presidential clique known as "Futungo de Belas" – a group encompassing the nexus of elite families, interrelated through marriage and political allegiance, around Dos Santos (Hodges, 2004: 161-162; De Oliveira, 2007: 606).

It is helpful to start at the beginning and explore how this group benefited from petroleum-revenue-financed patronage. Here, this section assumes that those powerful enough to enact and control the property rights regime also control the allocation of Angola's petroleum revenues and opportunities. Considering this assumption, a paper by Manuel Ferreira and Ricardo Soares de Oliveira posits that state-owned banks became crucial in consolidating the power of the ruling petro-elite (Ferreira & De Oliveira, 2018: 49). Ferreira and De Oliveira (2018: 50) argue that the degree of state control over BNA (Angola's central bank, currency issuer, treasury, and commercial bank), Banco Popular (Angola's bank that deals with individual savings), and Empresa Nacional de Seguros e Resseguros de Angola (Angola's state insurer) had sharp distributional consequences and arguably affected the capacity of opposition groups to mobilize outside of the ruling petro-elite. As petroleum revenue contributed to the development of these banks, the Angolan state under Dos Santos enforced financial repression as an optimal way to create rents for his loyalists and crony capitalists.

Financial repression was rampant in two ways. The first form of financial repression was that petroleum revenue supported the government's policy of real exchange rate appreciation which reinforced the market isolation of the

agricultural sector (World Bank, 1991: 35). Hodges (2004: 156) argues that this was the Angolan version of the “Dutch Disease”. The “Dutch Disease” was not automatic – that is to say, by means of monetary adjustments, the Angolan state could have counteracted the tendency to produce an appreciation in the real exchange rate. In the case of Angola, however, a market-driven fluctuating exchange rate was non-existent. Since the official exchange rate was set administratively, well below the market equilibrium rate, the foreign currency sold at this artificial rate had to be rationed (Hodges, 2004: 131). In turn, this induced the Angolan state, under Dos Santos, to ration foreign exchange in which the latter used his political power to secure the rents associated with foreign exchange for the politically connected elite. Consequently, the Angolan state under the auspices of Dos Santos informed the state-owned banks which individuals must receive the foreign exchange on offer (Hodges, 2004: 131). This was the principal mechanism for elite enrichment in two contrasting ways: on the one hand, the widening gap between the official and parallel market rates was characterized by “increasing returns” for those with privileged access to foreign exchange at the official rate; and on the other hand, the appreciation in the real exchange rate contributed to import dependence, which tended to place the agricultural sector at a competitive disadvantage vis-à-vis importers with access to foreign exchange at the official rate (Hodges, 2004: 131-156). However, this principal mechanism for elite enrichment had serious macroeconomic costs. The World Bank’s report shows that between 1985 through 1989, the Angolan state incurred budget deficits. This was mainly because access to foreign exchange was a transfer of resources, primarily obtained from petroleum rents, from the state to the politically connected beneficiaries. A portion of the foreign exchange derived from petroleum revenue were sold by the state to the private individuals at a subsidized rate, implicitly denying the state of substantial amount of revenue in local currency terms (Hodges, 2004: 158).

The second form of financial repression was that the appreciation in real exchange rate triggered inflation. The World Bank’s report indicates that petroleum rents have encouraged the Angola state to maintain public expenditure at unsustainable levels, and this exacerbated the inflationary pressures exerted by the appreciation in real exchange rate (World Bank, 1991: 35). Under such conditions, Ferreira and De Oliveira argue that banks would normally provide credit to individuals and productive sectors of the economy beyond oil to alleviate the adverse effects of oil (Ferreira & De Oliveira, 2018: 50-56). Amidst inflationary pressures, the Angolan state preferred to control credit allocation. For example, up until 1996, Banco Nacional de Angola (BNA) issued 84 percent of credit to enterprises and households (Ferreira & De Oliveira, 2018: 56). In the words of Hodges, considering the system of administratively fixed interest rates and credit allocation, it was not surprising that the 84 percent of credit BNA was responsible for benefited the politically connected elite (Hodges, 2004: 133).

Menaldo (2016: 80) asserts that such a system evident in Angola forces citizens to hold their savings. As shown in the World Bank's report, the velocity of monetary circulation declined in recent years and stood at 0.86 in 1989 (World Bank, 1991: 51). Following Menaldo's assertion, it is a plausible hypothesis that the banking system in Angola lacked the security of property rights to citizens' savings and capital, particularly those who were not part of the politically connected elite. What is most striking, however, was that the administratively fixed exchange and interest rates as well as access to credit, strongly reinforced the incentives for rent-seeking behaviour (Hodges, 2004: 133-134).

### **5.3 STATE OWNERSHIP, PETROLEUM REVENUE, AND AUTHORITARIAN PERSISTENCE AMID DEMOCRATIC REFORMS: 1991-2017.**

In the previous section, it was argued that authoritarian persistence in Angola could be traced to the state ownership-petroleum revenue interaction. The section indicated that the state ownership-petroleum revenue interaction gave rise to at least two causal mechanisms that shaped the political regime in Angola: easy access to petroleum revenue and the politicized distribution of this revenue. Upon further reflection, however, the section posited that these two causal mechanisms reduced the Angolan state's reliance on domestic taxes and led to greater spending on patronage, which were responsible for authoritarian persistence. To address these adverse political effects responsible for authoritarian persistence that had beset Angola, the MPLA ushered in democratic reforms with the hope that they would cauterize these effects. Since democracy tends to disperse power through institutions of horizontal accountability (parliament and judiciary) and vertical accountability (elections, civil society organizations, the media, etc.), it might modify the absence of domestic taxes (and by implication the fiscal social contract) to guarantee demands for political representation and a favourable distribution of petroleum rents (Amundsen, 2014: 173). Democratic controls also prevent the political system from manipulating the economy and ensures that if a political party or the incumbent abuses resources, they lose office (North, Wallis & Weingast, 2009: 22-23). This section, therefore, analyzes whether democratic reforms, once established, progressed to a decisive escape from the perverse political effects which were responsible for authoritarian persistence.

Following the formal abandonment of Marxism-Leninism and the ushering in of Bicesse Accords in 1990-1991, the MPLA introduced a constitutional revision law (Law 12/1991) which proclaimed Angola as a democratic state based on the rule of law, multi-party system, and the respect of human rights (Hodges, 2004: 12-55). Because the constitutional changes in 1991-92 are legion, this is not a place to dissect all the profound changes of

authoritarianism which had taken place in Angola since independence. For present purposes, this section looks at the multi-party presidential and parliamentary elections as the edifice upon which further democratic reforms were built in Angola. The obligation here is to explain why the significance attached to multi-party elections as a progenitor of democratic legitimacy and, by extension, broader political participation and democratic accountability, did not help authoritarian persistence turnaround in Angola. Hodges (2004: 55) argues that the holding of elections and the introduction of multi-party system provided a conducive environment for Angola to transition to a more pluralist and participatory system of governance – that is, the environment thwarted the bipolarization of Angolan politics, and enabled numerous new political parties and civic organizations to come into being.

After a year of blissful peace in 1991, Angola held its first multi-party elections for both the president and the parliament on 29-30 September 1992 (Blaauw, 2014: 127). Blaauw's paper indicates that the MPLA won parliamentary elections with 54% of the vote against UNITA's 34% (Blaauw, 2014: 127). Jonas Savimbi of UNITA got 40.1% while Dos Santos got 49.6% in the presidential elections (Blaauw, 2014: 127). Since Dos Santos failed to win the presidential elections with an absolute majority, this meant the second round of the presidential elections had to take place. Hodges and Blaauw argue that the second round of the presidential elections did not materialize because Savimbi refused to accept electoral defeat, contending that the MPLA had rigged elections (Hodges, 2004: 35; Blaauw, 2014: 127-128). An important feature of the presidential elections was a Western-style democracy of "winner-takes-all" voting which had no consolation prize for coming second in the first-past-the-post system (Birmingham, 2015: 110). These circumstances permitted Dos Santos to reinforce his grip over the Angolan state in two ways. The first is that the outcomes of the presidential elections fortified the presidential system of government, that is, concentration of all power in the president to the detriment of a cabinet or even an elected parliament (Hodges, 2004: 55-56; Birmingham, 2015: 111). The second is that the outcomes of the parliamentary elections meant that the MPLA had an absolute majority in parliament since UNITA parliamentarians refused to take their seats until the formation of the Government of National Unity and Reconciliation (GURN) in 1997 (Hodges, 2004: 56-66). Moreover, other minority parties were unable to mount a meaningful challenge to the MPLA, and the MPLA's parliamentary bench did not break ranks with Dos Santos (Hodges, 2004:56-66). A paper by Christine Messiant laments that these circumstances both reflected and cemented the growing concentration of power in the president (Messiant, 2001: 292).

What explains Dos Santos' ability to retain this dominant position? A paper by Mancur Olson posits that the key to an explanation of internal and spontaneous emergence of democracy in authoritarian countries is the absence of the commonplace conditions that generate authoritarianism (Olson, 1993: 573). Olson's theory rests, however, on the assumption that a balance of power – a distribution of power and resources that makes it impossible for any incumbent or group to overthrow all the others – prevents authoritarianism and permits democracy (Olson, 1993: 573). Two arguments that may account for the main obstacle to long-run progress of the Angolan democratic state have been suggested by Messiant and Hodges. Messiant, partially building on Olson's theory, offers the first argument: during the democratic transition period, the MPLA managed to intensify the predation of petroleum revenue and to some extent the scale of redistribution through its clientelist system (Messiant, 2001: 290). The second argument, implicit in the work of Hodges, is that the strength of the new unified armed forces, the Forças Armadas Angolanas (FAA), was able to withstand the direct military threats from UNITA and, by 1999, was already beginning to gain the upper hand (Hodges, 2004: 13-56). The motivational factor behind this strength laid the disproportional access to resources – that is, diamond wealth was minimal compared to petroleum revenue of the Angolan state (Hodges, 2004: 56; Birmingham, 2015: 113).

We can deduce from these arguments that the imbalance of power – that is, disparity in resources between the MPLA and other political parties – provided certainty in advance concerning how multiparty elections would turn out, and ensured that the MPLA would continually dominate elections (Olson, 1993: 574). Thus, Dos Santos' power as the head of state, the head of government, and the president of the MPLA remained intact and he was able to keep and to re-create a similar set of institutions of extraction from which he would again monopolize power and wealth (Acemoglu & Robinson, 2011). With unconstrained power on Dos Santos, Birmingham argues that Angola nurtured a presidential state as opposed to a democratic state in which power emanated from the palace, known as Futungo (Birmingham, 2015; 113-114). In the short run, this practice ensured a peaceful order in Angola, but in the long run it produced rigid political institutions in which political decisions began to override ministries, party cells, and bureaucracies (Birmingham, 2015: 113). The argument runs as follows. Messiant's paper shows that oil exploration has been ordinarily successful in Angola since the ushering in of the façade democratic reforms (Messiant, 2001: 292). The impetus behind this exploration success was the deep water discoveries which had offered the Angolan state unprecedented signature bonuses – that is, upfront once-off payments for exploration rights (Hodges, 2004: 145).

Given that signature bonuses and petroleum revenue accrued directly to the Angolan state, these two forms of petroleum rent created an increasingly large imbalance in military strength between the Angolan state and the disaffected opposition, UNITA (Hodges, 2004: 161). This imbalance in military strength finally led to the defeat of UNITA and subsequently installed peace in Angola. Moreover, these two forms of petroleum rent ensured that the MPLA and Dos Santos would be in a strong position to consolidate power in two ways. First, Dos Santos used signature bonuses and petroleum revenue to aid splits and dissident factions in opposition parties. Second, as parliamentary opposition parties depended on subsidies from the state budget (in which the oil sector contributed between 80 and 90 percent of state revenue), such dependence prohibited opposition parties from challenging the Angolan state on the most serious issues of national importance. The crude mix of carrot and stick tactics, writes Hodges, denote that the parliament and other oversight organs of the state could no longer play an effective role as checks on Dos Santos' power (Hodges, 2004: 65).

But these two forms of petroleum rent do not give us any original conclusion. The World Bank's report and Hodges' study show that between 1985-86 and in 1998, petroleum revenue declined in Angola (see World Bank, 1991; Hodges, 2004). To elucidate: on some occasions, famously in the oil price booms of the late 1970s and early 1980s, the Angolan state used part of its petroleum revenue to secure oil-backed loans to finance the procurement of expensive military weaponry and imports, only to end up in debt crisis as the consequence of the oil price bust in 1985-86 (Humphreys et al, 2007: 8). Consequently, the oil price bust in 1985-86 plunged the Angolan state into a deep debt crisis, and the external shock in 1998 exacerbated the debt crisis; in turn, the Angolan state reneged on its obligations for the servicing of its oil-backed loans, further destroying its high access to international loans (Hodges, 2004: 156-162). Because the Angolan state destroyed its high credit rating in the international financial market, a paper by George Lwanda suggests that Dos Santos used Sonangol's good credit reputation to secure oil-backed loans in the international market (Lwanda, 2011: 17). De Oliveira (2007: 606-607) suggests that oil-backed loans sourced by Sonangol ensured that the latter's credibility as a company was not susceptible to the similar dynamic that destroyed the Angolan state's credibility in two ways: (a) oil-backed loans were sourced through Special Purpose Vehicles (SPVs) which allowed creditors to benefit from safe repayment structures; and (b) they were also syndicated through a large number of international banks, which decreased risk for the lender. To substantiate this, Hodges propounds that oil-backed loans were tied to contracts with IOCs, for lifting of oil from the share of production accruing to Sonangol (Hodges, 2004: 103). Further, "the receipts from these oil shipments were then paid into designated accounts in foreign banks, to service loans to Sonangol and the Angolan state" (Hodges, 2004: 163-164).

In practice, the net benefits of these oil-backed loans were negative. The main point to be noted here is that these oil-backed loans increased Dos Santos' power by enabling him to sustain his patronage network and buy-off political opponents as well as contributing towards sidelining formal institutions in Angola (De Oliveira, 2007: 607). Consider, for example, Angola's external borrowing practice has proliferated the secrecy of petroleum revenue, constituting what Hodges refers to as the 'Bermuda Triangle' – that is, a situation in which the bodies directly involved in oil-backed loans arrangements never ensured that these arrangements were recorded (Hodges, 2004: 128). In turn, these arrangements bypassed formal institutions such as the BNA, the Ministries of Finance and Petroleum, and the parliament. For yet another example, the Elf Scandal revealed how these arrangements produced political rent-seeking, in part by enabling Dos Santos' patronage network to siphon off billions of dollars into their personal offshore accounts (Lwanda, 2011: 17-18). The concentration of oil-backed loans in the hands of Dos Santos meant that he could use this economic power to increase his political power disproportionately. Hence, as indicated in Blauuw's paper, Dos Santos as the president of the MPLA was able to tighten his authoritarian grip on power in the wake of the 2008 elections in Angola.

Upon further evaluation of the arguments presented above, there are grounds to infer that democratic reforms in Angola did not set in place a strong bureaucracy capable of raising domestic taxes and did not reduce the state's reliance on petroleum rents. Instead, there is airtight evidence that the role of credit markets, uncertainty among rulers and the selection of rulers induced Dos Santos to continue investing in activities that increased the value of staying in power. Indeed, as we have seen in this section, oil-backed loans sourced through Sonangol obviated the fiscal social contract, and exacerbated rent-seeking and the centralization of power in the presidency. Consequently, this precipitated the survival of Dos Santos in office while limiting the scope of political representation of Angolan citizens' interests as well as political contestation against the MPLA (Karl, 1997: 93-94). Furthermore, the introduction of multi-party elections affected Dos Santos' probability of remaining in office. Thus, in line with the uncertainty among rulers argument, Dos Santos used signature bonuses and oil-backed loans to preempt opposition parties through patronage (Wiens et al, 2014: 784). Apart from all this, Dos Santos invested signature bonuses and oil-backed loans to build the coercive power of the FAA which was used to repress the citizens' protests against the government and the opposition parties, in particular UNITA (Wiens et al, 2014: 784).

Given that multi-party elections were competitive in their nature, Dos Santos gained advantage over his opponents because he promised economic opportunities and greater spending on patronage to his launching organizations (LOs) and voting blocs. Thus, in line with the selection of rulers argument, the Angolan state had sought to spur economic development via crony capitalism. In other words, elite-enrichment patterns built up prior to democratic reforms did not unwind but, like the twist of a ratchet, took new forms (Shaxson, 2005: 316). Messiant (2001: 295-296) argues that the newly liberalized Angolan economy was an excellent strategy for consolidating the power of the MPLA and ensuring the continuous support for Dos Santos. Take for example. Angolanization and local content policies were a deliberate high-level strategy aimed at sharing rentier opportunities and the spoils of the oil boom across the petro-elite (De Oliveira, 2006: 608). As Messiant rightly anticipated, Angolanization and local content policies created an environment in which there was a scope for players to compete and to achieve a certain level of autonomy, but in practice, these players were mobilized in support of Dos Santos against UNITA or against the on-going struggles between factions within the ruling MPLA's elite (Messiant, 2001: 295).

A paper by Sarah Ovadia asserts that the promotion of these policies was a responsibility that is shared, at least in theory, by Sonangol and Ministry of Petroleum (Ovadia, 2016: 63). However, evidence demonstrated that Sonangol had noxious influence over subcontracting and services in the oil sector. It is due to Sonangol's noxious influence that Amundsen argues that private Angolan oil companies, for which IOCs were invited to take into consortiums as part of these policies, were another avenue for elite enrichment (Amundsen, 2014: 176). De Oliveira and Ovadia shed light on this case. Ovadia (2013: 50-51) argues that Angolan oil companies fell under two categories: (a) companies that were keen to build their knowledge, experience and capacity to be able to undertake exploration and production activities by themselves; and (b) companies set up by powerful members of the elite with the hope of monopolizing opportunities for accumulation of vast fortunes. Ironically, and perversely, De Oliveira argues that Sonangol was essentially parasitical in the sense that it created opportunities for well-connected but non-entrepreneurial individuals with little value added for Angola (De Oliveira, 2007: 608). Meanwhile genuine entrepreneurs faced formidable hurdles in all lines of business (De Oliveira, 2007: 608). In other words, despite the language of entrepreneurship in Angolanization and local content policies, Sonangol favoured companies in proposition (b) over the ones in proposition (a).

More generally, companies in proposition (b) were favoured because members of the elite that are silent partners in these companies had erected barriers to entry in the supply of capital and access to credit (Menaldo, 2016: 92). In turn, this politicized supply of capital and access to credit discouraged the participation of companies in

proposition (a) in the capital-intensive nature of the oil sector. In the Angolan context, this strategy was usually paired with the elite bank ownership. Ferreira and De Oliveira (2018: 57-65) postulate that Angolan banks (private and public) were designed in ways that guaranteed the elites' control in which most individuals, enterprises, and entrepreneurs were unable to access formal credit. Angolan banks were happy to quash any type of independent capitalists or economic activity beyond the ruling the Futungo De Belas as these activities could had produced rivals and posed a serious threat to the elite (Ferreira & De Oliveira, 2018: 65). Consequently, the sharing of economic opportunities and greater spending on patronage to Dos Santos' LOs affected the MPLA's legitimacy. A paper by Justin Pearce, Didier Perclard, and Ricardo Soares De Oliveira argues that the politicized distribution of economic opportunities and petroleum revenue gave a new resonance to civil society dissatisfaction and much of this dissatisfaction centred its discourse on Dos Santos and his direct allies (Pearce, Perclard & De Oliveira, 2018: 147-150). An important example of this dissatisfaction was the MPLA's steady decline in 2012 and 2017 elections: from 72 percent in 2012 to 61 percent in 2017 (Pearce et al, 2018: 154). While there is no strong evidence that this dissatisfaction compelled Dos Santos to relinquish his authoritarian grip over the Angolan state, the MPLA was open to changes in its leadership to revive its control over Angola's formal and informal politics. Hence, the emergence of Joao Lourenco as the president of Angola indicated that the MPLA's party structures (once sidelined in the hands of Dos Santos' authoritarian rule) gained political traction (Pearce et al, 2018: 148).

These arguments strongly imply that Angola never evolved to anything that resembles the full workings of democracy. In other words, easy access to petroleum revenue and the politicized distribution of this revenue continued to reinforce authoritarian practices, regardless of the introduction of democratic reforms. The reinforcement of easy access to petroleum revenue and the politicized distribution of this revenue in the post-democratic reforms period could be explained by the state ownership-petroleum revenue interaction. Provided one condition is in place, the state's ownership of Sonangol, petroleum rents will invariably be available to prop up incumbents, guarantee their private enrichments, and co-opt enemies (De Oliveira, 2006: 610). It is therefore that this section concludes that the Angolan state had built the institutional nucleus for power and prosperity in the form of a strong presidency; strong enough LOs to defend it against the social and democratic demands of the Angolan citizens; a capable Sonangol; and efficient armed forces.

## **5.4 CONCLUSION.**

This chapter found that the expected causal relation between the state ownership-petroleum revenue interaction and authoritarian persistence set forth in Ross' studies is present in the case study of Angola. In any of the two

periods used in this chapter, this causal relation was more robust and not spurious. In addition to the expected causal relation, the causal mechanisms of interest provided better qualitative evidence of how this causal relation happened and more compelling qualitative evidence of why it took place.

## **CHAPTER 6: CONCLUSION.**

### **6.1 FRESH ROOM FOR THINKING.**

This study introduced the reader to the period of oil nationalization in Angola within which Sonangol was created as the lifeline of the Angolan state. Of course, the emergence of Sonangol was met with great success since the NOC serves as the hub of innovation, including amongst other things, enabling the Angolan state to gain expertise about the oil sector. Yet, this great success was coupled with dangers along the way. This is often precisely because the state's ownership of Sonangol presupposed that the Angolan state had a much larger claim on petroleum rents and it could collect these rents directly. This interaction between state ownership and petroleum rents was responsible for authoritarian persistence in Angola in two sharply contrasting ways. The first was that, in accordance with the rentier state model, easy access to petroleum rents increased the Angolan state's reliance on petroleum rents, without having to tax its citizens. This meant that Angola was the rentier state par excellence. The danger of the institutionalization of the rentier state, as shown in this study, was that the Angolan state became immune from the fiscal social contract that helped to produce democratic institutions in early modern European states precisely because the state was less subjected to the task of having to tax its citizens. The second was that, in accordance with the centralized political economy model of the resource curse, the state's ownership of Sonangol meant that the thriving oil sector was in the hands of the Angolan state. Under such conditions, the incumbent or the ruling party had a remarkable degree of discretionary power over the distribution of petroleum rents. In the Angolan context, the distribution of petroleum rents was predicated on the consolidation of Dos Santos' power and the political survival of the MPLA. Hence, the distribution of petroleum rents through patronage was a viable political strategy for preserving Dos Santos' authoritarian rule.

We can conclude that, in respect of the abovementioned arguments, authoritarian persistence became tied to the fate of the oil industry, and this tie had implications on the patterns of state-building in Angola. To stave off this tie, there would be a need for governance and institutional reforms in Angola's oil sector. As regards governance reform, economists and political scientists argue that revenue decentralization may be useful, that is, to establish a Natural Resource Fund (NRF) or use barter contracts that will enable the Angolan state to trade petroleum revenue for public goods it would ultimately like to acquire. Some recommend that direct redistribution is more effective – that is, to transfer petroleum revenue directly to households or share this revenue with local and/or subnational governments. As regards institutional reform, it is believed that the privatization of Angola's oil sector may produce pro-democratic effects and subsequently limit Sonangol's noxious influence in the Angolan political economy. Once these reforms are set in motion, petroleum rents will flow into the Angolan state's coffers on an

ever-decreasing basis, and thus the state will be required to introduce non-oil tax systems capable of raising revenues. Predictably, non-oil tax systems would encourage state-building efforts that tend to distribute power and benefits through the extension of citizenship rights and simultaneously counteract the government's lack of accountability and transparency.

Even though these reforms might make a significant contribution, this study has come to a skeptical view. Here are several reasons why this is so. First, the fate of Dos Santos (and by implication that of the MPLA) and the oil sector were intertwined, and therefore the privatization of the oil sector suggests that the MPLA would lack an alternative basis of authority because the scarcity of petroleum rents has obvious ramifications for political stability. The bottom line is that the prospect of the MPLA deserting state ownership with control in favour of a productive privatization system remains a hangman paradox. Second, broad-based distribution of petroleum rents seems progressive in the Angolan context, but such arrangements already proved dysfunctional in petro-states like Iran, Saudi Arabia, and Venezuela. There is no doubt, broad-based rent distribution precipitates an expansion of benefits to a plurality of Angolans and is likely to mitigate higher levels of socio-economic challenges (i.e. poverty, inequality, mortality, diseases, unemployment, and so on). Yet, broad-based rent distribution does not necessarily tinker the regime, but rather guarantees meeting citizens' demands while restricting the purview of representation to assure the patronage structure for the ruling elite. Third, if there is a big chance of these reforms happening in Angola, and that the workings of these reforms will compel the Angolan state to introduce non-oil tax systems, there is no prospect that non-oil tax systems would generate state revenue since economic activity outside of the oil sector is located within the informal sector in Angola.

Aside from the latter skepticism, this study argues that these governance and institutional recommendations lack better analyses of the political equilibrium in thinking about reforms. More important and yet less frequently mentioned is that authoritarian persistence in Angola is kept in a place by a mixture of de jure and de facto political power. Consider, for example, the current President, Lourenco, holds de jure power as the president of Angola and Dos Santos holds de facto power as the president of the MPLA. The persistence of de jure and de facto power produces path dependence and structural contingency in two ways. First, as argued elsewhere, politicians who seek to consolidate their power assemble Launching Organizations (LOs) to launch them into power. Another way to put this is that a key to surviving in power for incumbents is to regulate the economy for political gains. To be sure, MPLA notables that launched Lourenco into power will tolerate radical reforms that reduce the collective stake of Dos Santos and his allies in the Angolan economy on the one hand, and advocate for any

patronage network that redistributes privileges away from Dos Santos' core supporters on the other. The essence of this argument is that while Lourenco is keener to destroy Dos Santos' dynasty, he is likely to re-create similar extractive institutions from which he would consolidate power and allow his LOs to benefit. Second, Lourenco's ascendancy indicates a shift in power, but Dos Santos' hold as the president of the MPLA raises the cost of introducing reforms. The bottom line is that Dos Santos and those around him will not easily confiscate or devalue their holdings over the Angolan economy. The impetus to this is that Dos Santos may use his de facto power to discredit Lourenco's regime. That is the reason why this study argues that for any reforms to succeed it would be necessary to instigate a change in the political equilibrium in Angola. Therefore, theories to explain and trace how Angola can overcome this political equilibrium which poses a stumbling block to total regime change are in short supply and future research in this direction is most likely to be beneficial.

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