The geopolitics of FDI: Can weak states deter hegemons using foreign investment?

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ABSTRACT

Policymakers in two small and weak states, Qatar and Guyana, leveraged foreign direct investment by oil and gas producers to enhance their strategic security and protect against threats from neighboring hegemons. The case of Qatar reveals a major improvement in security relations with the United States that coincides with Mobil’s participation in the Qatari natural gas sector. The case of Guyana reveals a similar process, with Guyanese officials choosing ExxonMobil over rival firms interested in its offshore oil concessions. Guyana willingly accepted inferior contractual terms in exchange for the prospect of bolstered security ties with the United States. This paper explores the phenomenon of host country governments leveraging American FDI to militarily balance against a regional hegemon. The two cases depict host countries using investment to seek security, rather than following the more documented path of using preexisting security ties to attract investment.

1. Introduction

According to the realist school of thought in international relations, small and weak states have two strategies for securing themselves from hegemonic countries. The first is the “balancing” strategy of aligning with others against the threatening state. If balancing is unavailable, small states turn to “bandwagoning,” or allying with and conceding some level of influence to the threatening power (Walt, 1985). There are numerous variations of these two overarching strategies in the literature on balance of power theory, largely in the realist and structural realist perspectives. One variation of balancing that appears little explored is the deliberate use by small or weak states of foreign direct investment to balance against a regional hegemon, an indirect path to an improved security environment.

Scholarly examinations into the nexus of foreign direct investment (FDI) and US security involvement in host countries tend to take two directions. One portrays US military support for American corporations overseas as a form of subsidy (See Gaffney, 2018). The other examines conditions when security factors in host countries either enable or prevent foreign investment (Such as Li and Vaschilko, 2010).

This paper investigates a different path. It explores the phenomenon of host country governments leveraging American FDI – and the inferred or demonstrable enhancement of US strategic interest – to militarily balance against a regional hegemon. The two cases examined here appear to depict host countries seeking security through investment, rather than leveraging security ties to attract investors.

While governments of militarily weak states often use commercial ties and purchases such as aircraft to bolster diplomatic connections with stronger powers, the cases outlined here are different. Here, small states use FDI to circumvent normal diplomatic channels. Once in-country investments are sunk, host countries can then capitalize upon regional instability and expropriation threats against the foreign investor to cultivate enhanced strategic interest from the home government of the investing corporation.

To be clear, the cases below lack sufficient evidence to prove a causal relationship between US private sector FDI and enhanced US strategic interest. However, the cases do raise the possibility that militarily weak states exploit foreign investment for the secondary goal of improving
hard security protection. The cases also suggest that US multinationals may seek to improve contractual terms with small or weak states by touting their influence within the US government. Strong corporate ties in Washington also imply US interest in the sanctity of contracts and property rights within the host country.

The first case involves Qatar, a tiny Persian Gulf monarchy which sought to balance against a dominant neighbor, Saudi Arabia. Qatar is a wealthy state and not weak in the traditional sense—unable to provide essential public services—but in the military sense. Qatar’s success in securing Mobil’s investment in liquefied natural gas exports conferred a sense of US backing and increased potential for US hard security provision for Qatar that reduced risk perceptions of other foreign investors. Mobil’s presence came alongside a largely unrelated improvement in US-Qatari relations. Together these developments helped create conditions that opened the way for many other foreign firms to invest, resulting in a successful LNG export sector. In the process, Qatar was able to assert its autonomy and shake off Saudi domination.

A similar phenomenon appears to be unfolding in Guyana, a small state that seeks to protect itself from territorial claims of a much larger neighbor, Venezuela. Guyana secured the participation of ExxonMobil in extracting its offshore oil and gas resources. The presence of Exxon, one of the largest and most politically influential US firms, infers a heightened albeit indirect US interest in Guyana’s territorial integrity. In fact, a US-Guyana defense partnership agreement was signed in September 2020, less than a year after the first shipment of Guyanese oil. Improved economic ties may increase the likelihood of US hard security provision in the event that Venezuela sought to pursue its claims militarily. In fact, the Guyanese government acknowledged that intangible security benefits led it to choose Exxon over rival companies, despite having to accept contractual terms from Exxon that were less favorable than those that might otherwise have been achieved (Vyas, 2018).

2. Literature review

Structural realist theory in international relations, as described by Waltz (1979 and 2000) assumes relations among states take place in a state of anarchy. States secure themselves against potential aggressors by enacting “balance of power” relationships involving either balancing or bandwagoning (Waltz, 1979). Foreign investment and trade in the realist view is important, but mainly as a factor that moderates the potential for conflict (Rosecrance and Thompson, 2003).

This view is challenged by scholars like Donnelly (2000) and many others who find realism downplays important forces such as morality and diplomacy (Donnelly, 2000). This article acknowledges these debates but accepts balance of power theory and the realist doctrine as a useful paradigm for examining the two cases at hand.

As for the academic literature on foreign investment and political stability, most works assume causality in the opposite direction from that examined here. Scholars have for decades examined effects of political stability, and lack thereof, on foreign investment. Most tended to use a useful paradigm for examining the two cases at hand.

Rolfe (1993) and Hayakawa et al. (2013) find that internal conflict, political stability, and lack thereof, on foreign investment. Most tended to use a useful paradigm for examining the two cases at hand.

Finally, Gaffney (2018) examined the nexus of foreign direct investment by US firms and US military’s history of power projection around the world. He portrays US military support for American corporations overseas as a form of hidden subsidy that protects private business interests at the expense of the US taxpayer, and often at the expense of democracy and development in host countries. From this perspective, Qatar and Guyana appear to be pushing Gaffney’s scenario a step further, by inviting US firms into their jurisdictions in hopes that those firms – and by extension the host country – receive a hidden subsidy in the form of security provision from Washington.

3. Research aim and perspective

It seems demonstrably true that in many cases, the environment for FDI in developing states is improved by an external security alliance. This paper, however, reverses the analysis. While pre-existing defense relationships may well grease the wheels for foreign investors, what about the opposite? Might pre-existing foreign investment commitments, particularly those involving large sunk investments at risk of expropriation, engender a greater strategic interest or military commitment from the investor’s homeland?

Also reversed is the research perspective. This paper examines the FDI-security problem from the viewpoint of small, weak states that seek to attract the strategic interest of a military superpower. Cases presented here suggest that strategic attention is more readily garnered when preceded by investment flows. The bi-directionality of the FDI-defense correlation is bolstered through case studies of Qatar and Guyana. While neither case poses a clear-cut model of “investment-led defense assistance,” both offer tantalizing clues about the viability of this strategy for small, weak states.

4. The case of Qatar

Qatar is a peninsular Persian Gulf monarchy with a population of 2.8 million, only 300,000 of whom are citizens. The hereditary sheikdom shares a land border with just one country: Saudi Arabia. Qatar controls most of the world’s largest known field of non-associated natural gas, the North Field. Iran, just across the Gulf, controls about a third of the field (Fig. 1). Exports of oil and particularly natural gas have made Qatar one of the world’s wealthiest countries on a per capita basis.

In foreign policy, Qatar has in recent years adopted an autonomous, activist and often confrontational approach. It acts at times at cross-purposes to the aims of its neighbors and even those of the United States. The Qatari government has established itself as mediator of intractable conflicts, which led it to host representatives from Hamas, the Taliban, Israel and other warring parties, as well as regional political opposition groups such as the Muslim Brotherhood. The Qatari government established in 1996 the Al Jazeera TV network, including an independent Arabic-language news channel that succeeded in breaking longtime Arab state monopolies over news and information. Al Jazeera’s broadcasts regularly feature content deemed anti-American or anti-Israel, or that support opponents of autocratic regimes across the Arab world. These activities have generated opprobrium in Washington and in Middle Eastern capitals, triggering accusations of state support for
terrorist groups (Katzman, 2019).

4.1. Background

For most of its history, tiny Qatar cut a far more modest figure. It was so poor and weak that foreign powers were able to dictate its foreign affairs. Prior to Qatar’s recognition as a sovereign independent nation-state in 1971, Doha ensured its survival against regional hegemons by balancing with the Ottoman and British empires. Between 1868 and 1971, Britain was Qatar’s protector. "Weak in territory, population and military strength, Qatar’s rulers felt fairly confident that, were it not for the British presence, they would have been absorbed by the Ottoman Empire or Saudi Arabia," writes Crystal (Crystal and Looney, 2014).

In 1968, Great Britain announced it would no longer oversee its colonies and protectorate states "east of Suez." Among the lands left without a "balancing" military protector was Qatar. The sheikhdom gained formal independence against its wishes in 1971, when its protected status with Great Britain expired. Qatar’s early years of independence revealed few hints of the headstrong diplomatic forces that would emerge in the 2000s. The emir that ushered Qatar to independence, Ahmed bin Ali al-Thani, was overthrown within six months by his cousin, Khalifa bin Hamad al-Thani, whose family remains in absolute control. As described by Roberts, Emir Khalifa took a conciliatory approach to relations with regional hegemons Iran and Saudi Arabia. Khalifa saw bandwagoning with Saudi Arabia as Qatar’s most viable strategy for retaining his family’s regime and the formal independence of the new state. The loss of British protection necessitated Qatar’s following the Saudi lead in foreign relations, ensuring it did nothing to antagonize Riyadh. Khalifa’s policymaking emphasis was thus directed inward, toward domestic development (Roberts, 2017).

4.2. Establishing FDI and security relations with the United States

Bandwagoning with Saudi Arabia was necessary because balancing partners were unavailable during Qatar’s early years of independence. Doha had virtually no relationship with Washington in the first decade after independence. In the 1980s, Qatar illegally procured US Stinger missiles that gave it shoulder-fired antiaircraft capability. When Doha rebuffed US demands to relinquish the missile systems the US Congress in 1988 banned US arms sales to Qatar (Sciolino, 1988). The ban highlighted the state’s lack of security partnerships and negligible options for defense.

In 1991, Qatar’s relationship with the United States began to improve alongside the huge deployment of US forces to the region ahead of the 1990-91 Gulf War. Qatar agreed to destroy the US-made Stinger missiles as a part of a 1991 bargain lifting the weapons ban. The agreement also opened the way for US forces to operate from Qatari territory. During the war, Qatari armored forces joined the US military in repulsing an Iraqi attack on the Saudi coastal town of Khafji (Katzman, 2012).

Also in 1991, Qatar launched an ambitious natural gas production and liquefaction industry based on its portion of the offshore North Field. Foreign investors participating in the North Field development initially included no American oil companies. The consortium was initially led by BP and backed by France’s Total and Japan’s Mitsui and Marubeni. The group of foreign investors joined state-owned Qatar Petroleum in a joint venture called Qatargas 1.

But BP abruptly pulled out of the Qatar LNG project in January 1992 amid worries of disappointing returns (Oil and Gas Journal, 1992). In August 1992 the US major Mobil announced it would join Qatargas 1 as BP’s replacement. Mobil was looking for a new source of natural gas to cover contracted LNG shipments to Japan that could replace the fast-depleting Arun field in Indonesia, which had been producing since 1978 (Hashimoto et al., 2004). Mobil’s prior LNG experience and its willingness to assume the lead role rejected by BP is credited with reinvigorating the Qatari LNG project. “As a major American oil firm with expertise in LNG, Mobil brought financial backing as well as political security of a US firm involved in a large-scale project within the Emirate that appealed to the Qatars,” according to one account (Hashimoto et al., 2004).

The choice of Mobil, the former Standard Oil of New York, also helped Qatar further improve relations with the United States. Mobil made a series of large investments in Qatar which came under control of ExxonMobil after the two companies merged in 1999.
Nearly simultaneously with the Mobil investment, in 1992, Qatar signed a defense cooperation agreement (DCA) with the United States. Qatari cooperation with US and coalition forces in rolling back the Iraqi invasion of Kuwait in 1991 had contributed to improving military relations, which were codified in a signed agreement (Katzman, 2016).

The initial defense pact with Washington was achieved amid three nearly simultaneous events – the Gulf War, the US basing agreement, and the LNG project – rather than solely the result of Mobil’s foreign investment into a once-wayward sheikhdom. Further caveats should be noted. The DCA conferred no guarantees of US protection. Under the agreement, Qatar became a “partner,” not a full-fledged US ally. The United States also opened regional bases outside of Qatar around the same time, where links with US oil majors were not part of the equation. Finally, Mobil announced its investment about six weeks after the signing of the DCA (although Mobil’s negotiations had been initiated many months beforehand). Thus it remains unclear whether the Mobil investment played any role in the US-Qatar DCA.


Before US-Qatar security relations underwent their largest upgrade, another coup unfolded. In 1995, Emir Khalifa was ousted by his son Hamad, who made his move – apparently with the knowledge of US intelligence (Author Interview with Former US Diplomat, 2007) – while his father was visiting Switzerland. Hamad’s wish was to distance Qatar from overwhelming Saudi influence and move beyond Khalifa’s bandwagoning relationship with Riyadh, while retaining top energy and diplomatic officials overseeing the LNG investments. A year after Hamad seized power, in 1996, Riyadh hit back, backing an unsuccessful counter-coup that failed to re-establish Khalifa in Doha. (Roberts, 2017)

Sheikh Hamad’s establishment of the Al Jazeera cable news network shortly thereafter was, Roberts writes, an “asymmetric means for Qatar to retaliate against Saudi Arabia” that was accompanied by an enhanced willingness in Doha to host Arab dissidents. (Roberts, 2017)

Despite the instability at the top of the Qatari monarchy, Mobil retained its presence. FDI inflows increased dramatically under Hamad’s rule, peaking just above $8 billion in 2009, before falling during the global financial crash (Qatar’s FDI) (Fig. 2). Hamad leveraged gas exports to develop “balancing” security partnerships with importing states that reduced his need to bandwagon and allowed Qatar to develop an independent foreign policy.

Meanwhile, the largest physical manifestation of the US-Qatar DCA did not appear until 2003, after significant foreign investment in the Qatari LNG sector had been sunk. That year Washington accepted Qatar’s invitation to open a US base at Al Udeid airfield southwest of Doha (although the US Air Force first used the base in 2001). The move culminated nearly a decade of Qatari diplomacy and an investment of $1 billion in construction costs (Blanchard, 2012). In 2003 the US Central Command moved its Air Operations Center from Prince Sultan Airbase in Saudi Arabia to Al Udeid, from where it controlled US air maneuvers in the wars in Iraq and Afghanistan. A second major base at the adjacent Camp As-Sayliyah became the Pentagon’s largest materiel pre-positioning site outside the United States. (Globalsecurity.org) Washington’s decision to redeploy US forces from Saudi Arabia to Qatar brought a major improvement in Qatar’s insecure environment, particularly since the coup and counter-coup events of 1995-96 (Krane and Wright, 2014).

4.3. Consolidating and testing Qatar’s security provision

By 2003, it was clear that Qatar had transitioned from a bandwagoning Saudi vassal to an autonomous nation-state that was assuming a soft power role in regional and global affairs. Qatar’s gas exports grew quickly and the tiny monarchy became the world No. 1 LNG exporter by 2006 (Fig. 3). By 2011, it reached 77 million tonnes per annum of LNG production capacity, bundling investments of more than a dozen major international oil companies, banks, and utilities. By then, ExxonMobil was one IOC partner of many. The gas sector created ties with major Asian and European importers and Western oil firms, insulating the tiny state from pressures in the region. The protection implied by the presence of US Air Force and Army bases enhanced Qatar’s autonomy, which became all too apparent in the Arabic-speaking world via the broadcasts of Al Jazeera. Qatar was even able to resist US pressure to tone down Al Jazeera’s provocative programming. (Roberts, 2017)

Qatar eventually wielded so much autonomy from neighboring monarchies that it implemented policies that ran contrary to their interests, even undermining internal security in those countries. (Krane and Wright) Over the years, Qatar has hosted or engaged with Iran, Hezbollah, Hamas, the Muslim Brotherhood, and the Taliban, and funded forces in Syria and Libya that were opposed either by the United States or Saudi Arabia or both. (Blanchard)

The pan-Arab uprisings that started in Tunisia in late 2010 – the Arab Spring – brought an intensification of Qatari media, financial and diplomatic backing for the forces of political Islam arrayed against governments in Syria, Egypt and Libya. Qatar’s plan to support a people-powered Arab transition to democracy failed, however. Only Tunisia
successfully democratized, and Qatar developed a reputation as a “meddler.” As Roberts argues, Qatar overplayed its hand, revealing, perhaps, that its autonomy from regional hegemons was less thorough than it understood. (Roberts, 2017)

In 2017, Saudi Arabia sought to reassert its former hegemonic relationship with Qatar, joined by the UAE, Bahrain and Egypt. The four countries launched an economic blockade and trade, travel and diplomatic embargo against Qatar. The costly and damaging isolation policies failed over three years to force Qatar to accede to a list of onerous demands. The blockade was lifted in 2021, albeit amid unresolved differences between Doha and Abu Dhabi (al-Jaber and Cañiero, 2020).

Fortunately for Doha, Washington retained intense strategic interest in Qatar’s internal stability and the survival of the US-Qatari relationship. Some reports suggest that Saudi Arabia and the UAE may have considered invading Qatar to install a more pliable regime and were warned off by Washington (Emmons, 2018 and Middle East Monitor, 2018).

The reasons behind American support and protection extend well beyond protecting the operations of ExxonMobil and other US businesses operating on the peninsula. The Al Udeid Airbase and the neighboring Camp As-Saliyah host more than 10,000 US troops. Al Udeid itself is the largest US airbase in the Middle East, hosting both the Coalition Forward Air Component Command and the forward headquarters for U.S. Central Command. Camp As Saliyah hosts enough prepositioned materiel to outfit a US armored brigade. (Katzman) Both bases were crucial in the US invasion of Iraq in 2003 and the subsequent occupation and counterinsurgency campaign, and remain key manifestations of US defense doctrine in the Persian Gulf.

Even so, the strategic value of Mobil’s 1992 investment in Qatar emerged in full view in 2017, after the election of Donald Trump and the appointment as US secretary of state former ExxonMobil CEO Rex Tillerson. Tillerson had decades of professional familiarity with Qatar, a legacy of Mobil’s LNG investment. Tillerson understood the importance – commercially and strategically – of Qatar’s supply of LNG to the world, and he opposed efforts of hardline members of the Trump administration to back the Saudi-UAE blockade. Tillerson was joined in his support for Qatar by then-US Defense Secretary James Mattis, who underlined the value of basing agreements with Qatar.

Tillerson and Mattis, initially blindsided by Trump administration efforts to isolate Qatar, appear to have succeeded in changing Trump’s views of the gas-rich monarchy. In June 2017, Trump accused Qatar of being a “funder of terrorism at a very high level” and seemed to support the UAE-Saudi blockade. But by April 2018 Trump backtracked to a more neutral position, and twice hosted the Qatari emir at the White House (Ali, 2019). Tillerson and Mattis were said to have been instrumental in blocking a potential invasion of Qatar. (Emmons) Trump’s about-face, it can be argued, owes itself partly to the strategic importance of US bases in Qatar and the country’s exports of energy commodities, partly to the commercial and strategic importance of US foreign direct investment in Qatar, and partly to the influence of some of those investors at the highest levels in Washington.

In summary, Qatar leveraged several competitive advantages and made well-timed decisions to improve its economic and strategic autonomy in the Persian Gulf region. Its first two decades of independence saw Qatar firmly in the Saudi orbit as a virtual vassal state with doubtful prospects for unfettered sovereignty. The state’s two most recent decades saw it become a major military and commercial partner of the United States, strategic energy partner of OECD Europe and Asia, and independent wielder of soft power through media ownership and hosting of sporting and diplomatic events. Two attempts by Saudi Arabia to reassert hegemonic influence over Qatar – the attempted counter-coup in 1996 and the 2017-21 blockade – failed to divert Qatar’s independent path.

Qatar’s transformation owes itself to successful establishment of ties with the Pentagon and its useful location in the strategic Persian Gulf – where it provided and even funded American bases that proved crucial in three major wars (Gulf War 1990-91, US-Iraq War 2003-11, and the Afghan War 2001-21). But a key aspect of Doha’s successful transition is its early attainment of foreign investment from Mobil and other large foreign firms, which substantially enhanced the strategic value of Qatar’s continued existence as an independent state.

5. The case of Guyana

Now the question becomes, can Guyana perform a similar maneuver? The two countries exhibit large disparities in human and economic development and major differences in governance. In 2018, Guyana’s GDP was just $5.9 billion (versus Qatar’s $31.3 billion), making it South America’s third-poorest country. A third of Guyana’s 780,000 people live in poverty, and about 70% of the population is descended from slaves brought from Africa or indentured servants from India. Only 10% of Guyana’s roads are paved. Guyana was ranked in 87th place on the Weak States Index, due to deficient economic, social welfare and security capacity (Rice and Stewart, 2008).

But there are many similarities between Qatar and Guyana. Both are small weak states with a history of British colonial oversight that now maintain close relations with the United States. Both share land borders with regional hegemons, although in Guyana’s case much of the national territory is subject to a formal claim by the neighboring hegemon, Venezuela. Both are smaller in land area and population than most of their neighbors, and, of course, both harbor enormous proven reserves of oil and natural gas.

The U.S. Geological Survey estimates that the Guayanese coastal area holds recoverable oil reserves of roughly 13.6 billion barrels and gas reserves of 32 trillion cubic feet (US Department of State, 2019). More importantly, the size of the resource base relative to population – and Guyana’s potential per-capita income from those resources – places Guyana on a close footing with Qatar, at least hypothetically (Fig. 4, Table 1, Fig. 5). Both countries also lie far from probable markets for their exports, but Guyana enjoys simpler access to sea lanes with less exposure to strategic chokepoints, piracy and risk of sabotage. And, of interest here, both countries have become focus of intense interest and

Figure 4: Guyana’s future oil production relative to its population could catapult it into the upper echelons of producer states (Source: Francisco Monaldi, Rice University via Wall Street Journal 2020).
5.1. Background

European involvement in Guyana began in 1620 with Dutch sugar plantations. Guyana became a British colony in 1834 and gained its independence in 1966. After a post-independence experiment with state socialism and a command economy, Guyana shifted toward political nonalignment and free-market capitalism. These changes came alongside improving relations with the United States. Bilateral relations remain positive but quiet, since Guyana commands little attention in Washington. The Economist Intelligence Unit considers Guyana a "flawed" democracy with relatively free elections (scoring 9.17 out of a possible 10) but plagued by problems with government functions (5.7/10), a sectarian and secretive political culture (5.0/10). Guyana performs poorly on Transparency International’s 2018 Corruption Perceptions Index, ranking 93rd among 180 countries. Other Latin American countries perform much higher (Uruguay is 23rd and Chile is 27th), while autocratic Qatar is 33rd.

Prior to the Exxon Mobil-led 2015 discovery of the offshore Liza field, various international oil companies had drilled more than 40 exploration wells off Guyana and neighboring Suriname since the 1960s. None revealed economic promise until Exxon in 2015 drilled Guyana’s first successful exploration well, named Liza-1. Since then, Exxon has drilled numerous wells in various subsea structures, leading it to estimate about 5.5 billion barrels of recoverable oil-equivalent hydrocarbons in its zones of operation (Exxon Mobil Corp, 2019). Oil production began in December 2019 and Guyana’s first shipment was exported in January 2020.

ExxonMobil operates the offshore venture and holds a 45% share of the Stabroek Block, with partners Hess (30%) and CNOOC (25%) (Fig. 6). Exxon has advised Guyanese officials that the government stands to receive some $1.6 billion in royalties and revenue in the first five years if production proceeds as planned in 2020. Exxon projects $7 billion in total government payments during the life of the Liza field. (Vyas) (Fig. 7)

5.2. Guyanese insecurity and border dispute

Guyanese insecurity arises largely from a longstanding and unresolved border dispute with Venezuela over the western Essequibo region, which makes up about two-thirds of Guyanese territory (Fig. 8). Since 1966, Venezuela has warned off potential foreign investors in the region, at times successfully. Guyanese officials blame Venezuelan threats for undermining interest in proposed projects in hydroelectric power and mining (Youkee, 2018 and Miroff, 2015).

The dispute, which dates to 1895, has undergone three major attempts at resolution – in the 1890s, 1960s and from the 1990s-present – all of which have largely gone the way of Britain or Guyana, but which failed to result in a final resolution via mutually recognized treaty (Toro, 2015). Exxon’s exploration for oil in the Stabroek block revived Venezuela’s claim and triggered a decree from Venezuelan President Nicolas Maduro claiming ownership over most of Guyana’s territorial waters – including much of the exploration zone. Maduro also set up a quasi-government agency called the Essequibo Rescue Office, saying “we are going to take back what our grandparents left for us.” (Youkee)

For their part, Guyanese officials have described Exxon’s activities as lawful and the Venezuelan position as unjustifiably hostile. The continued standoff led UN Secretary General Antonio Guterres in 2018 to refer the dispute to the International Court of Justice in The Hague. Guyanese representatives welcomed the move and agreed to abide by a decision, but Venezuelan leaders maintained that the territorial claim could only be solved through bilateral negotiations (Economist Intelligence Unit, 2018).

5.3. FDI as national security strategy

Guyana’s choice of ExxonMobil appears more calculated than a

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**Table 1**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Guyana</th>
<th>Qatar</th>
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</tr>
<tr>
<td>Oil resources per capita (kboe)</td>
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<td>2019</td>
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<td>83/190</td>
<td>2018</td>
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<td>2018</td>
</tr>
<tr>
<td>Ranking by political participation</td>
<td>50/167</td>
<td>153/167</td>
<td>2018</td>
</tr>
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</table>

Source: World Bank, Rystad Energy, EIU

Note: Oil resources include crude oil and NGLs.

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Fig. 5. Guyana’s offshore oil reserves are large, relative to population, even compared to other producers (Source: Rystad 2019).
simple acceptance of a favorable bid for developing an offshore exploration block. The 2016 production sharing agreement with ExxonMobil and its partners Hess and CNOOC was signed by the Guyanese government after the May 2015 discovery of 3 billion barrels of oil reserves (Petroleum Agreement Between, 2016). The Guyanese government was then controlled by a coalition led by the Partnership for National Unity (APNU), supported largely by ethnic Afro-Guyanese. The terms of the 2016 contract were essentially an extension of those in a previous contract signed with ExxonMobil in 1999, when Guyana was governed by the rival People’s Progressive Party (PPP), which tends to attract support of Indo-Guyanese.

However, the 1999 contract (which had lapsed by 2016) was signed prior to discovery of oil. The 1999 agreement was a prospecting license that was to become a production sharing contract upon finding oil (Petroleum Prospecting License, 1999). All else equal, PSA agreements signed prior to oil discovery tend to offer more attractive terms to offset the foreign investor’s risk of dry holes. Once commercial quantities of oil are confirmed and risk of dry holes overcome, contractual terms typically become more favorable to the host government.

The APNU’s 2016 contract was awarded not through competitive bidding but direct government negotiations with Exxon. The APNU’s Minister of Natural Resources, Raphael Trotman, said in 2017 that Guyana granted an exploration and production license to the Exxon-led consortium based partly on “national security” criteria, rather than solely upon relative levels of economic benefit amid competing bidders (Peru’s, 2018). In another interview, Trotman said he accepted the 1999 terms because he worried that worsening relations with Venezuela would lead Exxon to quit Guyana. (Crowley, 2019)

When the contents of Guyana’s contract with the Exxon-led consortium were made public, critics – including the International Monetary Fund – derided the terms as overly favorable to the Texas oil giant. (Crowley, 2018) The Berlin-based NGO OpenOil forecast that Guyana would receive 52% of the overall revenues from the Stabroek Block once development costs are paid, which it described as low even among early-stage frontier producers like Mauritania, Senegal and Papua New Guinea (OpenOil, 2018). An analysis by consultancy Rystad Energy suggests that Guyana’s share of the overall take will likely reach 60%,
which places it closer to frontier peers with no history of proven reserves, but still below the global average of 75% (Rystad EnergyCube datab, 2019) (Fig. 9).

APNU officials are said to have chosen Exxon based on the Texas company’s offshore capabilities as well as calculations that Exxon would be best-placed to help a lightly populated and underdeveloped country defend its sovereignty. (Further concession agreement) Particularly prized was Exxon’s lobbying prowess and access to the White House and other US institutions, as well as its proven track record in dealing with Venezuela. In 2014, Exxon won a $1.6 billion judgement against Venezuela, which nationalized Exxon’s assets in 2007 (In 2014 World Bank’s, 2017).

“We need companies that have international influence in the corridors of power … so those things come at a price,” said Mr. Trotman, the APNU resources minister. “If we were an ordinary jurisdiction, I would say our terms look awful. But we have existed always with a threat of force against us. We have had to make decisions that are in our best national interest.” (Vyas)

It also emerged that Exxon paid the APNU-led government an $18 million signing bonus, which, like the contract terms, was kept secret until revealed in press leaks. Press reports quote Guyanese officials as saying that the signing bonus has been earmarked to pay Guyana’s legal costs in reaching a final resolution over the Venezuelan border claim (Guyana, 2018).

Guyana’s elections in March 2020 put the PPP back in power (after a period in which the APNU refused to relinquish power). The Exxon contract came under renewed scrutiny during the campaign, but once in power the new vice president, Bharrat Jagdeo, said the government would honor the 2016 PSA with Exxon. (Stabroek News, 2020)

5.4. US-Guyana military relations

Will Guyana’s choice of ExxonMobil be parlayed into a stronger strategic relationship with Washington? At the time of writing, improved diplomatic and military ties were already in evidence.

Unlike Qatar, Guyana in 2021 had neither a US base, nor a formal defense pact with Washington. Cooperation between Guyana and the United States had been limited to low-level military-military ties. The US Southern Command and the US Twelfth Air Force periodically conducted small exercises and construction projects with Guyanese forces under the rubric of the US New Horizons Humanitarian Assistance program. Guyana also maintains a defense pact with Brazil (Wilkinson, 2018) and strong relations with France due to proximity to French Guiana.

But just nine months after Guyana’s first oil shipment in January 2020, American strategic interest in Guyana’s defense quickly ramped up. In September 2020, the first-ever visit to Guyana by a US secretary of state took place, and in January 2021, the commanding admiral of the US Southern Command visited Guyana to sign a bilateral defense partnership that was ostensibly aimed at joint patrols to thwart illegal fishing in Guyanese waters, but included other forms of cooperation including a temporary deployment of a US Coast Guard cutter as well as defense-related agreements on procurement and logistics (Energy Caribbean Observer, 2021). In July 2021, US troops arrived in Guyana to begin a training mission for the Guyanese military (Pelcastre, 2021).

It bears mentioning that the Pentagon had a substantial prior legacy in Guyana. During British control, the United States established a small naval base on the Essequibo River and leveraged it in 1941 to build a runway and airport infrastructure at Timehri, south of Georgetown. The airport that became Atkinson Air Force Base was founded, ironically, to protect strategic oil production in Venezuela and to prevent Venezuelan shipments falling into enemy hands or to sabotage.

US air squadrons hosted at Atkinson pursued anti-submarine missions and oversaw sea traffic approaching the Panama Canal. Atkinson Air Force Base was closed in 1949 and the lease with Britain terminated at Guyanese independence in 1966, but Washington retained access rights for another 17 years, until the mid-1980s (Ishmael, 2013). The airfield transitioned to civil use in the 1950s and became the site for the Cheddi Jagan International Airport, Guyana’s main link with the outside world (The former base, 1955).

5.5. Revival of military ties?

Guyanese security and territorial integrity has long been threatened by Venezuela. The 2015 discovery of oil heightened those threats, while
the favorable 2016 contract with ExxonMobil was intended to mitigate against them. Would US strategic interest have increased to the same degree had non-US investors secured the Guyanese concession? It is impossible to know. However, the improving US-Guyanese ties appear to be proceeding according to the strategy outlined (above) by Trotman.

For the US’ part, two further rationales for revived ties also present themselves. First, Washington wants to prevent China, Russia and Cuba from expanding their influence beyond Venezuela. Second, the United States could address the steady decline in access to military bases in Latin America that began with the 1999 loss of Howard Air Base in Panama. In 2009, US military personnel were expelled from Ecuador. In 2010, Colombia’s constitutional court blocked an agreement to open US bases. Subsequent US negotiations to establish new “formal” bases in Peru and Panama failed. These failures have left the United States with formally recognized bases only in El Salvador (Comalpa), Cuba (Guantanamo), Aruba and Curaçao (small “forward operating locations” with a few aircraft (US 12th Air Force Fact Sheet, 2016)) and Puerto Rico, which is US territory (Stuenkel, 2016).

Bitar (2016) argues that public opposition to American hegemony has eroded governments’ willingness to openly engage with the US military. The Pentagon has been forced to restrict its operations to scattered “radar sites” and ambiguous “quasi-bases” where US forces conduct counter trafficking and other covert missions without formal public agreements. (Stuenkel, 2016)

From this perspective – which does not consider prevailing public opinion in Guyana or that within the Pentagon – Guyana appears to pose an intriguing opportunity. A prominent Guyanese businessman, writing in a Guyanese daily newspaper in 2018, called upon his government to invite the United States to create new outposts inside the Essequibo region claimed by Venezuela.

“A U.S. military presence in Guyana would present the most formidable challenge to the Venezuelan threat. … The United States now has interest in Guyana, with the discovery of large deposits of oil by the American conglomerate Exxon Mobil. The U.S. military’s Southern Command is … involved in operations against suppliers of illegal drugs. Guyana could engage the U.S. military and offer opportunities to partner with the GDF [Guyana Defense Force] in setting up joint military bases for training in jungle warfare, plus the preparation and stockpiling of military equipment for their Amazon Basin operations.

“Letting the U.S. military liaise with the GDF in western Guyana will send a clear message to Venezuela that the world’s leading superpower is on our side. This would be crucial to Guyana’s national security.

“Let us offer the U.S. one or two free bases at concessionary rates which they may want to take up due to the American investments in Guyana. … As Venezuela’s threat continues to undermine our economy, Guyana must not try to fight like a big state. We must act prudently like a small state should and make sure we have some big guns such as Brazil, France and the U.S. – or all three – at our side.” (Khan, 2018)

How widespread such opinions were in Guyana was unclear. In January 2021, the commander of the US Southern Command told a Guyanese press conference that the United States preferred a “military presence as invited by our sovereign partners” rather than a base (Stabroek News, 2021).

5.6. Other options

The ExxonMobil-led oil exploration consortium suggests another FDI-led opportunity for Guyana to balance against Venezuela. One of the three companies in the consortium is the Chinese National Offshore Oil Co., or CNOOC, which holds a 25% share of the Stabroek Block. Press reports suggest that Guyana’s previous experience with Chinese state-led investments has been disappointing (Krauss, 2018). Even so, Guyana has signed onto China’s Belt and Road Initiative in search of infrastructure financing. (Guyana, 2018) China has shown a recent willingness to build military installations outside its recognized borders, but does not, as yet, operate a “global reach” military that requires overseas bases. Even as China embarks on cautious construction of initial overseas bases, building one in Guyana – a country in close proximity to the United States – would probably be viewed as too provocative.

Beijing might provide other types of security and economic cooperation or even diplomatic support for Guyana. Such Chinese support could bolster Guyana’s ability to counter Venezuelan hegemony.

At the time of writing, however, China was an ostensible ally of the Venezuelan government of Nicolas Maduro. But China’s $55 billion loans-for-oil deal with Venezuela appears to have fallen apart amid Venezuela’s collapsing oil production and social chaos, leaving China with little to show for its investment (Perchen, 2019). China’s wanting involvement in Venezuela could soon be supplanted by its increasing prospects in Guyana, at which point Chinese interests may shift. At some point, one can envision China transferring diplomatic support from Caracas to Georgetown. And, since Chinese offshore investments in Guyana are subject to Venezuela’s expanded claims, China may have the economic rationale to reduce tensions between the two countries.

6. Discussion and conclusion

This paper examines two cases where weak-state policymakers made choices in foreign direct investment that either enhanced their strategic security (Qatar) or that deliberately seek to do so (Guyana). Neither case offers a clear-cut case of achieving “security through investment” but Guyana’s efforts provide an unambiguous example of a state-led attempt to deliver security through FDI.

A broader examination of the security-through-investment paradigm would include other countries, either as supporting cases or counterexamples. Kazakhstan’s president, for instance, made no secret of the strategic rationale for its choice of US supermajor Chevron within the Tengiz concession, to balance Russian and Chinese interests (Ipek, 2007). The United Arab Emirates recently renewed its historic oil concessions and made a deliberate geographic shift toward Asia in its choice of joint venture partners. Most of the new partners are based in China and India and include state-owned companies. (MEES, 2019) The UAE concession strategy goes well beyond strategic balancing for defense purposes, and appears to be more aligned with Abu Dhabi’s Asia-dominated trade and economic ties. Whether big Asian powers assume a greater security role in the Persian Gulf or in partnership with the UAE remains to be seen. Cyprus’ exploration contract with ExxonMobil resulted in discovery of a large gas field in 2019, amid disputes with Turkey over maritime boundaries. (Kambas and Zawadzki, 2019) Whether or not disputes with Turkey led the Cypriots to favor Exxon over other potential contractors remains unclear.

There are caveats in this paper’s two main cases. The Qatar case is somewhat ambiguous. Mobil’s 1992 investment in Qatari LNG came alongside an increase in US-Qatari security ties, rather than preceding it. However, foreign investment activity in Qatar’s gas sector certainly outweighed progress on the military side of the relationship for the first decade. Mobil’s early involvement improved risk calculations for other multinational corporations which, in turn, made further investment in Qatar’s gas business. The aggregate increase in investment enhanced Qatar’s natural gas output and increased its strategic value to the United States, which followed up with enormous military and diplomatic investments that have bolstered the security of the al-Thani regime.

The case of Guyana is one where large-scale US FDI more clearly resulted in increased US strategic interest in Guyana. The onset of oil production and exports in January 2020 increased Guyana’s vulnerability to regional hegemony but was quickly followed with an
unprecedented diplomatic visit and improved military ties. In this case, Venezuela’s revival of longstanding territorial claims – tweaked recently to encompass offshore production blocks – serve as palatable incentives for Guayanese securities alliances with potential balancing powers. Whether or not Guyana secures a full US defense pact, cooperation has already increased. The presence of ExxonMobil acts as an indirect, non-governmental balancing strategy that appears to serve Guayanese national security interests.

Can small and weak states achieve “security through investment?” This paper presents two cases that make strong arguments on behalf of FDI-led security strategies. Further examination of the phenomenon could discern whether these cases portend a larger trend, and whether other weak states have made choices in investment – perhaps sacrificing on financial terms like Guyana – in hopes of attracting further investment while protecting against aggressors next door.

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