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The Geopolitics of FDI: Can Weak States Deter Hegemons Using Foreign Investment?

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“The Geopolitics of FDI: Can Weak States Deter Hegemons Using Foreign Investment?”
Introduction

Weak states have two well-known strategies for securing themselves from hegemonic countries, according to the international relations literature. The first is the “balancing” strategy of aligning with others against the threatening state. If balancing is unavailable, weak states turn to “bandwagoning,” or aligning with and conceding some level of influence to the threatening power. There are variations of these two overarching strategies. One variation of balancing that appears little explored is the deliberate use by 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.

The first case involves Qatar, a tiny Persian Gulf monarchy which sought to balance against a dominant neighbor, Saudi Arabia. Qatar’s success in securing Mobil’s investment in liquefied natural gas exports conferred a sense of US backing and even hard security provision for Qatar that reduced risk perceptions of other foreign investors. Mobil’s presence helped create conditions that opened the way for many other foreign firms to invest, resulting in a very 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 exploring for and producing its offshore oil and gas resources. Exxon’s presence infers an indirect US interest in Guyana’s territorial integrity and may even increase the likelihood of US hard security provision in the event that Venezuela sought to pursue its claims by physical means. In fact, the Guyanese government has 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. As in Qatar, the “anchor” investment by a US major in a country exhibiting significant security risk factors appears to be encouraging participation by other foreign investors.

Literature Review

Academic literature on foreign investment and political stability tends to 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 find political instability deters foreign investment. Schneider and Frey (1985), Loree and Guisinger (1995), Woodward and Rolfe (1993) and Hayakawa et al. (2013) find that internal conflict, corruption, military involvement in politics, and low-quality bureaucracy are inversely correlated with inward FDI flows. 4

Other academics examine conditions when security factors emerge as enabling or preventing factors in foreign investment. Li and Vaschilko (2010) find that, as one might expect, multinationals avoid investment in low-income countries involved in military conflict. But they also find that MNCs feel more comfortable investing in countries, including less developed countries, which maintain security alliances or defense pacts with military powers like the United States. Alliances and pacts signal strong political relations, as well as more favorable government policies and fewer restrictions on investors from the home countries (i.e. the military power).5

Along the same lines, Biglaiser and DeRouen (2007) find that the presence of US troops in a host country implies strong political and defense relations which encourages American companies to “follow the flag” and invest. The pair found that 126 developing countries with US troops present were more likely to receive investment from US-headquartered MNCs than those without.6 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.7 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 the host country – receive a hidden subsidy in the form of security provision from Washington.

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 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 securitization,” both offer tantalizing clues about the viability of this strategy for small, weak states.
The Case of Qatar

Qatar is a peninsular Persian Gulf monarchy with a small population – just 300,000 citizens and among a total population of 2.8 million. The hereditary sheikhdom 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. 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 maintains 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 a role 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 broke longtime Arab state monopolies over news and information. Al Jazeera’s broadcasts regularly feature content deemed anti-American or anti-Israel, or that supports 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.8

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.9

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 protectorate 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 particularly 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.10

**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’s relationship with Washington deteriorated after independence. In the 1980s, Qatar illegally procured a number of US-made Stinger missiles that gave it shoulder-fired antiaircraft capability. When Doha refused to relinquish the missile systems, US Congress responded by banning US arms sales to Qatar in 1988.11 The dispute exacerbated the weakness of Qatar’s external security and 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 ban on US weapons sales. The agreement also opened the way for US forces to operate from Qatari territory. Qatari armored forces even joined the US military in halting an Iraqi attack on the Saudi coastal town of Khafji.12

Also in 1991, Qatar launched development of natural gas in its portion of the offshore North Field. The group of foreign investors participating in the LNG portion of the North Field development initially included no American oil companies. The consortium was instead led by BP, which was backed with further investment from France’s Total and Japan’s Mitsui and Marubeni. The group of foreign investors joined Qatar Petroleum in a joint venture called Qatargas 1.

But BP abruptly pulled out of the Qatar LNG project. 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 1978.13 Mobil’s prior LNG experience and its willingness to assume the role rejected by BP is credited with saving 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 Qataris,” according to one account.14

The choice of Mobil, the former Standard Oil of New York, also helped Qatar further mend 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-military relations, which were codified in a signed agreement.15
The initial defense pact with Washington was achieved as a result of the confluence of 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. And in fact, Mobil announced its investment about six weeks after the signing of the DCA (although Mobil’s negotiations had been initiated many months beforehand). Inward foreign investment climbed steadily in Qatar, reaching $339 million in 1996 and $418 million in 1997, but US-Qatar defense ties appear to have remained at a low level – mainly on paper – until 2003.16

**Figure 1:** FDI Inflows to Qatar since 1990

Qatar’s FDI flows increased shortly after the launch of the Qatargas 1 project in 1992, and climbed much higher in the 2000s.

![FDI Inflows to Qatar since 1990](source: UNCTAD)

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 intelligence17 – while his father was visiting Switzerland. Hamad’s wish was to distance Qatar from overweening Saudi influence and move beyond Khalifa’s bandwagoning relationship with Riyadh. A year after Hamad seized power, in 1996, Riyadh hit back, backing an unsuccessful counter-coup that failed to re-establish Khalifa in Doha.18 The establishment under Sheikh Hamad 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.19

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.20 (Fig. 1) Hamad prioritized using
gas exports to develop “balancing” alliances with importing states that could reduce the need to bandwagon and allow Qatar to develop an independent foreign policy.

Meanwhile, the largest physical manifestation of the US-Qatar DCA did not appear until 2003, the culmination of nearly a decade of Qatari diplomacy and an investment of $1 billion for the construction of an airbase. That year Washington accepted Qatar’s invitation to open a US base at the just-finished Al Udeid airfield in the Abu Nakhlah area southwest of Doha (although the US Air Force had apparently first used the base in 2001). 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, completed in 2000, became the Pentagon’s largest materiel pre-positioning site outside the United States. 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.

**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. 2) 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.

Qatar eventually wielded so much autonomy from its neighboring monarchies that it implemented policies that ran contrary to their interests, even undermining internal security in those countries. Over the years, Qatar has also 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. 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. In 2017, Saudi Arabia, the UAE, Bahrain and Egypt launched an economic blockade and trade, travel and
diplomatic embargo against Qatar. The isolation policies remained in place at the time of writing.

**Figure 2**: LNG Exports by Country since 2000

*Qatar became the world’s top LNG exporter in 2006 and reached 77 mtpa in 2011.*

Source: BP 2019

**Figure 3**: Qatar and its oil and gas fields and infrastructure


Fortunately for Doha, Washington retained intense strategic interest in Qatar’s internal stability and the survival of the current US-Qatari relationship. Some reports suggest that Saudi Arabia and the UAE may have considered invading Qatar and installing a more pliable regime and been warned off by Washington.28

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 pre-positioned materiel to outfit a US armored brigade. 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.

The strategic importance of Mobil’s 1992 investment in Qatar reemerged in 2017, after the election of Donald Trump and Trump’s appointment as US secretary of state former ExxonMobil CEO Rex Tillerson. Tillerson had decades of professional familiarity with Qatar, in large part a legacy of Mobil’s 1992 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 and diplomatic isolation of Qatar. Tillerson is said to have been instrumental in blocking a potential invasion of Qatar.

Tillerson, initially blindsided by Trump administration efforts to isolate Qatar, appears to have succeeded in changing Trump’s views on the gas-rich monarchy. In June 2017, Trump accused Qatar of being a “funder of terrorism at a very high level” and appeared to support the UAE-Saudi blockade. But by April 2018 Trump backtracked to a more neutral position on the blockade, and twice hosted the Qatari emir at the White House. Trump’s about-face on Qatar, 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.

By 2018, US-Qatar trade reached $6 billion with some 650 US companies operating inside Qatar. Those included joint ventures with Qatari firms as well as financial services companies based in Doha’s financial center. Qatar hosts major branch campuses of six US universities. Around 15,000 Americans live in Qatar, and 1,200 Qataris studied in the United States in 2018.

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. Its most recent two decades were as 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.

Qatar’s transformation owes itself to its willingness to reset and improve military 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 ongoing Afghan War that started in
2001). 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.

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 $313 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.

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

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 Guyanese coastal area holds recoverable oil reserves of roughly 13.6 billion barrels and gas reserves of 32 trillion cubic feet. 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
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with less exposure to strategic chokepoints, piracy and risk of sabotage. And, of interest here, both countries have become focus of intense interest and financial commitment of major international oil companies.

Table 1: Guyana and Qatar selected statistics

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Guyana</th>
<th>Qatar</th>
<th>Data year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>779,004</td>
<td>2,781,677</td>
<td>2018</td>
</tr>
<tr>
<td>Oil resources per capita (kboe)</td>
<td>7.32</td>
<td>16.79</td>
<td>2019</td>
</tr>
<tr>
<td>Gas resources per capita (kboe)</td>
<td>1.55</td>
<td>31.09</td>
<td>2019</td>
</tr>
<tr>
<td>GDP per capita (constant 2011 US$)</td>
<td>7,617</td>
<td>112,532</td>
<td>2018</td>
</tr>
<tr>
<td>Year of independence</td>
<td>1970</td>
<td>1971</td>
<td></td>
</tr>
<tr>
<td>Governance type</td>
<td>Democratic</td>
<td>Authoritarian</td>
<td></td>
</tr>
<tr>
<td>Ranking by ease of doing business</td>
<td>134/190</td>
<td>83/190</td>
<td>2018</td>
</tr>
<tr>
<td>Ranking by overall democracy</td>
<td>54/167</td>
<td>133/167</td>
<td>2018</td>
</tr>
<tr>
<td>Ranking by political participation</td>
<td>50/167</td>
<td>153/167</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: World Bank, Rystad Energy, EIU
Note: Oil resources include crude oil and NGLs.

Figure 5: Guyana's offshore oil reserves are large, relative to population, even compared to other producers

Source: Rystad 2019

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 strong,
albeit 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.

**Figure 6:** Exxon Mobil’s exploratory wells and production blocks off Guyana

As of 2019, Guyana produced no oil or gas. 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. 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. 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. (Fig. 7)
Figure 7: Oil revenue could provide 10% of Guyana’s GDP by 2028

![Graph showing oil production and government oil revenue in Guyana]

Source: IMF, July 2018

**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.37

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.38 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.”39
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. Guyana welcomed the move and agreed to abide by a decision, but Venezuela maintained that its territorial claim could only be solved through bilateral negotiations.40

**FDI as National Security Strategy**

Guyana’s choice of ExxonMobil appears more calculated than a simple acceptance of a favorable bid for developing an offshore exploration block. The contract was awarded through direct government negotiations with Exxon. Guyana’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.41

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.42 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.43 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 (Fig. 9).44

**Figure 9:** Guyana’s share of revenues from Stabroek Block, in comparison with that of other producers, by government take

![Average government take from offshore E&P sector for selected countries](source: Rystad Energy, 2019)

Guyanese 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 remote, lightly populated and underdeveloped country defend its sovereignty.45 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 2007.46

“We need companies that have international influence in the corridors of power…so those things come at a price,” said Mr. Trotman, the 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.”47

It also emerged that Exxon paid the Guyanese 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.48
US-Guyana Military Relations

Will Guyana’s choice of ExxonMobil be parlayed into a stronger strategic relationship with Washington? Will the Qatar experience hold in the Western hemisphere?

Unlike Qatar, Guyana has neither a US base, nor a formal defense pact with Washington. Cooperation between Guyana and the United States is limited to low-level military-military ties. The US Southern Command and the US Twelfth Air Force periodically conduct small exercises and construction projects with Guyanese forces under the rubric of the US New Horizons Humanitarian Assistance program. Three-month training sessions have taken place in Guyana in 2004, 2009 and 2019. Guyana also maintains a defense pact with Brazil and strong relations with France, which relate to Guyana’s close proximity to French Guiana.

The Pentagon has a substantial legacy in Guyana, however. 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. Three US air squadrons hosted at Atkinson pursued anti-submarine missions and oversaw sea traffic approaching the Panama Canal. US protection extended to strategic bauxite mining in Guyana and Brazil. The base also became a stopover for transfers of US munitions, aircraft, and ships to Great Britain via the southern route between South America and North Africa. 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. 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.

Revival Of Military Ties?

With Guyanese security coming under threat from Venezuela, at least one observer recommended reinvigorating ties with the US military to balance against the hostile neighbor (discussed below). For the US’ part, two 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 reverse 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) and Puerto Rico, which is US territory.
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. Informal US bases have reduced political costs for host governments while exposing the US military to greater risk of expulsion when political winds shift. Domestic politics in Latin America and Caribbean countries remain the main hurdle to achieving basing agreements. Basing proposals become political targets at times when incumbent governments are vulnerable to political opponents who perceive gains to be had from opposing US bases.55

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 … In particular, the cooperative security operations to monitor crime and drug trafficking by the GDF and U.S. forces would definitely ensure that sadistic, organized criminal gangs from Venezuela like ‘El Sindicato’ do not spill over into Guyana’s mineral-rich North West district.

“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.”56

How widespread such opinions were in Guyana was unclear.
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.57 Even so, Guyana has signed onto China’s Belt and Road Initiative in search of infrastructure financing.58 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.59 If instability in Venezuela continues, China’s waning involvement in Venezuela could be supplanted by its increasing minerals prospects in Guyana. Should Venezuela’s privations continue beyond the point that Guyanese oil production begins, China may find its interests beginning to 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 intervene, at least diplomatically, to reduce tensions between the two countries.

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 seeks to do so (Guyana). Neither case offers a clear-cut example 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.60 The United Arab Emirates recently renewed its historic oil concessions and made a clear geographic shift toward Asia in its choice of joint venture partners. Most of the new firms are based in China and India and include state-owned companies.61 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.

On the other side of the ledger is Papua New Guinea, where ExxonMobil is the major investor in natural gas production and an LNG export terminal. But unlike in Qatar and Guyana, Papua New Guinea’s choice of Exxon appears to have little to do with apparent desires to improve security cooperation with the United States, since PNG has longstanding security ties with Australia and does not experience marked coercion from neighboring states. Other examples are certainly present.

There are caveats in this paper’s two main cases, as well. 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, at least 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 is underway but where US-Guyana security relations remained at a low level in 2019. The planned onset of oil production in 2020 is likely to augment the attractiveness of strategic relations with Guyana while simultaneously increasing Georgetown’s vulnerability to regional hegemony. In this case, Venezuela’s revival of longstanding territorial claims – tweaked recently to encompass offshore production blocks—serve as palpable incentives for Guyanese security alliances with potential balancing powers. Whether or not Guyana secures a US defense pact, the presence of ExxonMobil acts as an indirect, non-governmental balancing strategy that appears to serve Guyanese 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 improving security for further investment and protecting against potential aggressors next door.
Acknowledgements

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Endnotes


5 Li and Vaschilko, “Dyadic Military Conflict, Security Alliances and Bilateral FDI Flows.”


7 Gaffney, “Corporate Power and Expansive US Military Policy.”


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12 Katzman, Blanchard (2012), fn. 32, p. 11.


15 Katzman 2016 writes that “The United States and Qatar signed a formal defense cooperation agreement (DCA) on June 23, 1992. The DCA was renewed for 10 years, reportedly with some modifications, in December 2013. The text of the pact is classified, but it reportedly provided for U.S. military access to Qatari military facilities, pre-positioning of U.S. armor and other military equipment, and U.S. training of Qatar’s military forces.”


17 Author interview with former US diplomat, 2007 on condition of anonymity

18 Roberts, “Securing the Qatari State.”

19 Roberts.

20 Qatar’s FDI inflows remained lower due to the self-imposed 12-year moratorium (lifted in 2017) on new gas development

21 Blanchard (2012), p. 12. Here it is also possible to draw a parallel with decisions made by the Qatari leadership in 1916, which entered into a special treaty relationship with the British in order to gain protected military status.


23 Krane and Wright

24 Roberts, “Securing the Qatari State.”

25 Krane and Wright

26 Blanchard

27 Roberts, “Securing the Qatari State.”


30 Emmons, “Saudi Arabia Planned to Invade Qatar Last Summer. Rex Tillerson’s Efforts to Stop it may have Cost him his Job.”

31 Ali Harb, “Qatar blockade: Tillerson was left in dark as Kushner met with Saudis.” Middle East Eye, June 27, 2019; https://www.middleeasteye.net/news/qatar-crisis-tillerson-says-he-had-no-idea-about-blockade
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32 Since the early 1990s, numerous other US firms have invested heavily in Qatar. ConocoPhillips among them


36 Vyas, “Eureka! Giant Oil Find Set to Bring Guyana Startling Riches—Maybe.”


38 For more on the border dispute, see: Francisco Toro, “Economic War (and a Real One),” Caracas Chronicles (blog), June 12, 2015, https://www.caracaschronicles.com/2015/06/12/economic-war/.

39 Youkee, “Guyana’s Border Towns Threatened by Violent Gangs as Venezuela Crisis Deepens.”


44 Rystad Energy UCube database, 2019

45 Further concession agreements in Guyana later attracted investment from non-US oil companies including France’s Total, Spain’s Repsol, and Britain-based Tullow Oil, among others.

46 In 2014 World Bank’s International Center for Settlement for Investment Disputes panel made the ruling of $1.4B for the Cerro Negro project seizure and $179M for the La Ceiba project seizure by the Venezuelan government to ExxonMobil. This compensation includes the earlier ruling of $908M in 2012.


47 Vyas, “Eureka! Giant Oil Find Set to Bring Guyana Startling Riches—Maybe.”


51 The former base also served as a detention center for elected Guyanese government officials of the socialist-leaning People’s Progressive Party ousted by Britain (with US support) in 1953; Ishmael, The Guyana Story: From Earliest Times to Independence, 447-8.


55 Stuenkel.


60 Pinar Ipek, “The Role of Oil and Gas in Kazakhstan’s Foreign Policy: Looking East or West?,” Europe-Asia Studies 59, no. 7 (November 2007): 1179-99.
