1-1-1984

The politics of transformation : Nigeria, OPEC and the multinational corporations.

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THE POLITICS OF TRANSFORMATION: NIGERIA, OPEC AND THE MULTINATIONAL CORPORATIONS

A Dissertation Presented

By

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Submitted to the Graduate School of the
University of Massachusetts in partial fulfillment
of the requirements for the degree of

DOCTOR OF PHILOSOPHY

May 1984

Department of Political Science

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Acknowledgment

Foremost, I am indebted to the distinguished members of my dissertation committee, Professor Asa David of Amherst College, Professor Harvey Kline and especially to the Chairman, Professor Eric Einhorn for his patience and diligent efforts painstakingly applied toward this voluminous enterprise. Sincere thanks go to my academic masters and mentors: Professor Peter J. Fliess and Professor Ferenc Vali (both Professor Emeritii). They both tutored me about this world and in the process, made me wiser.

To the staff of the United Nations Centre on Transnational Corporations, and the United Nations Department of Technical Cooperation for Development (DTCD/DAD), I am most grateful for the assistance with library research. Also, to the Nigerian National Petroleum Corporation (NNPC) at Lagos, and to the staff of the British Petroleum Library in London, I express my sincere thanks.

Many individuals made this work possible, and although I regret I cannot mention all, I wish particularly to give thanks to Mr. Martin Oliza of NNPC Lagos, whose information on the state-owned organization was of significant use. Finally, many thanks and love to Miss Leslie Horner who diligently typed the manuscript.

The views expressed in this dissertation are mine and I accept responsibility for its content.

Isaac Chinedum Igweonwu
Amherst, April 20, 1984

ABSTRACT

The Politics of Transformation: Nigeria, OPEC,
and the Multinational Corporations

(May 1984)

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The Politics of Transformation seeks to explore and critically analyze the new politics and policies formulated, articulated and adopted by Nigeria's ruling and political elites and partly out of demand made by academic intellectuals including a handful of influential top level bureaucrats who run the machinery of government. Furthermore, the Politics of transformation examine through critical analysis the Organization of Petroleum Exporting Countries'(OPEC) "quiet revolution" in the world of global oil, its impact on the global economy and most importantly on the dynamics of international relations. By focusing on the Doctrines of Sovereignty and of "Changing Circumstances," we explore and examine specifically the changing relationship between international oil companies and producer-governments within the frameworks of systems analysis, bargaining strategies and negotiation tactics.

The Politics of transformation therefore seeks to examine for the purposes of restructing prevailing ideologies by looking into the past while going beyond mere survival of that past, through the creation of new forms and modes and the conscious presentation of new demands based on a new era of national consciousness and political management in a changing world.

In the Nigerian context, the politics of transformation gave birth to indigenization of "Nigerianization" of the economy, membership into the OPEC and the transnationalization of the society. Studied within the framework of systems analysis, objectives and goals seem rather haphazardly and limitedly successful and dependent on the alliance between domestic and state actors on the one hand, and foreign interests on the other. The final outcome of this interaction remains to be seen since structural arrangements engendered by this process is not yet ossified. In the final analysis, however, indigenous control of the economy seem the goal of Nigerian planners.

With regards to OPEC, the quiet revolution sought not only to defend the posted price of oil then, it represents the vision and goals of a group of nations bound together for the accomplishment of a stated goal. Consequently, the dynamics of global oil is not only based on economic terms, but fundamentally politically in nature. The multinational oil companies are on the defensive and no amount of game theoretic calculations can come to their rescue save a deliberate inter-government intrusion in the global oil

industry. This study proceeds from that assumption.

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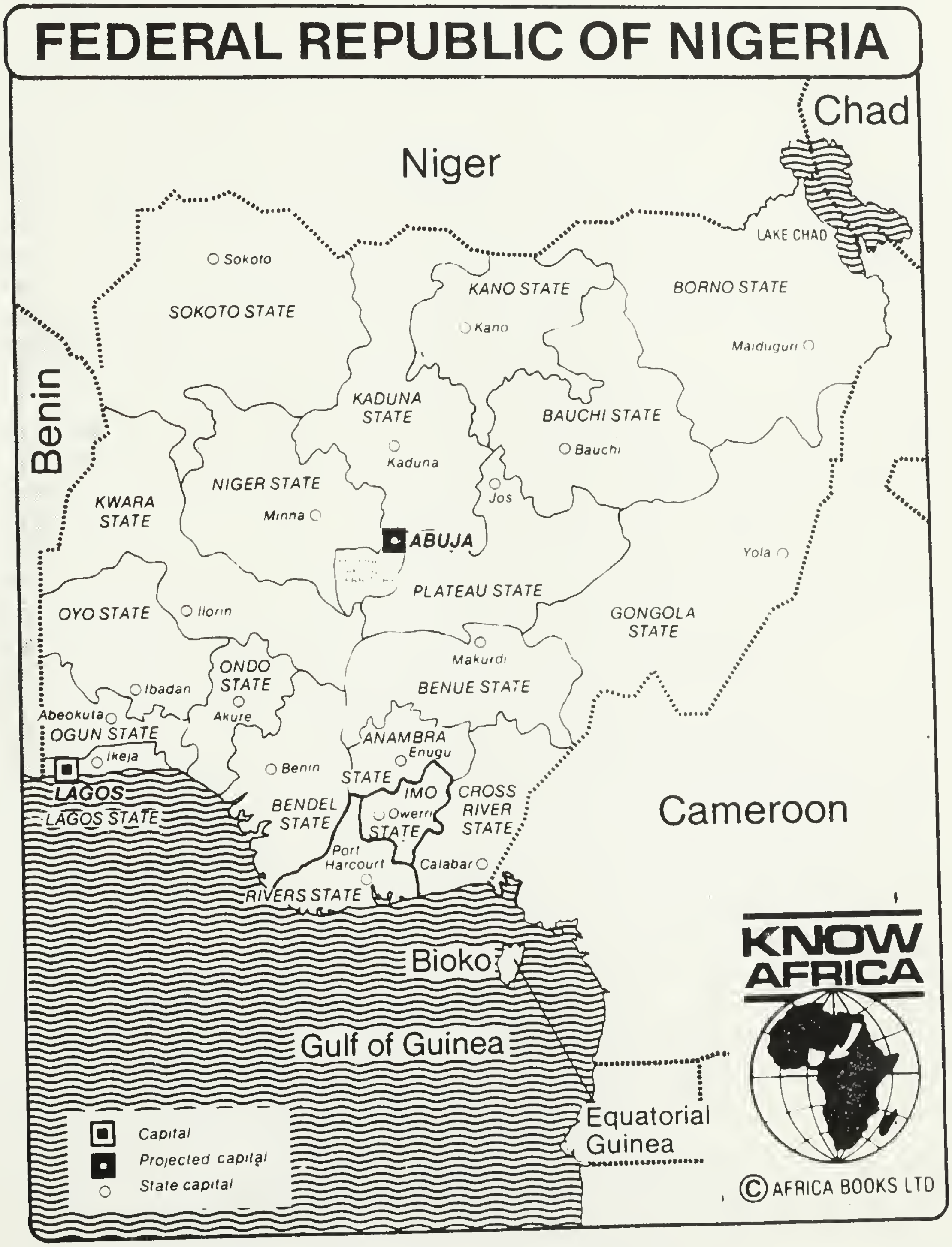
FEDERAL REPUBLIC OF NIGERIA
Chad
Niger
LAKE CHAD
Sokoto
SOKOTO STATE
KANO STATE
Kano
BORNO STATE
Maiduguri
Benin
KADUNA STATE
Kaduna
BAUCHI STATE
Bauchi
NIGER STATE
Minna
Jos
KWARA STATE
ABUJA
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OYO STATE
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Capital
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NIGERIA

INTRODUCTION

Two decades ago after nationalists proclaimed Nigeria as independent nation, the nation's confidence in her ability to remain so has fallen to a low ebb. Despite the rapid economic and social 'development' following independence, it dawned on Nigerian society that the cost of this progress was a subtle form of dependence on external forces for sustenance. External dependence, long a baneful instrument of global capitalist arrangement, was deemed more sinister, systematically exploitative and structurally manipulative than formal colonialism. Nigeria, a former British colony, was a victim of 'neocolonialism' deeply rooted in her historical past and sustained by the logic of structurally integrated global economy. Like many other 'third world' nations caught in this structural quagmire, Nigeria is struggling for extrication. Fundamental to success in this struggle was the necessity for change of policy as well as for choice of policy instrument.

The choice of policy instrument dates back to the period of independence, however, policy choice was distorted by lack of a clear goal and clear perception of what the problem is and what change is supposed to achieve. Although indigenizing the economy became a pivot around which the policy of change revolved, there was no general agreement or consensus on how to achieve it. Inconsistency and incoherence of policy marked the process of decision-making during the civilian regime of Abubakar Tafawa Balewa.

Credit is generally given to the successive military regimes of General Gowon and Olusegun Obasanjo (1967-1979) for successfully formulating and implementing a consistent and coherent program designed to 'nigerianize' the economy. Recognition also went to those army of bureaucrats who made the program possible. With the advent of the military leadership, the struggle for the control of investments in the country entered a new stage. The hegemonic position once held by foreign capital no longer exists. Now a gradual transformation of this position in favor of the government is reached mostly by political means. This struggle for supremacy and the change in the balance of power engendered, how the government eventually won and the impact of this on the nation is partly the subject matter or general thesis of this work. Forming part of the thesis also is the argument that the predominant posture of the Organization of Petroleum Exporting Countries (OPEC) over the changing structure of global oil industry is fundamentally political in nature making it necessary for consumer governments participation in global oil negotiations.

We boldly advance systemic reasons which serve as a basis for the argument that a government-to-government approach in negotiations on matters relating to the international oil industry is indeed necessary and in the long run inevitable. We argue also that the era of industry negotiation with producer governments is approaching anachronism due in part to the changing structure of the oil industry occasioned by the politics of transformation sweeping through producer nations of the 'third world.' The effects of this

transformation is already underway leading to unprecendented 'unsettling shift' in the international oil industry.

As a dramatic illustration of this unsettling shift, we give examples of recent 'mega-mergers' among oil majors pointing accurately to the fact that oil wars which were largely fought in the oil fields of Middle East and other third world producing regions before the 1970s, now has been shifted to the home fronts of the oil majors. A major reason for this shift - one which should be taken seriously - is the widespread producer nation displacement of oil companies from their traditional activities of 'upstream' as well as 'downstream' operations around the world. The oil crisis had indicated the myth of the invulnerability of multinational oil corporations to national sovereignty. In 1973 for instance, ninety three percent of OPEC production or 27.9 million barrels per day went to oil majors on a long term basis. By 1979/1980, this dropped to around fifty percent of OPEC exports and forty two percent of world oil trade.

Stripped mostly of their concessionaire reserves around the world, the major oil companies are gobbling each other through mega-mergers. Recent examples are a tip of the iceberg in an economic activity which promises more intense concentration than either the steel industry or big automobile conglomerates. Slack demands, depressed prices and declining reserves - all contributed to the consuming desire of major oil companies to cannibalize each other in order to achieve efficiency of production and control needed reserves. Thus in February, 1984, Texaco completed its $10.1 billion acquisition of Getty Oil Corporation, the Royal Dutch/Shell Group

announced a $5.2 billion purchase of the thirty percent of the Shell Oil Company that the Dutch Oil Group did not already own, and in March of 1984, Mobil announced to have plans of buying out Superior Oil for $5.65 billion. Standard Oil Company of California, (Chevron) made a hasty move and bought the Gulf Oil Corporation for $13.2 billion, allegedly the biggest price tag in merger history.

One observation should, however, be remarked in the recent wave of oil mega-mergers: the big oil companies have begun to 'detect the whiff of death' and the only route out of the imminent catastrophe is to retreat to home base, consolidate through merger struggles what oil reserves remain in home territory and friendly regions. The fight among the oil companies has just begun; it will be a bitter one pitting the strong against the weak. We predict that as the fight progresses, the smaller of 'independent' oil companies will be swallowed, a high concentration of the oil industry will ensue and government will be forced to intervene to restore competition by directly negotiating with other producer governments for access to crude production and sales.

Purpose

This study thus, is concerned with the new politics of transformation as formulated and articulated by Nigeria's ruling and political elites and partly out of the demands made by academic intellectuals including a handful of influential top level bureaucrats who run the machinery of the state. In addition, we examine through critical analysis the Organization of Petroleum Exporting Countries (OPEC)

'quiet revolution' in the world of global oil, its impact on the global economy, and most importantly, on the dynamics of international relations. By focusing on the doctrines of sovereignty and doctrines of 'changing circumstances,' we can explore and examine specifically the changing relationship between international oil companies and producer governments within the framework of bargaining strategies and negotiation tactics and also within a political environment where the necessity for change and choice is paramount and apparently define the dynamics of international systems,international relations and the law that govern them.

The politics of transformation therefore seeks to examine for the purposes of restructuring prevailing ideologies by looking into the past while going beyond mere survival of that past, through the creation of new forms and modes and the conscious presentation of new demands based on the satisfaction of the psychology of the new Nigerian man of our times.

More concretely and specifically stated, the politics of transformation ushered in a new era of national consciousness and political management in a changing world. It took several forms and can be understood within the framework of four fundamental systemic transformations which include:

I. Indigenization or 'Nigerianization' of the economy.

II. Creation of the New Politics of Unity.

III. Changing structure of international oil industry and of Organization of Petroleum Exporting Countries (OPEC).

IV. The transnationalization of the society.

These policies borne of experience and vision should be seen in the context of change and 'progress'. None has exemplified and captured the spirit of the times more than the indigenization of the economy. Indigenization of the economy represents a milestone and a major achievement in the onward march toward economic self-determination. Propelled into force with the 1972 and, later revised (1976-77) indigenization decrees, 'Nigerianization' of the economy seeks to place a greater portion of economic control in the hands of Nigerians while providing adequate incentives for foreign interests.

Concurrent to the policy of Nigerianization is a related policy of transforming the 'classical dependent' state of the economy into one of rapid industrialization. Although Nigeria has been grouped among the ranks of Newly Industrializing Countries (NICs) or in Immanuel Wallersteins words 'semi-perphery' such as Brazil, Mexico, Iran and Hong Kong, the nation's industrialized base remains weak, exposing a severe backwardness in manufacturing activity. The import-substitution phase of the early 1960s, argues Terisa Turner, should usefully be understood as 'accomodating' and complementing foreign interest rather than as a serious effort at capital accumulation and capitalist production (Terisa Turner and Peter Nore, "Oil and Class Struggle, 1980). Present industrial policy is aimed among other pursuits, to correct deficient capitalist production through the creation of sectoral industrial bases such as iron and steel industry, petrochemical and agro-allied industry.

Nigeria's membership in the Organization of Petroleum and Exporting Countries (OPEC) extended the opportunity as well to use

the activities of the organization in furtherance of stated goals. OPEC was simultaneously undergoing profound transformation in terms of philosophy and goals. Within this organization, the politics of transformation represents the 'quiet revolution' inspired by the perfidy of major international oil companies in oil negotiations with producer governments. Gradual shift of producer governments positions should thus not be seen as 'radical' but should be interpreted as a sensible and historical response to 'forces of reaction', exploitation and imperialism. It represents the ultimate desire, legitimized and justified by lessons of history - past and present - for control of a group of nations' economic and natural resources and finally utilizing these resources as an effective tool for reshaping global politics and for initiating the march towards a new international economic order.

The lessons of history - past and present - as addressed in this study concern economic as well as political and structural debilitations associated with colonialism and neo-colonialism.

The colonial authority through political subjugation and sheer economic power had a monopoly over economic activity and the processes of state capital accumulation. Private indigenous capital accumulation was consequently minimal and even discouraged. Marketing boards were set up by the colonial state to appropriate 'peasant surplus' which were eventually transferred to the colonial state. The result was the underdevelopment of productive forces which might have economically benefitted from this flight of capital to the 'metropole'. Control over the network of capital enabled

metropolitan interests to monopolize large scale commercial activity. Commerce as distinct from productive industrialization was emphasized by the colonial state thus underdeveloping the industrial process.

The rise of nationalism and the consequent shifts of power within the Nigerian state after 1952 increased nationalist demands for a share in the distributive trade and in the early 1970s for a coherent plan for rapid industrial development. These demands weakened the position of British commercial capital and later of foreign capital in general and opened up opportunities for local enterpreneurs.

Local enterpreneurs, lacking finance capital and management technology, were unable to compete effectively with foreign capital which in the main continue its dominance over economic production and commercial activities. Indigenization decrees of 1972, and later 1977, were designed to change this situation. These decrees, promulgated by the federal military government, sought to transfer control over economic activities from foreign interests to Nigerians.

The process by which this goal is sought has been gradual but deliberate, one in which the advantage lay in the gradual transformation of a stated position and goal, in which the opponent's moves were utilized first to paralyze and then destroy him. It was a game whose greatness derived from the skills of its moves as well as from the inspiration of its origins. It was a game deemed vital to the success or failure of Nigeria as a nation and she was set to play it.

Nigeria, with an area of 356,667 square miles and with a population estimated at between eighty to one hundred million is the most populous in Africa and potentially the wealthiest. The

vastness of its natural resources, particularly its oil reserves, has made it one of the most economically powerful and perhaps the most influential nation on the continent.

Nigeria became independent on October 1, 1960 and later in 1963 gained the status of a republic, after a long spell of British colonial rule. A military coup, led by a group of young Army Majors in 1966, abolished civil rule, killing several top civilian leaders. In 1967, after a prolonged political instability and turmoil, accompanied by tumultous religious upheaval and tribal hatred, the Ibo tribespeople from the defunct Eastern Region unsuccessfully sought independence as Biafra. Ibo secession led to a bitter and costly civil war, which lasted for two and one half years with an estimated one million lives lost. The nation was thereafter under military rule - from General Yakubu Gowon, a Sandhurst Military School graduate (Britain) to General Olusegun Obasanjo - a period that lasted for thirteen years.

After the military interregnum, democracy was given a chance when in 1979, the military handed over power to civil authority, and under the watchful eyes of the army boys, elections were held. A northerner, Alhaji Shehu Shagari, leading the National Party of Nigeria (NPN), emerged victorious. A second term for Shagari, amidst accusations of unfair electoral victory, rampant corruption, economic instability, ushered in the nation's fifth military intervention since 1960. Major General Mohammed Buhari, forty one, a career military man, former oil commissioner and head of the State owned oil company in the mid-1970s, describing the civilian regime as "inept and corrupt," took the reigns of government.

Nigeria is rich in natural resources, particularly oil. It is primarily an agricultural nation, however, it imports about $2 billion worth of food every year. As a newly industrializing nation, industrialization is proceeding rapidly. A member of OPEC, it depends on petroleum exports for about ninety five percent of its foreign exchange. World oil surplus, an ever increasing population, bad management and squandermania have all contributed huge foreign debts and unstable economy. Oil revenues, which were $22.4 billion in 1980, slumped to $9.6 billion in 1982 and even further in 1983. Judging from the continued slump in global oil demands, the financial situation may get worse, aggravating the nation's balance of payment position.

Nigeria's foreign debt to banks around the world amounts to about $9.2 billion, according to the Bank for International Settlements in Basel, Switzerland. The total debt, however, is approaching $15.0 billion - moderate when compared to other developing nations, particularly those of Latin America. It will take prudent economic management and certainly a noticeable improvement in the sale of crude oil for Nigeria to control its foreign debt. In pursuit of this, the government wants an increase in the production quota set by OPEC to two million barrels per day up from 1.3 million, the nation's current limit.

With all these to battle, the new military government, as with those that preceded it, are faced with a major task of redefining national values and priorities, of creating the new Nigerian man survivable under these conditions. Thus, the politics of transformation is both psychological and historical; very much a product of our

times, of historical change and a matter of 'sensibility'. The inevitability of this change has been conditioned extensively by lessons of history and of concrete global experiences.

Methodology

A study of this nature requires that attention be paid to the whole structure of the society and more specifically to its political economy. Thus, within the theoretical framework of systems analysis, games theory, decision-making theory, and dependency theory, the political and economic fabric of the society as linked to global economic system is examined for structural weaknesses or strengths.

We focus on systems analysis because I believe it is unquestionably the most powerful and useful approach. The objectives of development and goals of national actors can be determined more easily if we take into account the anatomy of society, which is a subject of systems analysis. Thus it would be useful to combine a systems analysis approach with concepts of political economy based on considerations of its most important components, namely productive forces and production relations.

Systems analytic approach within a descriptive and critical framework will, we believe, shed more light on the anatomy of society by (1) exploring the system of economic and political relationships, (2), the interests of actors, (3) power distribution and how actor configuration and interactions affect objectives and goals of national development and, (4) how in practical terms systemic processes are translated into policy measures.

We will as a matter of conceptual clarity and distinction shy away from the more general and often ambiguous treatment of 'systems theory' prevalent in the social sciences. Some of these treatments can be readily identified. For example, Gabriel Almond's definition of systems as that system of interaction which performs the functions of integration and adaptation, or David Easton's 'authoritative allocation of values for a society' or Karl Deutsch's 'ability to respond effectively to demands' or on a more general level 'requisite functions' or 'systems maintenance' and 'input-out' analysis.[1]

For the purposes of this study, definitions such as these suffer one common conceptual defect: they are mechanistically conceived, and having been borrowed from the 'hard' sciences such as engineering and biological sciences are hurriedly translated into social scientific tools of analysis with little success.

We argue instead that society cannot be conceived or understood simply in mechanistic terms or as a machine with predictable patterns of behavior, but as an organic entity: fluid, dynamic, unpredictable and composed of system of human relationships and system of wants which could only be satisfied within the context of production and production relations. This view represents our definition of systems analysis where society is organically viewed as a 'system.' We do believe nevertheless, that social scientists can and should make use of accepted hypothesis and models developed in the behavioral and engineering sciences as long as this is done to enhance understanding.

Closely related to the theoretical insights of systems analysis, we draw periodically from dependency and Marxist literature to

explain the major argument on development and how this role seeks to resolve or in some instances exacerbate certain contradictions endemic in the society. Thus the logic of this intervention should not be seen as the promotion of the interests of a single class; rather it should be seen and interpreted as the resolution of certain economic and social forces. In the Nigerian context and indeed in most contexts, this logic is inherently faulty. Why? We give reasons in the chapters that follow.

Particular attention was paid to the nation's oil industry and how it negotiates with international oil companies on matters concerning petroleum. I use conceptually relevent materials from games theory in attempts to deepen understanding of negotiation strategies, strategic behavior and strategic interaction of the various actors engaged in the global oil industry. The primary concern here though, is the applicability of game theory to global interaction. It should be pointed out early enough that although game theoretic materials offered some thought-provoking insights and analysis of the oil industry, no attempt was made at mathematical 'solutions' of specific games because it seems that game theory is not relevant to solutions of competitive behavior involving more than two players. Solutions would anyway be highly indeterminate due to the highly political nature of global oil industry.

Interviews with several officials of the State-owned National Oil Corporation (NNPC) was conducted in Lagos with the view of understanding through content analysis how decisions are made and who makes them, for whom and why? In this case, Graham Allison's bureaucratic and organizational models of decision-making process provided

an analytical framework.[2] Bureaucratic wranglings and bureaucratic imperatives, it was found, dominate the decision process with the result that policies arrived at were founded in consensus among the players. Information materials of obvious consequence were picked up from the British Petroleum Library in London; the Royal Dutch Shell Oil Company Headquarters in Amsterdam, Holland and the Shell Development Company in Houston, Texas.

Although research methodology relies heavily on systems analysis, the imposition of descriptive and prescriptive technique on the study generally seems obvious. Descriptive analysis throws light on the subject matter and leaves open the possibility of studying in details the great linkages between actors and between issues. In addition, techniques such as these rescue areas which suffer theoretical deficiencies.

For example, theoretical perspectives on Nigeria's political economy are generally blurred. These have not been sharply focused because efforts have largely been directed toward particular actors, issues and toward certain sectors of the economy. This study therefore seeks to bring into clearer focus perspectives on Nigeria's political economy while simultaneously recognizing the inevitable conceptual difficulties which this entails. One major conceptual limitation is the inadequate interpretation of the role of the state in national development, and the functional limitations of the state in a 'mixed economy.' Economic analysis has given the role of the state in national development a narrow interpretation with the result that state intervention is seen in such terms like welfare, growth and organ for expropriating generated surplus. Conflict of interest among

productive forces are thus hardly recognized. This study makes a broad interpretation of the role of the state as an agent of national development, as well as a powerful organization responsible for resolution of economic and social forces.

Finally, a major methodological limitation on a study of this type is the unreliability of data and certain information. We accept the fact that numbers used may probably be wrong. This reflects the widely held view that 'there is no accurate information about Nigeria,' and some vital information may simply be unavailable. Limitations grievious as these may hamper the quality of any serious work.

For purposes of organization convenience, this study is divided into five parts, each reflecting a block of issues which they present and discuss. As an academic dissertation, it was necessary to present a theoretical foundation of the issues which were subsequently treated. In Part I, we examine the debate on multinational corporations within the system of transnational relations and the 'changing' nature of the nation-state. In addition, we employ models representative of three prevailing schools of thought on political economy: liberalism, Marxism (World system/dependency) and economic nationalism for enquiry and explanation on transnational activities and response from nation-state. Specifically, liberal thought attempt to understand why multinational corporations go abroad, world system/dependency approach examines the nature of the structural relationship between actors in the international political and economic system and finally economic nationalism describes the response from nation-states on

transnational behavior as they affect internal economic processes. As a case study on national response, we examine the role of Nigerian National Petroleum Company (NNPC) and several indigenization decrees designed to 'nigerianize' the economy. These models do not attempt to offer comprehensive answers to questions of transnational interactions; they do however assist us in understanding the issues.

Part II dwells on the oil companies and producer-nation states. Theoretical models of OPEC behavior was presented although emphasis was on political models. In addition, negotiation strategies and institutional factors affecting the outcome of negotiations are explored and analyzed. Part II also discusses the state-owned Oil Corporation (NNPC) in the framework of the changing structure of the global oil industry. Part III seeks to explain the nature of the impact of transnationalism on Nigerian society by examining several economic policies and programs instituted to take advantage or be taken advantage of, by transnationalization process. Part IV takes a broad, comprehensive view, through conclusion, of what the politics of transformation is all about.

NOTES

[1]David Easton, A Framework for Political Analysis, (Englewood Cliffs, New Jersey: Prentice-Hall, 1965), p. 25; Gabriel Almond and James Colemand, eds., The Politics of Developing Areas, (Princeton, New Jersey: Princeton University Press, 1960), p. 7. See also, Gabriel Almond and Powell, "Comparative Politics: A Developmental Approach," 1966. For comprehensive treatments on Easton, Almond and Deutsch, see James E. Dougherty and Robert Pfaltzgraff, Contending Theories of International Relations: A Comprehensive Survey, (New York: Harper and Row Publishers, 1981), p. 143; Karl Deutsch, The Nerves of Government (New York: Free Press, 1964), pp. 248-249; Andrew M. Scott, The Logic of International Interaction, International Studies Quarterly, Vol. 21, No. 3 (September 1977), p. 445.

[2]Graham T. Allison, "Conceptual Models and the Cuban Missile Crisis," American Political Science Review, Vol. 63, No. 3 (September 1969), pp. 689-718.

Part I

CHAPTER I

THE STUDY OF TRANSNATIONAL RELATIONS
THEORETICAL PERSPECTIVES

The problem with social sciences and political science in particular, is its inability to come to grips with issues which face it both on methodological and theoretical levels. In the study of international relations, the task has been compounded by numerous approaches seeking attention, and rarely deviating from what they profess. The practice of any profession depends upon the knowledge which it's members profess. In international relations, this knowledge has been in disarray for lack of coherence, consistency and precision. The major task facing political scientists, and one which demands immediate attention, is the need for coherent formulations of alternative methods, theory and its application in a rapidly changing world.

The search for a new paradigm for understanding global politics occasioned a massive interest in the study of transnational relations. Subsequently, less reliance is made upon the traditional values of power politics. Currently, arguments rage on whether the power politics theory (represented by the Realist School) which has dominated European study of international relations since the peace treaties of Osnabruck and Munster in 1648 and American study since 1945 is adequate for understanding the existing international system. As more and more events in the international system seemed hard to comprehend and explain employing

the power politics approach, attempts were made to create comprehensive alternative paradigms aimed at a holistic view of the international system.

The Realist School assumes *inter alia* that states acting "rationally" are the only actors whose behavior is of consequence for international politics. Since this is so, therefore, states must be interested mainly with gaining and maintaining power. However, recent developments in the field of international relations have proved that while states continue to be the main actors in the international system, they are by no means the only significant actors.

The purpose of this chapter then is two-fold: the first is an historical analysis of the rise of transnational relations, including the contending perspectives and approaches to the study of it and consequences of transnational processes on international relations. The second purpose is a broad treatment of transnational corporations on issues of economic growth and development in the so-called third world. This is done by surveying the different approaches to economic growth and development. Two major approaches deserve emphasis. The first one is the "world-system/dependency" approach with its emphasis on forces external to the nation-state. The second one is the "modernization" approach. This approach places faith largely on internal mechanisms for economic growth and development.

Treatment of these issues have never been devoid of emotional attachment and content. While some observers think transnational corporations are "engines of development," others proclaim blatantly they are "agents of imperialism." On the whole, these judgments

seem valid depending on the point of view of the judge, emphasis ought to be laid on national context based on lessons derived from history and supported by events. It is only fair to argue that transnational corporations aid in global development as well as its impoverishment. The issue is whether the benefits derived from them outweigh the costs or vice-versa. This functional ambivalence, made worse by lack of precise definition of "transnationalism," gave impetus to the contending perspectives on the roles played by transnational actors in international politics

Contending Perspectives and Approaches

Understanding contending perspectives and approaches to the study of transnational relations requires firstly that one understand the role of the nation-state in contemporary international political system, secondly, the limits to such roles imposed by forces within and without it, and finally, the roles played by "new forces" in the international system.

Considering the role of nation-states in contemporary international system with regards to transnational relations, it is necessary to distinguish between what the power politics or (Realist) theory thinks this role should be, and those who subscribe to a theory of an interdependent world. Although a brief mention of foundations upon which power politics is based was made earlier in this chapter, it is necessary to add that political realists assume that states are coherent units and are dominant actors in world politics; that force is a usable and effective instrument of policy coupled with the view

that a "hierarchy" of issues of world politics in fact could be arranged headed by questions of military security.

However defined, political realism assumes that in international politics, nations act in their interest defined in terms of power, neglecting in the process concern with motives and the concern with ideological preferences.[1] Thus subjectively defined, the concept of power defys limit to its application because power has no inherent limit. This is a central paradox to contemporary uses of power: for power to have meaning, it must be limited, but power by its definition has no inherent limit. Power in international relations* has always obeyed limits imposed on it be concrete circumstances because the concern with motive or ideological preferences which are always necessary for any international action confronts countervailing balancing force. That power has limits depending on specific issues finds ample support in history. Those who recently dreamed of world power now despair of maintaining power at home. Defeat in Vietnam, economic stagnation and chaos, the debacle in Iran and countless other failures produce a mood of pessimism in super power America.

The international dimensions of the current malaise in the international system cannot be attributed solely to an American failure of strength. The Soviet Union finds it currently difficult to feed

*The definition of "power" in international relations suffers from the multiplicity of meanings usually attached to it, and lacks precise application. Power in this study is used in the context of an actor's ability to influence others and the system within which they act.

its teeming masses, and several economic reforms aimed at controlling economic activity prove largely a barren exercise. To confound issues, the U.S.S.R. finds herself embarrassingly bogged down in Afghanistan and Poland. These tragedies too cannot be attributed to a Soviet failure of nerve. Rather, a bitter lesson, never before taught in history was presented - that power, to have meaning, must be limited!

As more international events seemed hard to explain using power politics theory and as the classic paradigm of interstate politics proved inadequate as a framework for understanding the international system, efforts were made to develop alternative paradigms which would take into account:

1. The changing role of the nation-state in international politics
2. The impact of such change in international behavior
3. Emergence of "new forces" in international politics.

The changing role of the nation-state in international politics can be fully understood through reference to its historical role. The nation-state has traditionally been the focus of international politics. The ideal type of international politics stresses two points: First, the field of action of politics lies in the area between the nation-states; second, the actors involves are states. However, international politics of this sort have never existed purely in this form in the history of international relations. It existed in approximation in the period extending from the eighteenth to the nineteenth century when the foreign policies of great powers participating in the international system was made by a handful of individuals. Policies were formulated in the name of the state, and their decisions mainly

reaches as reactions to external events and demands.[2] Non-state actors were either non-existent or their influence in international system largely ignored.

International system based on the above assumption formed the foundation of eighteenth and nineteenth century European international relations. A distinct feature of the nation-state during this time was the legal recognition of sovereignty accorded them. That sovereignty was an important ingredient in the dynamics of international system was recognized and glorified in the writings of great political philosophers as Hobbes, Jean Bodin, Hegel, among others. Other international actors lacked sovereignty and thus were deemed insignificant in international politics.

Historically, the nation-state has played discretely packaged roles devoid of complex interrelations. Their main duty has been the guarantee of "at least a measure of protection." The politically basic unit is that which can afford its people protection and security. This, in turn, depends on the defensibility of the unit.[3] Hence, the basis of nation-state system was "territoriality" of units justified and legitimized by a sense of military preparedness, "protectedness and impermeability." Nation-states became "hard shell" units, recognized others as such and strove to maintain territorial integrity and independence. Intense nationalism butressed by extreme independence was a chief characteristic of the nation-state system.

But instability and constant wars rendered the european international system unworkable. This was so even with the Peace of Westphalia and the Congress of Vienna resulting in the formation of

alliances and counteralliances aimed at a balance of power and restoration of the status quo. Diplomacy was simple and straight forward because the main actors were individuals acting on behalf of their respective states. Great diplomats of the period in the persons of Metternich, Castlereagh, and Talleyrand were able to reach a negotiated settlement because they spoke the same language and the art of diplomacy spared the complexities which characterized and burden it today.

Restoration of the status quo sought by the various peace treaties failed and the nation-state no longer played the dominant part it once played in international politics as a result of competing struggle between it and non-state actors. As the international system moved from one crisis to the other, as it experienced wars and economic upheavals, it gave way to forces of transformation which radically changed the nature of nation state and its role in the system. Among these forces are nuclear technology (mentioned earlier). In its far reaching implication, nuclear technology altered war and the nature of it. Other forces include transnationalism with non-governmental (NGOs) and multinational organizations as the most important actors; complex interdependence of nations threatening national autonomy, and finally the twin forces of integration and functionalism. Apparently, aggregation of the above elements have threatened the nation-state as a viable political unit.

Nevertheless, the "obsolescence" theory does not pretend to predict the demise of the nation-state nor does it bear a premonition for "state-centric" catastrophe, rather, it seeks to explain the

inadequacies of state centred framework in predicting international behavior. Nation states however, retain essentially sovereign powers which is, in the words of Stanley Hoffman, the "stuff" with which international politics is made.

But the nineteenth century witnessed developments that foreshadowed a transition from sovereignty to "complex interdependence," from "impermeability" to penetrability." Permeability and penetrability of national societies by transnational forces render them dependent no matter how powerful a society is, because to understand the role of power in situations of interdependence, "sensitivity" and "vulnerability" of particular national societies have to be accounted for.[4] Extreme nationalism and independence gave way to dependence and interdependence; nations and statesmen began exploiting the benefits of the situation because what was once thought as the self-sufficient unit became dependent. As a matter of fact, the meaning and function of this basic protective unit, the sovereign nation-state became doubtful.

The impact of change regarding the role of nation-states in international behavior is a source of contention between those who see it as minimal and those who proclaim openly its demise. For instance, while attention is paid to the "inadequacy" of the "state-centric" paradigm,[5] and the emergence of transnational society,[6] the realists gracefully conceding the complexities of modern international politics, think the stuff of politics remain within the confines of interstate interaction.

This assumption sets them apart from transnational theorists who envision world politics as a complex web of political and economic

interdependence. Henry Kissinger, though deeply rooted in classical theory, has stated that the "traditional agenda of international affairs - balance of power, security of nations, no longer define our perils or possibilities.... Now we are entering into a new era. The world has become interdependent in economics, in communication, in human aspirations.[7]

Finally, recent studies in transnational relations frequently assert that the concept of sovereignty is about to become obsolete. We are undergoing, in the words of Robert Strausz-Hupe, a "systemic revolution." Just as the medieval church-state was destined to pass, the nation-state system is in turn bound to yield to a different form of organization.[8]

This prognosis on the future of nation-states seems very premature. As part of this study, I reject it. Although we duly note the changing role of the nation-state in a world of complex-interdependence, and the emergence of "new forces" in international politics introducing changes in international behavior, it seems Nye and Keohane's "world politics" paradigm captures the essence of a world in transition and therefore offers a more useful analytical tool and framework within which to study and understand international politics. This study follows this tradition. However, we cannot arrive at a conclusion until a thorough analysis of what transnationalism is and what role they play in international politics is carried out.

Transnationalism

Transnational theory presupposes the existence of a transnational society, a "global village" which can be defined as a system of interaction in specific issues between societal actors in different systems

taking into account the interdependent nature of global relations. Within each national system, policies of interactions are decided upon by non-governmental elites and to a lesser degree by governmental actors. These policies are pursued directly by social, economic and political forces in the participating societies. The process of arriving at decisions usually escape direct policy making organs of various states involved with the result that state's policy is sometimes undermined, rendered chaotic and even threatened.

A general theme running through transnational literature foresees the gradual erosion of the nation-state as a coherent political unit. Foremost among the proponents of a transnational society are Raymond Aron, Joseph Nye and Robert Keohane, Arnold Wolfers, Karl Kaiser whose general ideas predicate on a global society linked or intertwined by complex interdependence. This assumption follows from the fact that a transnational society can exist between geographically separate societies and that it must be understood functionally. This means that the society is "circumscribed by the issue areas" which are the object of transnational interaction.

The dominance of nation-states in global affairs has never been so menancingly challenged. As Karl Kaiser has correctly pointed out, the reality of international politics has never totally corresponded to the model of exlusive state-to-state interaction.[9] Other important actors have always been part of the international system. For example, an influential international organization like the Roman Catholic Church has its own territorial basis and pursues independent foreign policies. Today, international "terrorist"

organizations like the Palestine Liberation Organization (PLO) and the Red Brigade in Italy, though lacking autonomous territorial basis, on occasion conduct their own foreign policies.

Contemporary international politics strive to undermine the primary role played by nation-states because of the struggle between it and other global actors. These actors seek to secure as many or as much of their preferences on various issues, relying on a variety of means. This is possible only because international and domestic politics are interconnected and affect each other significantly.[10]

Therefore, transnationalism can hardly exist or even operate legitimately in a global arena "dominated solely by nation-states" if attempts are not made at functional separation of "issue-areas." We cannot claim for instance that transnational actors such as multinational corporations are participants in transnational games or activities unless we differentiate them into functional areas such as international management and economics, bureaucratization, the politics of decision-making and so on. Differentiation according to issue areas creates the analytic framework necessary to study and explain likely differences between the manifestations and between the political consequences of transnational relations in various issues. Secondly, in a world that is increasingly multidimensional and complex, instruments of analysis must be refined accordingly. Finally, the restriction of the concept of transnational society to issue areas should make it easier to examine the "prerequisite" for any transnational interaction.

Although transnational interactions have aroused considerable interest in many quarters, and are subjects of intense analysis,

nevertheless, transnational relations remain a *terra incognita*.* Despite a plethora of definintions and writings, there remains much that we do not know about transnational actors. Indeed, the nature of transnational interactions have been confusing and eludes a common, precise interpretation. For example, Nye and Keohane argue that transnational relations include the activities of transnational organizations, except within their home states, and across state boundaries in which at least one of the participants is not the agent of a government or an intergovernmental organization.[11] The phrase "except within their home states" fails to take into account the fact that most transnational organizations also operate within their home states. Obviously, it sounds ridiculous for one to suggest that Exxon corporation (which is a transnational actor) or Royal Dutch Shell or Lockheed Corporation do not operate within their home bases!

Nye and Keohane's contention, however, is neither that transnationals are new nor that they supersede interstate politics but that they significantly affect interstate politics by altering and modifying the choices open to nations and statesmen and the costs or consequences to expect from adopting alternative sources of action.

A more sophisticated definition was offered by Samuel Huntington. According to him, a distinctive characteristic of the transnational organization is its broader-than-national perspective with respect to the pursuit of highly specialized objectives through a central optimizing strategy across national boundaries.[12] Professor Huntington

*The obscure and intractable nature of transnational relations renders them difficult for a framework of analysis. On what basis should an interaction be seen as transnational? What are the criteria for definition? These are questions that need answering in concrete terms.

then added that a transnational organization has its own interest which inheres in the organization and its function, which may or may not be closely related to the interest of national groups. For example, in the United States, there are far reaching arguments against "multinational corporations" policies and their effect on American labor. Organized labor has been far more critical of these policies than any other group.

According to other observers, the study of transnational relations encompasses the study of international relations. It focuses on interactions among non-governmental entities as well as relations among states and between states and non-governmental entities.[13]

These definitions do not deny the fact that the major actors in international politics remain the nation-state, but they seek to modify such views by taking into account the role played by other non-state actors with the primary purpose of enriching the study of understanding of international behavior.

This study is particularly interested in transnational corporations and lays emphasis on transnational oil corporations.

Transnational Corporations*

The spectacular and phenomenal rise of transnational corporations in recent years has been a polemic and a subject of intense interest. Primarily of American origin, these giant corporations have spread to Europe and Japan and surprisingly to a handful of "emerging" nations.

*This is the official U.N. designation. Other terms include Multinational Corporation (MNC), "Cosmocorp", Multinational Enterprises (MNE), global corporation, megafirm, supranational corporation, international corporations and world company.

In the simplest form, a transnational corporation is any corporation in which ownership, management, production and sales activity extend over more than one national jurisdiction, but with a centrally located decision making headquarters. Essentially the transnational corporation invests in several countries in order to obtain access to a foreign market, to secure foreign sources of raw material, or supply and to take advantage of lower cost of production or lower taxes. The fact to bear in mind is that whenever possible and when it fits policy, investments usually are direct. Direct investment is the establishment of a foreign branch or subsidiary or the takeover by a foreign firm. Whatever form it takes, the goal of the investment is to have managerial control of a production unit or units in a foreign country.

Most important of all, the "parent" or headquarters operates the whole enterprise in terms of a coordinted global strategy. Every aspect of the operation: production, purchasing, marketing, research, etc., are organized and managed by the parent in order to achieve its long-term goal of corporate growth. This power emanates from the corporation's "unique" capacity to employ finance capital, technology and highly specialized managerial knowledge to integrate production on a world wide scale.[14]

This preliminary definition of transnational corporation does not foreshadow the fact that formidable intellectual problems arise when serious analysis is done on issues raised by the acitivities of these corporations. Most of these issues are contentions and no consensus exists regarding foreign investments and their implications

for national political economies. The absence of consensus derives largely from the fact that the phenomenon under investigation enjoys wide and multiple meanings and interpretation; and therein lies the intellectual crisis.

Transnational corporation is designated in some quarters as "key instruments for maximizing world welfare," others see it as "dangerous agents of imperialism." The latter notion was undoubtedly conceived by Marxists. To quote Lenin: "Imperialism is capitalism in that phase of its development in which the domination of monopolies and finance-capital has established itself; in which the export of capital has acquired very great importance; in which the division of the world among international trusts has begun."[15] Lenin's definition of imperialism however seems unsatisfactory because it failes to account why non-capitalist nations such as Russia engage in imperialist adventures around the world.

Richard E. Ells defines "multinational" corporations as a cross-border or transnational business organization or aggregate of organizations that is characterized mainly by the disposal of its managerial centers among several nations for purposes of overcoming the barriers at the political frontiers of states.[16] Whether they are agents of imperialism or engines of economic growth depend on the part MNCs play in concrete historical situations and of course on their activities in specific countries. This study argues and submits that on balance, MNCs are servants of imperialism.

Transnational corporation is only one part of the practical answer to the problem of a viable world political economy. It does not assume to have ready-made answers to global problems, but its emergence

is a clear response to new demands. The demands are global in their reach, hence the actors are huge and global in their operations. But in reality these corporations in their present form and dimension are products of the international economic system within which they operate. Their basic strategy evolves in response to the existing world situation as well as to policies at national level.[17]

Why Do Corporations Go Abroad?

Transnational corporations go abroad for the benefits of world production. Production on a global scale is thought to be more efficient by using the factors of production where they are cheapest and in this process, contribute to the economic growth of host countries, strengthening their balance of payments and raising their employment.[18] These factors of production are numerous and the most frequently mentioned are the following:

1) Location and access to raw materials
2) Foreign trade barriers
3) Favorable tax laws
4) Currency controls
5) Cost differences between foreign and domestic production
6) A "combination of human skill."

These factors, however, do not explain adequately reasons why a good number of corporations go abroad. In order to understand better, it is necessary to turn to the theoretical work carried out by several economists and political scientists who have written on transnational corporations. In doing so, examination of the contending perspectives is done.

There are at least two contending economic perspectives or models and four political models. The economic models include:

1) Economic and Technological lead position

2) "Public Policy" position

The four political models are:

1) Sovereignty-at-bay thesis

2) Global Reach thesis

3) The Imperialist argument and

4) The Mercantilist position

The Economic and Technological Lead Position

This position rests on the assumption that transnational corporations and direct investment abroad are products of the international economic system within which they operate, and hence "necessary" consequences of contemporary economic and technological developments. First, direct investment is a response to the shrinkage of the world due to technological advances in transporation and communication. Second, direct investment is a response to the rise of economic protectionism, i.e., the protection of domestic markets.

As stated earlier, transnational corporations are unique American creations. These corporations tend to be large, are global in scope and seek largely to exploit global resources where they are cheapest. Richard J. Barber argues that American corporations, in shifting production abroad and implementing a policy of supplying foreign markets from overseas subsidiaries, shrewdly use their

preponderant resources to gain dominant positions abroad roughly equivalent to those they occupy at home.[19]

Most transnational corporations tend to be large oligopolies. Thus they enter or penetrate foreign markets because they have a monopolistic advantage of factors of production over lesser competitors. These advantages may be one of several factors such as technological lead and superiority, managerial and financial expertise or better working arrangements with a host government. But, in general, monopoly advantage rests mostly on oligopolistic arrangements among corporations.[20]

Moreover, monopoly advantage is manifest where there is a high degree of market concentration. Frequently, these corporations are dominant producers in the foreign market, thus their activities could be described as "aggressive behavior" and is primarily a phenomenon associated with oligopoly and market concentration.[21]

But the theory of international oligopoly does not explain why a corporation seeks to serve a particular market or sell particular products through the establishment of a local subsidiary rather than through exporting or licensing. The "Product cycle model" developed by Raymon Vernon explains. Essentially, the product-cycle theory identifies three phases in the development of a product: (a) the introductory phase; (b) the maturing phase; (c) the standardization phase.[22] The underlying determining factor in product cycle process is the supremacy and availability of particular technologies which are suited to particular types of production. Diffusion of these technologies erode the corporate powers and technology lead of those corporations which first invented them. Therefore, if the American corporation (usually identified with these inventions) is to

maintain its lead and profits on its investments, it is argued they must either establish foreign branches or subsidiaries or else sell its licence to a foreign corporation.

Foreign direct investment, understood in the above terms, are therefore, highly defensive in nature. It is a commercial game where the action of one corporation, and the nature of a particular market largely determines the decisions of another. Moreover, individual corporations are likely to consider foreign investments as important forestalling tactics to cut off market preemption by others.[23]

Another economic theory which seeks to explain why corporations go abroad is the so-called "organic" theory of investment. According to the organic theory, the fundamental motive of the corporation is survival and under conditions of oligopolistic competition, the one pre-condition for survival is continued growth.[24] Continued growth can be guaranteed only by an increasing share of the market. This law of corporate survival in an oligopolistic market has been put precisely well by Charles Kindleberger: "Direct investment is tied to markets. If markets grow, the firm must grow...If the firms stops growing, it dies."[25] Direct foreign investment is not only tied to the overseas market, it is also a direct result of national policies.

The "Public Policy" Position

This second explanation is based on an entirely different set of assumptions. Whereas the first position sees transnational corporations as the response to economic and technological forces, the second position regards transnational corporations as a product of national policies, particularly tax laws and antitrust laws which

encourage foreign rather than domestic investment.[26] Foreign direct investment largely, therefore, is a mechanism whereby corporations seek to enhance their own growth and profits at the behest and assistance of their government. Tax avoidance and the minimization of tax liabilities are a critical factor in corporate strategy and the decision to invest abroad. For example, American tax laws intentionally encourage oligopoly and the pursuit of foreign investment as a growth strategy. A country which prides itself on the principles of "free enterprise" and competition, encouraging oligopoly, formulating tax laws which give impetus to investment abroad, places her in a highly anomalous position. This contradiction which underlies U.S. foreign investment policies does not explain why oligopolistic corporations are allowed to operate abroad and not at home. Such policies are based on economic as well as on political grounds.

The Political Models

(1) Sovereignty at Bay thesis.

This thesis argues that transnational corporations have become dominant over all nation states. Developed by Professor Vernon, sovereignty-at-bay thesis further argues that "sovereign states are feeling naked."[27] This is so because the great size, the sheer financial strength and the superior technology and managerial organization of vast transnational enterprises set them beyond the effective control of individual nation-states.

Obviously, sovereignty-at-bay thesis is largely based on an underestimation of the power of national sovereignty and on exaggeration of the powers of corporations. The growth of transnational corporations

has coincided with a period of rapid global development - attainment of independence and nationalism, growth in the number of nation-states and their importance, and the necessity of economic interdependence. Transnational corporations have subsequently fitted perfectly this role of forging and promoting economic interdependence among nations. However, in contrast to the powerlessness of nation-states,[28] and in the event of any dispute, it must be apparent to all concerned that the sovereign power of government is paramount. In Chapter 3 of Part I, I argue that despite the powers of transnational corporations, the nation-state remains a *suprema potestatis*.

(2) Global Reach Interpretation

The position of this school is much like that of sovereignty-at-bay thesis. Global Reach posits that the structural transformation of the world economy through the globalization of Big Business is undermining the power of the nation state to maintain economic and political stability within its territory.[29] Global Reach thesis bestirs controversy for it overlooks also the powers that all governments have - sovereignty.

(3) The Neoimperialist Position[30]

Neoimperialist school argues that transnational companies, aided by their respective governments, go abroad in order to acquire, maintain and protect access to needed raw materials and foreign markets. Using this position, I argue in Part III, Chapter 2 (as I did in Chapter I) that transnational oil companies go abroad most importantly to secure access to resources and hence supply of these resources to their global market.

(4) Neomercantilist Interpretation

This school sees the nation state as a unitary actor and assumes that governments use the activities of businesses abroad to advance the interest of the states.[31] Such interests are advanced by manipulating economic arrangements whether or not this is at the expense of others.[32]

Transnational Corporations and Developing Nations

The debate over the desirability of transnational corporations in the development of the "third world" rages on. Whether or not transnational enterprises result in a net gain over time to the society concerned is a question of considerable interest and one that has been the topic of intense controversy for several decades.

There are several reasons why transnational corporations operate abroad, some of which I gave on earlier pages of this background study However, the most important reason and indeed a reason behind any business enterprise is that of profit. Transnational corporations go abroad because of profit. The desire to maximize this profit globally by combining factors of production wherever they are cheapest and most efficient to do so led to what Lester Brown calls the "internationalization of production." Hence production of goods and services is "international" when it combines factors of production from more than one country.[33]

Traditionally, the third world has provided the metropolitan governments as well as transnational corporations with a vast and veritable source of raw materials. The colonial system provided an automatic mechanism by which the metropolitan government had or

obtained preferential access to necessary raw materials.* Preferential access was partially closed with the dawn of independence and subsequently nationalism. Independent third world countries asserted their right to dispose of their natural resources the way they saw fit. Commercial arbitration, no matter how exploiting and disadvantageous, was more appealing and hence transnational corporations filled the role created deliberately by the metropolitan government, because colonization was an international extension of domestic self-sufficiency and its effectiveness depended upon the ability of the home governments to get colonial companies to act in accordance with its desires.[34]

Preferential access to raw materials and the need for commercial dominance partially explain why transnational corporations engage in business in the third world. It was more of a managerial challenge to them. The resources of the third world nations including the raw materials and cheap labor, as well as the potential customers represented by their "expanding middle class" were crucial to the plans of the global corporations.[35] On the part of third world governments eager for rapid industrial and economic growth, the necessity for permitting foreign investment into their country sometimes becomes compelling.

It is a common knowledge that several third world countries rich in natural resources simply do not have the financial, managerial and the technological base for exploiting these resources. Therefore,

*I touched on these issues in the opening chapters of this study. For more on this, see consessions under the Colonial system and under periods of commercial dominance, pp. 2-13.

in order to tap a potential resource, these nations have resorted to either one or all of the following basic methods:

1) Invite foreign concessionaires to form local subsidiaries and thereby supply management and technology, capital and markets;
2) Undertake joint ventures in which foreign investors supply management and technology and markets as well as a portion of the capital - with the remaining capital furnished by the host country;
3) Institute management contracts whereby experienced foreign corporations offer management and technology only, and the host supplies the capital and tries to market the product;
4) Do without foreign participation entirely and furnish management and technology, capital and markets itself.[36]

When third world nations choose either options (1) or (2) or (3), the remaining problem often becomes one of implementation. However, it is necessary also to recognize that there are bound to be conflicting demands and divergencies between the developing nation and the foreign investor. The government controls the conditions under which rights and concessions are awarded to exploit the country's natural wealth. The corporation owns or controls capital, technology and expertise.

The government recognizes that there is a benefit derived from the productive factors controlled by foreign investors - employment and hence income to its people, appropriate technology or "technology of choice," and revenue to the state. There is also a recognition of cost involved. And from its side, the company sees it as giving up productive factors as a cost in terms of foregone opportunities to

use scarce capital, technology, and expertise in alternative ventures. Each actor in this case is bent on achieving or winning the maximum benefit in which the perceived benefit outweigns costs.

The main contention, then, of foreign investment is who gets what and at what cost. Such contentions feature prominently in most negotiations between foreign investors and third world governments. Precisely put, the question is - what will be the cost-to-benefit (or conversely, the benefit-to-cost) ratio that is simultaneously acceptable to each agent? Indeed, each actor theoretically wishes to obtain the most of maximum units of benefits for a given unit of cost. According to a study done by Robert L. Curry, Jr. and Donald Rothchild on bargaining between African governments and multination companies, the ratio that emerges is strongly influenced by the relative strength of each agent's impatience and demand intensity.[37]

Most third world governments are impatient when it comes to negotiating with transnational corporations and this is likely to affect the government's ability to effectively conclude a transaction. The competitive bidding for transnational corporations among third world countries defeats the need for a closer scrutiny of specific business transactions. However, there are a few developing countries which are not ready to accept foreign investment in just any form. The following statement, which forms part of the Charter of Algiers, confirms this position:

> "Private investment should be of permanent benefit to the host developing country. Subject to nationally-defined priorities and within the framework of national development plans."[38]

Libya provides a classic example of a developing nation which is not ready for investments at any cost,* however, others like Liberia apparently accept foreign investments with little or no strings attached. For example, in the late 1940s, Republican Steel began to mine ore with a concession that included no income tax, no control over transfer prices for the output and only a small royalty per ton. These concessions were subsequently renegotiated.[39]

It is necessary and important to point out that foreign investment takes place between two fundamentally assymetrical actors - host governments and transnational corporations. The imputation of assymetry depends considerably on how one judges the strengths of each actor. Is the host government more powerful because it possesses "sovereignty" over its resources?; or is the transnational corporation more powerful since it controls the technology, capital and management know-how necessary for productive enterprise? These questions can only be answered in relation to particular cases.

However, a general assumption is that most developing nations are "institutionally weak" and hence unable or incapable of dealing effectively with foreign investors. As Richard Barnet and Ronald Muller observed, the lack of bargaining power of "underdeveloped" countries is due to three major institutional weaknesses. The first they argue is "antiquated governmental structures." National laws, according to this argument, are inadequate for collecting taxes, controlling foreign business, or preventing the drain of capital. A

*In 1970 the Libyan government started negotiations with the oil companies in the country for a higher posted price. When the companies resisted (Occidental, Hunt) Libya ordered production cuts and nationalized portions of several oil companies.

second source of institutional weakness is lack of strong labor movement. A third source that explains why global corporation is able to exert "such strong power in underdeveloped countries" is the lack of ineffective competition from local business.[40]

The first argument originating from "antiquated government structure" is indeed very tenuous. State intervention in national economies is not new; certainly not to most "developing" nations. However, pitting the overwhelming corporate power of transnational corporations against those of the state where both state and local private capitalist enterprise are weak is an ineffective, frustrating and often barren exercise. Nevertheless, host governments reserve the sovereign right either to indigenize or outrightly nationalize foreign-owned investments, because "in fact a sovereign state, however small, is more powerful than the multinational corporation doing business in it."[41]

The second argument seems credible. Host governments have always provided "cheap labor" to work in the manufacturing and extractive industries. Over the years, labor in their negotiations with management has been unable to articulate their desires and needs. This situation is true to most developing countries. But this is not to say that labor in these countries remains weak. For example, labor unions in Nigeria are becoming stronger, wresting concessions from management through government policies. Foreign corporations engaged in the development of petroleum resources are expected to provide the requisite technology as well as to train and develop Nigerian staff for all positions in the companies and for all types of operations in the petroleum industry.[42]

Perhaps the most important argument of the three is the lack of competition from local enterprises. Local business has neither the necessary capital nor the advanced technology to compete effectively with transnational corporations in most extractive and manufacturing sectors of the economy. But when these factors of production surprisingly generate locally, there usually is an economic dysfunction because the local economy is unevenly developed. In order to combat certain shortages and structural dysfunction, attempts are not made at remedying the problem at the source, rather a recourse to importation of manufactured goods (where necessary is made) thus perpetuating dependence.

For example, in Nigeria, most liberal economic strategies have been attempted to hasten industrialization, especially since the late fifties. Generous tax concessions for "pioneer industries" have been decreed, relief from import duty for capital goods and raw materials have been granted, and industrial estates, facilities, and loan capital have been provided by the Government.[43] Despite all these supports, there is widespread feeling of failure among concerned segments of the country. This is largely so because of the alliance between the local and foreign investor* which neither creates the necessary structural linkages within the economy nor would see local initiatives backed by the government succeed. Moreover, the dependent nature of the economy cries out for local initiatives because "all our power plants, military hardware and ammunition, transport machinery, railway equipment, iron and steel products, electrical and electronic goods and many consumer goods are...imported."[44] It can hardly be

*Detailed analysis of this alliance is made in Part IV, Chapter I of this study.

otherwise since foreign (especially trading) corporations controlled the bulk of the modern economy. The dominance of foreign capital and interest over Nigeria's economy[45] is also experienced by most other developing nations, eliciting or begging the question of whether such interests are "machinery for growth and development," or "agents of imperialism?"

Transnational Corporations and Development

The role of foreign private investment in development is acknowledged in the International Development Strategy for the Second United Nations Development Decade.[46] In the effort to reduce the gap between the rich and poor nations, the General Assembly in December of 1961 took a "historic" step towards coordinating the activities of governments and international organizations. Towards the goal, the 1960s was declared as the United Nations Development Decade; however concrete achievements of the decade fell short of expectations. Although it recommended that industrialist nations help developing countries in achieving by the end of 1960s an annual growth rate of five percent, and although it urged the former to move towards allocating one percent of their national incomes to the developing world, this goal was never reached. Subsequent target was changed to one percent of GNP of industrialized world, but this also has been achieved only by a few developed nations.

The plans and targets of a development decade, unlike an international treaty, are not legally binding on governments even on those who can afford it. Thus the United States of America donates less than one percent of its GNP to developing world and programs.

Targets and plans of a development decade represent in principle a "consensus on what governments believe to be the most appropriate course of action" for the decade ahead in matters such as the promotion of economic and social advancement of all peoples. Toward this end, a "shared responsibility" by nations throughout the world is implied and has given birth to resolutions such as the establishment of the New International Economic Order in 1974 by the U.N. General Assembly. Designed to provide developing countries with a larger share of the benefits from global economic growth this new economic order to date has achieved but little. The Third Development Decade of the 1980s took cognizance of this shortfall, and one of the major tasks before the committee preparing the International Development Strategy for the 1980s has been to "set goals for structural and institutional changes in the world economy."

The implications of United Nations Development Decade therefore, is that it has cast the U.N. in the role of a *casuis sui generis*, a champion advocate of bridging the gap between rich and poor nations and of encouraging international organizations such as the multinational corporations for exploiting investment opportunities mutually beneficial to them and the third worlds. Towards this end, the United Nations has extensively engaged in constructive arrangements whereby investors and governments can fruitfully agree and cooperate as regards the general conditions of foreign private investment. These efforts have not been on the whole successful both to the governments who receive investments and the multinational corporations who seek investment outlets because there are few areas of convergence. In general terms, however, the gap between the rich and poor nations - a

gap which the U.N. seeks to narrow, keeps widening - a result perhaps of the activities and product of foreign private investment?

Traditional theory holds that foreign private investment contributes positively to development.[47] It is also assumed that these investments carry with them advantages such as capital, technology, management and marketing skills to those societies in need of them. Furthermore, deriving from these factors of production, jobs are created, additional funds go to governments tax revenues, which can be used for further development. The chronic balance of payment constraints, long a major fiscal problem in developing countries, are eased by the infusion of foreign capital. Developing nations undoubtedly may benefit extensively from foreign investment, however, they also express concerns on the effect of these on the economy as a whole.

Indeed, there is no concensus what effect multinationals have on these countries' interests - whether foreign investment stimulates desirable development or simply exploits.[48] It is clear, though, that these corporations are an integral part of the expansion of capital on a global scale, that they are merchants of the most advanced technology, but also the purveyors of overpriced obsolete equipment; they are rapacious exploiters of raw materials and labor, but also the major agents of profit repatriation and resource outflow.

As the Decade of Development draws to an end, and despite dramatic economic growth in a few poor countries, it has become abundantly clear that the gap between rich and poor throughout the world was widening.[49] It became evident that development strategies pursued by "global corporations" contributed more to the worsening of world poverty, unemployment and inequality than to their solution.

Global ills became exacerbated because of and due primarily to the dismal fact that global corporations and developing countries have different, if not conflicting, interests and needs, arising in part from the strategy of transnational corporations creating conducive global economic environment from which profit could be maximized regardless of who gets hurt.

In recent years, such corporate strategies and its contribution to the development of poor countries has been challenged.[50] According to opponents, multinationals take out of developing countries more than they put in, and thus, repatriation of earnings usually exceed infusions of new foreign capital hence undermining balance-of-payments. Unemployment is increased because capital intensive technology most suited to advanced developed economies is introduced rather than labor-intensive technology thought to be more appropriate for developing countries. In addition, opponents argue, these corporations promoted unequal income distribution, because local elites strengthen their positions through alliances with foreign investors.

There is therefore an increasing awareness among most developing third world countries that the transnational corporation (with its limited benefits) does not hold substantial answers to the question of national economic development and growth. Developing countries have found it necessary to adopt various development strategies and since discussion of these strategies to economic growth and development are available elsewhere,[51] my attention is confined to a brief sketch of the key issues.

Two broad approaches to economic growth and development in the third world exist. The first one is the "world-system/dependency"

approach with emphasis on forces external to the nation-state. The second is the "modernization" approach emphasizing on internal mechanisms. These approaches have been analyzed in the quantitative as well as non-quantatitive comparative literature[52] as providing two competing hypothesis about the impact of foreign investment on economic growth.

First, following the work of Baran (1957), Frank (1967), Galtung (1973), Emmanuel A. (1972) and others, dependency approach is generally taken to imply that foreign investment in effect depresses growth. The core-periphery relationship[53] is considered exploitative, in that profits are transferred back to the core rather than reinvested in the periphery; economic dependency thereby contributes to the underdevelopment of the periphery. At the same times, the external orientation of periphery economies encouraged by foreign investment is said to generate internal distortions[54] and contradictions that retard growth. This is a result of "international division of labor" and what Galtung has described as the "penetration" and "fragmentation" of periphery economies by the metropolis. Moreover, Galtung argues that exports of "semi-processed" goods from the developing countries suffer what he calls "blocking mechanisms" in the hands of the developed. This is akin to Emmanual Aghirri's "unequal exchange" arising from the "imperialism of trade" when "hidden" transfer of resources takes place when rich and poor nations trade together. The difference in wage rates between them is the key factor in this process of unequal exchange. Growth and development is therefore slower, more a response to global economic policies, than otherwise might be in the developing countries.

In sharp contrast, the modernization approach, implies that foreign investment promotes growth by providing external capital, which either substitutes for or supplements local capital. It is the presence rather than the origin of capital that is considered important.

Verification of results on these two approaches are mixed. There has been no empirically verifiable evidence or otherwise available which points to issues of economic growth and development and why either approach should provide a useful instrument toward growth. The selection of either approach depends largely on a nation's historical experience. For example, in a case study survey,entitled "Two Routes to El Dorado," and written by John Grimond, the choice of development path chosen by Kenya and Tanzania was made in "pursuit of a clear goal - the transformation of their country from imperial adventure playgrounds into modern states. But, though they share this goal, they do not share a strategy for reaching it."[55]

Whether transnational corporations are "agents of imperialism" depends to a large extent on concrete national circumstances and experience derived from history. This judgment must be made taking into account the overwhelming powers of corporations to conduct autonomous strategies which are largely independent of national jurisdiction, and the ethical predicament of accountability or lack of it thereof to sovereign nations.

NOTES

[1] Political Realism or power politics theory has increasingly recently been under academic as well as pragmatic criticism. However, this school of thought has endured and contines to command influence in political science. For more on "political realism," see a staunch proponent: Hans J. Morgenthau, Politics Among Nations: The Struggle for Power and Peace (New York: Alfred A. Knopf, 1973). Fifth edition.

[2] Karl Kaiser, "Transnational Politics: Towards a Theory of Multinational Policies," International Organization, 1971.

[3] On "modern sovereignty," "penetrability," and "permeability" of the nation-state, see John Herz, The Nation-State and the Crisis of World Politics (New York: David McKay, 1976).

[4] The authors seek to modify and complement power politics theory by introducing other dimensions which power politics either ignored or assumed for granted. For more details, see: Robert O. Keohane and Joseph S. Nye, Power and Interdependence: World Politics in Transition (Boston: Little, Brown and Company, Inc, 1977).

[5] Robert O. Keohane and Joseph S. Nye, "Transnational Relations and World Politics," International Organization, Vol XXV, No. 3, (Summer 1971).

[6] Raymond Aron, Peace and War: A Theory of International Relations. Translated from French by Richard Howard and Annette Baker Fox. (Garden City, New York: Doubleday, 1966).

[7] For a cogent and forceful presentation of this new development, see Henry Kissinger in a speech entitled "A New National Partnership," U.S. Department of State, 1975.

[8] This is a voice among many that calls for a "new" and "radical" organization to "replace" the nation-state system as a viable economic and political unit. On this voice, see: John G. Stoessinger, The Might of Nations. (New York: Random House, 1975). Fifth edition.

[9] Karl Kaiser, op. cit.

[10] See, for instance, Richard W. Mansbach and John A. Vasquez, In Search of Theory: A New Paradigm for Global Politics (New York: Columbia University Press, 1981); see also, Peter J. Katzenstein, ed., Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States (Madison, Wisconsin: University of Wisconsin Press, 1978); see also, James Rosenau, Linkage Politics (New York: The Free Press, 1969).

[11]Keohane and Nye, op. cit.

[12]Samuel Huntington, "Transnational Organizations in World Politics," World Politics, 25 (April 1973).

[13]James Rosenau, The Study of Global Interdependence. (New York: Nichols Publishing Co., 1980).

[14]A more detailed description and analysis of far reaching corporate power could be found in: Richard J. Barnet and Ronald E. Mueller, Global Reach: The Power of the Multinational Corporations (New York: Simon and Schuster, 1974).

[15]See V.I. Lenin, Imperialism: The Highest Stage of Capitalism (Moscow: Foreign Languages Publishing House, n.d.) and (New York: International Press Publishers, 1933).

[16]See, Richard Ells, Global Corporations (New York: The Free Press, 1976), p. 42.

[17]L.H. Bonin, Jr., "Multinational Corporations: Their Role Today," Intellect, April 1975, p. 53.

[18]Bergsten, Horst and Moran in American Multinationals and American Interest (1978), argue that the central issue is the distribution of costs and benefits arising from such investments. The issue of distribution has two dimensions: distribution of the costs and benefits (a) between home and host countries and (b) among groups, especially labor and capital, within a country.

[19]See, Richard J. Barber, "Big, Bigger, Biggest - American Business Goes Global," New Republic April 30, 1966.

[20]As noted particularly by Charles Kindleberger and Stephen Hymer, the American corporations and indeed other global corporations tend to be large oligopolies. For details, see, Charles Kindleberger, American Business Abroad. (New Haven: Yale University Press, 1969), and, Stephen Hymer, Direct Foreign Investment and International Oligopoly, (Mimeo), 1968.

[21]Kindleberger, op. cit.

[22]Most large corporations, especially those of American origin, would rather serve particular foreign markets, or establish foreign subsidiaries in order to market particular products than providing licenses for its manufacture abroad or alternatively exporting such products. There is no consensus as to why this is so. But it is obvious these corporations operate globally to maximize profit. However, a reasonable explanation was offered, based on the so-called "product cycle model." For greater analysis and details, see, Raymond Vernon, "International Investment and International Trade in the Product Life Cycle," Quarterly Journal of Economics, Vol. 80, 1966, pp. 190-207.

A historical explanation of why most major corporations establish foreign subsidiaries or serve foreign markets, using the product cycle model, could also be found in the work by Mira Wilkens, The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914 (Cambridge, Mass.: Harvard University Press, 1970). See also, Louis T. Wells, Jr., ed., The Product Life Cycle and International Trade (Boston: Graduate School of Business Administration, Harvard University, 1972).

[23]William Gouber, Dileep Melita and Raymond Vernon, "The R & D Factor in International Trade and International Investment of United States Industries," The Journal of Political Economy, Vol 75, No. 1 (February 1967).

[24]Continued growth, according to the organic theory of foreign investment, can be "guaranteed" only by an increasing share of an expanding market. If market opportunities are not taken advantage of, other competitors will step in, fill the void, and reap the profit. In the words of Raymond Vernon, "the yield on the investment is seen largely as the avoidance of a loss of income to the system" (Vernon, op. cit., 1966, p. 200). On the "organic" theory of investment and details thereof, see, Judd Polk et. al., U.S. Production Abroad and the Balance of Payments. (New York: National Industrial Conference Board, 1966).

[25]Kindleberger, op. cit.

[26]Especially in the oil industry, the U.S. government has made it a policy to encourage foreign production rather than domestic through the granting of generous tax incentives and protection from antitrust prosecution to various oil companies. For a general analysis on this, see, P.B. Kenen, "Economic Aspects of Private Direct Investment," Tax Institute of America, Taxation and Operations Aboard, 1960; see also, Peggy Musgrave, "Tax Preferences to Foreign Investment," Congress of the United States, Joint Economic Committee, The Economics of Federal Subsidy Programs, part 2 - International subsidies. Washington, 1972. See also, Murray C. Kemp, "Foreign Investment and the National Advantage," Economic Record, Vol 38 (March 1982), p. 62; Paul B. Simpson,"Foreign Investment and the National Economic Advantage: A Theoretical Analysis," in Raymond F. Mikesell, ed., U.S. Private and Government Investment Abroad (s.l.: University of Oregon Books, 1962), p. 504; see also, Glenn P. Jenkins and Brian D. Wright, "Taxation of Income of Multinational Corporations: The Case of the United States Petroleum Industry," The Review of Economics and Statistics, Vol. 57 (February 1975), p. 10.

[27]For a detailed analysis of this position, see Raymond Vernon. Sovereignty at Bay; in Nye and Keohane, eds., "Transnational Relations and World Politics (Harvard University Press, 1971)

[28]While particular corporations are quick to point out the limitations of the bargaining power with host countries, many corporate executives believe the global business system "has outgrown national boundaries." For example, IBM's Jacques Maison Rouge bluntly attacked the nation state system... "the worlds political structures are completely obsolete...and are woefully out of time with technological progress." Echoes George Ball, former U.S. Undersecretary of State, "the nation state is a very old fashioned idea and badly adapted to our present complex world."

[29]For a detailed analysis, see Richard J. Barnet and Ronald E. Muller, Global Reach: The Power of the Multinational Corporations (New York: Simon and Schuster, 1974). See especially chapters 6 and 8.

[30]The literature is vast, but a few references will suffice, see, for example, Harry Magdoff, The Age of Imperialism: The Economics of U.S. Foreign Policy (New York: Monthly Press, 1969); K.T. Fann and Donald C. Hodges, eds., Readings in U.S. Imperialism (Porter Sargent, 1971); A.P. Thornton, Doctrines of Imperialism (New York: John Wiley and Sons, Inc., 1965); Richard D. Wolff, "Modern Imperialism: The View from the Metropolis," and Arthur MacEwan,"Economics of Imperialism: Discussion," American Economic Review, Vol. 60 (May 1970); Harry Magdoff, "The Logic of Imperialism," Social Policy, Vol. 1 (September/October 1970).

[31]See C. Fred Bergsten, et.al., American Multinationals and American Interests (Washington, D.C.: The Brookings Institution, 1978).

[32]For details, see Robert Gilpin, "The Politics of Transnational Economic Relations," in R. Keohane and J. Nye, Transnational Relations and World Politics (Cambridge, Mass.: Harvard University Press, 1972).

[33]Lester R. Brown, The Interdependence of Nations, Headline Series, published by the Foreign Policy Association, (Mimeo), 1972.

[34]See E.J. Hobsbawn, Industry and Empire: The Making of Modern English Society, Vol. 2, 1750 to the Present Day (New York: Pantheon Books, 1968), p. 124.

[35]Barnet and Muller, op. cit.

[36]The Nigerian government, the context on which this study dwells, presently employs option (2) and option (3). None of the third world nations, with possible exception of a few so-called newly industrializing countries (NICs), as Brazil, Iran, India, Nigeria could afford to adopt option (4). Even then, the areas where this is the case remain the soft industries where sophisticated technology may not be needed.

[37]These two important variables feature prominently in most negotiations between host governments and transnational corporations, and most often largely influence negotiating outcomes.

[38]Taken from Charter of Algiers, adopted by the Ministerial Meeting of the Group of 77 on 24 October 1967 (TD/38), part two, C. 1.

[39]For more on this, and on the subsequent renegotiation of the contract, see Bergsten et.al., American Multinationals and American Interests, 1978, p. 137.

[40]Barnet and Muller, op. cit.

[41]This quote by L.H. Bonin, Jr., was taken from Intellect April 1975, p. 53.

[42]See, for example, this requirement by the government of Nigeria in Social and Labour Practices of Multinational Enterprises in Petroleum Industry (Geneva: International Labour Office, 1977), p. 9.

[43]For more on this study, see Robert L. Curry, Jr., and Donald Rothchild, "On Economic Bargaining between African Governments and Multinational Companies," in The Journal of Modern African Studies, Vol. 12, No. 2 (1974), pp. 173-189. Adedotun O. Phillips has done some basic research on these issues, published in the Nigerian Journal of Social and Economic Studies (Ibadan) in 1967, 1968 and 1969. Other sources of information include The Quarterly Journal of Administration, "Administering Nigeria's Pioneer Companies Relief," Vol. IV, No. 1 (October 1969), pp. 11-29; and "Reforming Nigeria's Tax Incentives System," in Ibid., Vol. V, No. 4 (July 1979), pp. 421-437. These articles can be found in O. Teriba and M.O. Karzode (eds.) Industrial Development in Nigeria: Patterns, Problems and Prospects (1977).

[44]See the report of a speech by Professor G.O. Ezekwe of the Projects Development Agency, Enugu, in The Daily Times, 8 March 1977.

[45]This dominance, among other reasons, led to the promulgation by the Federal Government of Nigeria of the indigenization decrees of 1972 and 1977. Indigenization exercise was ostensibly designed to "free" the nation's economy from foreign control.

[46]For a detailed role of foreign private investment in international development, see International Development Strategy: Action Programme of the General Assembly for the Second United Nations Development Decade (United Nations Publication Sales No. E·71·II·A·2), paragraph 50.

[47]For a comparative treatment of this view, see Grant L. Reuber et.al., Private Foreign Investment in Development (Oxford: Clarendon Press, 1973).

[48]Bergsten et.al., op. cit.

[49]Barnet and Muller, op. cit.

[50]There is a wide range of opinions on this issue. See for instance, Stephen Hymer, "The Multinational Corporation and the Law of Uneven Development,"; Constantine V. Vaitsos, "Employment Effects of Foreign Direct Investment in Developing Countries," in Edgar O. Edwards, ed., Employment in Developing Nations (New York: Columbia University Press, 1974), pp. 331-349; see also, James Jennings, "Multinational Corporations: Friend or Foe?," New Catholic World, 218 (September/October 1975), pp. 228-231.

[51]See, for example, Richard Vengroff, "Dependency, Development, and Inequality in Black Africa," African Studies Review, 20 (September 1977); Christopher Chase-Dunn, "The Effects of International Economic Dependence on Development and Inequality: A Cross-National Study," American Sociological Review, Vol. XL (December 1975), pp. 720-738; Christopher Chase-Dunn, "Comparative Research on World-System Characteristics," International Studies Quarterly, Vol. XXIII (December 1979), pp. 601-623; J. Samuel Valenzuela and Arturo Valenzuela, "Modernization and Dependency: Alternative Perspective in the Study of Latin American Underdevelopment," Comparative Politics, Vol. X (July 1978), pp. 535-557; see also, Patrick J. McGowan, "Economic Dependency and Economic Performance in Black Africa," The Journal of Modern African Studies, Vol. XIV, No. 1 (1976), pp. 25-40; Samir Amin, "Underdevelopment and Dependence in Black Africa: Origins and Contemporary Forms," Journal of Modern African Studies, Vol. X, No. 4 (December 1972), pp. 503-524.

[52]Op. cit., see especially the article by Richard Vengroff and Christopher Chase-Dunn.

[53]The literature on dependency and neo-colonialism is extensive and growing. Some of those are: R.I. Rhodes,ed., Imperialism and Underdevelopment (New York, 1970); R. Owen and R. Suttcliffe, eds., Studies in the Theory of Imperialism (London: s.n., 1972); A. Emmanuel, "Unequal Exchange: A Study of the Imperialism of Trade," (New York: s.n., 1972); Johan Galtung, The European Community: A Superpower in the Making (London: s.n., 1973). See also, V.I. Lenin, Imperialism: The Highest Stage of Capitalism (1917); Kwame Nkrumah, Neo-Colonialism: The Highest Stage of Imperialism (New York 1965); Walter Rodney, How Europe Underdeveloped Africa (New York 1973); Samir Amin, Neo-Colonialism in West Africa (New York 1973); Colin Leys, Underdevelopment in Kenya: The Political Economy of Neo-Colonialism, 1964-1971 (Berkeley 1974); A.P. Thornton, Doctrines of Imperialism (London 1965); Giovanni Arrighi and John S. Saul, Essays on the Political Economy of Africa (New York 1973).

[54]For more comprehensive treatment, see Stephen Hymer, "Multinational Corporations and the Law of Uneven Development," in Charles Kindleberger, ed., The International Corporation (A Symposium) (Cambridge, Mass.: MIT Press, 1970).

[55]For details, see John Grimond, "Two Routes to El Dorado: Kenya and Tanzania," in The Economist, March 11, 1978; Surveys 3, 7, 11, 17, 21, and 25.

CHAPTER II

INTERNATIONAL RESPONSE TO TRANSNATIONAL CORPORATIONS

The response to transnational corporations is predicated on the fact that they can be "at once effective instruments of development and sources of tensions of conflicts" arising from their global activities. In order to comprehend this ambivalent role and the nature of transnational activities, it is necessary to distinguish clearly activities in home governments, in host countries and most importantly between developing and developed nations. The pervasive criticisms of transnational corporations usually is general in nature without a distinction as to what type of corporation, how it conducts its business and where it does so. This blanket accusation, in effect, lumps corporate culprits as well as innocent ones in one basket, making it extremely difficult to devise codes of conduct for transnational activities. This study is interested mainly in international organizational response and also response from developing countries.

It is not only the presence of transnational corporations in foreign countries, or even their size that generates debate among critics and outright tension among nations around the world. It is also the scope of their activities in the traditional business sector as well as other less conventional affairs which includes intrusion and meddling in host countries domestic politics. Much of the

responsibility for myths and emotionalism about the role of U.S. based transnational corporations and even those based abroad, must be lodged with the world business community and their countries of origin on one hand, and the responsible organ of the United Nations on the other. It will be done on three counts:

1) Ethical posture and practices of transnational corporations
2) its accountability and
3) its impact on developing countries.[1]

This "ethical posture and practices" has been a subject of intense study both on humanitarian and academic bases. Caught in the barrage of criticism from environmentalists, consumer protectionists, advocates demanding more social justice and political leaders in emerging nations fanning the spirit of nationalism, business spokesmen have been hard pressed to articulate an intelligible ethical stance and formulate complementary set of business practices. Lack of ethical standard and lack of accountability to anyone (except of course to their shareholders) is a direct result of the enormous powers of these corporations to conduct autonomous strategies which are largely independent of national political powers and are not subject to control from the point of the common good. It is therefore possible that this situation can lead to new forms of economic domination which has repeatedly hunted developing countries since independence.

Many of the developing nations have only recently emerged from colonial tutelage, only to discover that political independence, to have meaning, must be accompanied by economic independence because political independence alone was often accompanied by a more subtle form

of economic dependence, which could be as binding as colonialism itself. Indeed, there is increasing concern among the new nations, that despite their independence they perceive themselves to have remained dependent to industrialized world on economic and financial issues. This concern has increasingly been focused around the role of large transnational corporations in their economies.

These corporations usually are the vehicles through which the resources of developing countries, particularly in the extractive sector, are developed. Thus, for Nigeria, oil has meant intimate relationship with Britain's British Petroleum (BP) and Netherland's Royal Dutch Shell. Copper in Chile has been synonymous with Kennecott and Anaconda; so also with the Anglo-American corporation of South Africa and the Roan Selection Trust in Zambia; petroleum in Venezuela has meant Shell and Creole; Iran has been a close companion to the major international oil companies known as the "seven sisters" since 1954. In West Africa, American based Goodyear has dominated rubber production in Liberia; and bauxite in Guyana and Jamaica has been identified with the Aluminum Company of Canada and the Reynolds Aluminum Company of the United States. In each case, however, most of these less-developed countries (LDCs) inherited more presence as a result of colonial experience; others provided attractive commercial as well as production opportunities.

Thus, the main characteristics of this relationship was dependence on foreign capital with its systematic income drain from dependent economies. Moreover, as a consequence of this relationship, a developing country's economy became "disintegrated," that is, there is little or no interrelationship between the different productive

sectors of the economy; integration that exists, lay in the direction of the international economy. Such external outlook of developing country's economy was not one which political elites take pride in However, this attitude could be confusing and contradictory since the same political elites forge a tightly knit bond with foreign capital which feed the international economic superstructure.

The issue facing host nations is how to deal or respond effectively to the activities of transnational corporations. These issues include compelling accusations and attacks on transnational corporations for transferring "inappropriate" technologies which in most cases are capital rather than labor intensive, and which tend to "discourage" backward or forward production linkages, the displacement of indigenous production capabilities, the transfer of "inappropriate" consumption patterns which drains scarce foreign exchange, transfer pricing and the minimization of taxes and finally contributing to the widening gap in income distribution. The issue indeed is not simple and has no simple answers because the phenomenon of transnational corporations largely remains a *terra incognita* despite the efforts to understand them. Most importantly, developing nations have been, to a large degree, confounded as to what appropriate actions to take, because these corporations have been ill-defined and one cannot take effective action on something not fully understood. However, most developing nations see transnational corporations as new forms of commercial colonization, or neo-colonial manifestation adopted by industrialized countries to keep them in perpetual servitude.

Developing countries have therefore formulated a number of policies with regard to proposed actions. An analysis of the present

stage of imperialism underlies each of these policies. The crucial question, therefore, relates to the meaning of transnational relations - a question which received attention in Chapter I of this study. Does this phenomenon reflect the evolution of capitalism in its highest stage as Lenin claimed, or is it just a tool by advanced capitalist centres to dominante the world and perpetuate such dominance? Or perhaps, is it part of the abstract discussions proclaiming the withering away of the state and the establishment of a world state dominated and controlled by transnational corporations? There is no definitive answers to the above questions despite numerous studies done. However, the efforts of further research should be directed at refining the conclusions reached by earlier studies with the aim of understanding the multifarious forms of transnational relations. The facts are there, and the major aim of developing countries is to understand these facts in order to change reality (see the analysis on Chapter I of this study).

The reality as seen by developing countries, is not so much the economic and social injustice that come with transnational activity; rather the reality is the inability by developing countries to participate meaningfully in controlling their economic and social future. The injustice is the deprivation of the means of control by corporations, which are largely considered alien, exploitative and non-chalant to the needs of the underdeveloped.

The Doctrine of Sovereignty

A weapon deemed effective by most developing countries for a gradual transformation of global economic reality was the principle of

sovereignty over natural resources.* On balance, the recourse to sovereignty was a formidable advantage to nations in their struggle with the transnational corporation over who should take charge of economic processes within a nation's jurisdiction. Looked at strategically, this doctrine proves to be a response of last resort by nations who see the struggle between it and corporations as a losing battle.

Once deemed a legal recognition and a distinct feature of nation-state, sovereignty has long overflown such canalization. It confers on the state, not only political supremacy on political issues affecting it, but invariably on economic issues as well. Of course, the dominant motive of these declarations is not to deprive less endowed states of the vital resources necessary for survival; rather the aim seems to be a strategy of redistributing global wealth.

The desire for outright ownership of natural resources for affected nations was a response arising from bitter and often quarrelsome relationship between it and transnational corporations in whose hands were placed the responsibility of resource production,

*It is a doctrine which the majority of developing countries welcome with joy. Although this doctrine is only recommendatory resolution and therefore lacks the force of law, the disturbing factor is the precedent it sets for future evolution of international law. As proof of its formidable character, the doctrine of sovereignty has found expression in international forums and declarations. For example, at the Fourth Conference of Heads of State of Non-Aligned Countries, held in Algiers in 1973, the U.N. General Assembly Resolutions 1803 (XVII) and 2158 (XXI) on Permanent Sovereignty over Natural Resources (proposed by Chile and supported by most developing countries); and the initiatives of the Group of 77 that resulted in the Declaration and Programme of Action on the New International Economic Order (U.N. General Assembly Resolution 3201 (X-VI) and 3202 (S-VI), May 1, 1974; and the Charter of Economic Rights and Duties of States (U.N. General Assembly Resolution 3281 (XXIX) of December 12, 1974).

distribution and marketing. More often than not, this trust was betrayed because both parties seem to pursue different objectives. Transnational corporations historically incline on maximizing its profits and of course on maintaining control over access to natural resources; nation states see natural resources as vital interests and major sources of wealth, and particularly, of foreign exchange on which economic development and growth is based. It will always remain a *casus sui generis* - and has indeed been treated so in the United Nations.[2]

It is thus understandable that basic attitudes from nation-states continue to be governed by a will to take charge over their natural resources by placing their relationship with foreign extractive corporations on a new basis of "controlled association." The need for controlled association arises mostly from the desire of host nations to avoid unnecessary exploitative activities and conflict. But in this case, the conflict between national governments and transnational organizations is clearly complementary rather than duplicative.* In this case, the recourse to sovereign "act" becomes largely symbolic and rather redundant unless during periods or instances of great provocation. It is symbolic and arrogant because most developing nations, for instance, may not do without the corporations and it is clearly obvious that roles and functions are "complementary."

*According to Theodor Moran, duplicative conflict is often zero-sum and involves the survival of one or both parties to a conflict. In contrast, complementary conflict involves entities performing essentially different functions; the competition stems from this dissimilarity of functions. Each party has some interest in the survival of the other. For full details, see "Foreign Expansion as an Institutional Necessity," for U.S. Corporate Capitalism: The Search for a Radical Model. World Politics 25 (April 1973), p. 366.

On the whole, the contradictions imposed by the demands of sovereignty reveal themselves not as immediate gains for developing countries, but simply as long term strategy where the advantage lay in the gradual transformation of the position. As Bergsten and his colleagues observed, several factors explain the contradiction between the postures of less-developed host countries and the realities of global economic relations. The most important is the tactical advantage gained by keeping the multinationals and their home countries on the defensive. This advantage could be seen in the current discussion about controlling the multinationals.[3]

Despite the contention that the great size, financial strength and the superior technology and organization of vast international enterprises set them beyond the effective control* of individual nation states,[4] and that "sovereign states are feeling naked," it is the argument of this study that on the contrary, nation-states retain enormous powers conferred by the principle of sovereignty. The struggle between it and international enterprises remains still an "unequal contest" and will remain so for a long time.

Whether large or small, developed or underdeveloped, national governments possess, in their sovereign right, the power to tax, to discriminate or restrict trade, or to nationalize foreign-owned businesses, or indeed to confiscate their properties. Increasingly, governments resort to this exclusive advantage. And more often these

*Professor Raymond Vernon, was not alone in his premature prognosis. In Global Reach, Barnet and Muller argue on the same line. Their thesis is that "the structural transformation of world economy through the globalization of Big Business is undermining the power of the nation state to maintain economic and political stability within its Territory." Their description was a passing phase in the reality of global economic reality.

governments closely and systematically scrutinize projects proposed by foreign investors with the possibility of a rejection or approval on their terms. More often than not, governments have become increasingly successful at extracting benefits for their economies from foreign investors. Nigeria, for example, through the exercise of "indigenization" has virtually satisfied her "yearning for economic sovereignty." Mexico is forcing foreign based automakers to export more of their Mexican output. Colombia is placing branches of foreign banks under majority Colombian control. Iran is insisting that many foreign-based industrial companies sell forty-nine percent of their already limited equity to employees or to the general public. Saudi Arabia is fighting to obtain a one hundred percent acquisition of Aramco's operation.

Industrially advanced countries are also demanding a bigger share of profits, jobs, technology and management in their dealings with transnationals. Several European nations, including West Germany, which has had a particularly liberal attitude toward foreign investment, are starting to look closely at foreign investments for the national interests and benefits involved. In 1975, Canada imposed a set of formal criteria on foreign controlled companies, including a requirement that a majority of their boards of directors be composed of Canadians.

The trend toward control of foreign investment, made possible largely by political transformation, will continue. It holds a deadly prospect for the future of transnational corporations never before experienced in its history. It's even more dreadful and

authoritative when viewed from the perspective that the doctrine of sovereignty receives full blessing from the U.N. General Assembly. Most importantly will be its profound impact and implication to new and existing body of international law.

U.N. Resolution 1803 (XVII); 2158 (XXI): Its Implications

On November 25, 1966, the U.N. General Assembly passed resolution 1803 with no negative votes and six abstentions. Calling for a nation's right to use and control its natural resources in the manner it deems fit while reaffirming the inalienable right of all countries to exercise permanent sovereignty over their natural resources in the interest of their national development, in conformity with the spirit and principles of the Charter of the United Nations.[5]

These resolutions, while noble in their intent, have profound implications in ways nations conduct their relations in the global community because it has been treated as a moral and ethical desideratum by the United Nations. Moreover, in the same manner the U.N., acting in its official capacity, has invariably rendered these declarations a casuistry.

Resolutions 1803 (XVII) and 2158 (XXI), call for permanent sovereignty over natural resources because among other considerations, it was assumed that transnational corporations exploit and manipulate the developing world in matters concerning their natural resources. While this assertion is highly debatable and depends largely on specific instances and experience, the overwhelming notion is that transnationals are "out there" for their interest and profit.

Although transnational corporations are indeed economically and commercially very powerful, within the realm of political arena, they are not. And the U.N. has made it clear and a surety they should not be. The declarations are indeed a redress for the long standing grudge borne by most developing nations against the transnationals. These grudges have never been devoid of emotionalism and the recent United Nation's study, "Multinational Corporations in World Development," before it rendered its controversial judgment, notes that the phenomenon calls for "serious analysis lest myths should prove more appealing than facts and emotions stronger than reason."[6] In fact, in the judgment of the United Nations, emotions proved stronger than reason for resolutions adopted conferred excessive powers on the nation-state.* The many government seizures and expropriations of corporate assets provide ample evidence that countries, not corporations, wield the real power. In other words, the weakest country is stronger than the most powerful corporation.

The Report of the Group of Emminent Persons appointed by the United Nations assumes that the central problem is a conflict between the economic power of the transnational corporations and the political power of the host governments; that these corporations "are not per se geared to the goals of development" although they provide traditional factors of production, and that they can "accentuate rather than reduce inequalities in the absence of proper government policies and where necessary social reforms" could prove to be an easy conclusion.

*One could argue that the beneficiaries of these declarations and resolutions are the developing nations whose bargaining power vis-a-vis the corporation was improved, and who on occasion have expropriated the transnationals with impunity and were free.

Without waiting for that report, the U.N. General Assembly in April 1974 adopted one of its many controversial proposals calling for a "new international economic order"[7] (Resolutions 3201 (S-VI) and 3202 (S-VI, May 1, 1974). Among many other things, it demanded "regulation and supervision of the activities of transnational corporations," indexation of export prices, etc. The report said nothing about the conformity of such measures and its implications to the norms of international law. For one thing, regardless of whether the NIEO proposals are approved or not, they have provided a common ground or rallying point for developing countries. In addition, the Resolutions also asserted all states' rights to nationalize economic activities without mentioning any duty to pay compensation.

In December 1974, the United Nations Assembly went still further in adopting, by a vote of one hundred twenty to six, a Charter of Economic Rights and Duties of States. Article 2 provides that if a country expropriates a foreign owned company, any disagreements about the compensation shall be settled "under domestic law of the nationalizing country" and "by its tribunals." Although this article is consistent with Article 2, paragraph 7 of the United Nations Charter,* it nevertheless smacks of paternalism on the part of the United Nations over developing countries. This is hardly considering the composition of the U.N. organization, dominated by a majority of the developing world.

The international legal aspect of resolution 3201 and 3202, while supporting the claims of a group of powerful third world states,

*Article 2, paragraph 7 of the United Nations Charter calls for non-intervention and sovereignty of nations over domestic affairs.

makes it equally easy for other disadvantaged members of the international system or those who simply would like to interpret the letters of international law for their benefit to run afoul of this law. It is indeed scarcely the first time that international law has changed to meet the needs of a powerful group of states. Interpretation of international law to fit one's perspective of a situation renders international law weak and ineffective since it readily serves any purpose.

Third world majority in the United Nations Assembly means, among other things, that the traditional principles upon which international law rests, increasingly is coming under attack. It also means the demand for a new international law, sponsored, sanctioned and ratified by the U.N. Customary international law was tacitly recognized by emerging states, however, this law has increasingly become detrimental to their interests. Emerging states did not exist at the time when customary international law evolved, hence are not signatories. For customary international law to be binding, emerging states not only should be present at the time of its creation, they should give their consent also. There are numerous dissenting views to this. I take the stand that newly emerging states reserve the juridicial right not to recognize customary law or any other aspects of international law designed to infringe on their legitimate interests. However, if a state recognizes customary international law without reservations, this automatically means that it recognizes a certain body of principles and norms of existing international law. These norms and principles constitute the basic principles of international relations.

Most newly emerging nations would prefer as matter of legal logic that international law emphasize on social change and the equality of the sovereignty of states than on maintenance of the status quo. Thus, instead of customs, emerging states place more faith on treaty arrived directly by common agreements and providing an "effective basis of reciprocity." This is not to imply, however, that customary international law is rejected by newly independent states in to-to. Those areas of customary international law which are judged equitable, and reasonable, are always adhered to. Those that seem oppressive become victims of *rebuc sic stantibus* invoked by newly independent states in "order to terminate their inherited burdens."

The newly independent nations, therefore, using the forum provided by the United Nations as a global body and enjoying the role played by the U.N. as a *casuis sui generis*, has made repeated demands that new developments under international law accomodate their interests and must secure the approval of the majority. Therefore, the third world is setting the pace in new developments under international law and evidence of this is compelling in the activities of the General Assembly, the international law commission, diplomatic conferences and International Court of Justice. No jurist can deny that pre-United Nations international law barely existed. The game of power politics is increasingly subjected to universal influences and is modified by new climates of opinion. This calls for a revision of international law based on the enhancement of "social justice."[8]

The United Nations, searching for an easy way out of the contradictions posed by foreign investment, resorted to the doctrine of sovereignty (statis potestatis) for the enhancement of social justice. In the process, it failed to recognize the implications of such a move. Now the issue of confrontation between the defenders of traditional concepts of international law and those seeking change in these concepts has become "most acute," since developing states have made it clear that on this question, they do not wish to be bound by traditional norms.[9] The doctrine of sovereignty therefore might preclude an investor and a foreign state from effectively contracting in advance to submit disputes to international arbitrators. And it certainly would prevent corporations from suing in courts of another country, as Kennecott Copper and British Petroleum did in European courts after expropriations in Chile and Libya, and as Nigeria did in United States courts.

The doctrine of sovereignty, though a de jure pronouncement but commanding a de facto application, appears to be neutral but in fact has profound effect on the international economy. It needed a modification to conform to the reality of international economic system. In the words of A.V. Lowe: "What is needed is a refinement of the concept of sovereignty in international law, so that it can accommodate both notions of the independence of states and of the increasing interdependence of states, without losing its coherence as a legal principle."[10]

The Doctrine of "Changing Circumstances"

This doctrine, in contrast to that of "permanent sovereignty"

over natural resources, is not clear and perhaps less understood by those who invoke it under international law. However, it seems that both doctrines go hand in hand in matters involving natural resource extraction and bargaining that lead to extraction activity. There is no distinction made so far - either legal or otherwise, between the need to nationalize a natural resource because of changing conditions of world trade or political will and the desire to do so simply because conditions are changing. Indeed, for most resource rich developing countries, there seems no distinction and perhaps if there is, such distinction is fine and subtle.

The doctrine of changing circumstances, known technically as *Clausula Rebuc sic stantibus* is based on the assumption that if fundamental changes in the circumstances upon which a treaty rests take place, these changes may be invoked as a ground for terminating the treaty.

From the point of view of developing nations, *clausula rebuc sic stantibus* not only exonerates them from inherited colonial oppresssive and obsolete treaties, which did not secure their consent, but frees them from "unequal" or "inequitable modern treaties imposed by duress." These modern treaties may include those concluded with transnational extractive commercial or manufacturing companies who exploit the bargaining weakness of developing nations. It is clear however that developing countries who in most cases are weaker than some powerful transnational corporations and of course a group of advanced industrialized nations, resort to this doctrine as an escape clause firstly to unilaterally abrogate long-standing

concession agreements and contracts and secondly, as a means of transforming easily a-stated position. This practice has been carried out most successfully by radical nations, who presumably have less to lose from breach of contract. Sovereign immunity from prosecution has provided an added impetus to extremely disturbing international behavior and rules of international law seem not to adjust rapidly to cover legal ramifications such as the use of sovereign immunity.

The doctrine of changing circumstances is arguably a by-product of the portent force of sovereign immunity. For developing nations, it serves to proclaim to the rest of the world the changing balance of power or force now going on in the international system. Furthermore, for those who experienced colonialism, it became a pragmatic slogan which consolidates political independence. Presently, the notion of changing circumstances seems indeed hazy and haphazardly explored under international law - both theoretical and practical. International lawyers and scholars would rather circumvent this important notion when confronted than attempt clarification on an issue many perceive as ambiguous and inapplicable.

But the notion of changing circumstances and its legal implication is real both to domestic as well as international legal practice. Although conceding the ambiguity of this doctrine, most domestic courts in developing countries, however, recognize the importance of its use as escape clause in negotiations. It also reflects the overwhelming desire of developing countries to see contracts, agreements and contract disputes conform to the rules of domestic courts and tribunals rather than internationalizing the

process. This creates the need to ask whether international law should have "direct" effect on domestic law.

There is general agreement that in the absence of "stabilization" devices or clauses, the law governing a contract is the law at the time of application. This general rule applies when the contract is governed by domestic law as well as when parties agree to "internationalize" the legal framework of their relationship. The stability of this relationship seems shaky and questionable when attempts at internationalization fall short of incorporating into the contract specific rules of international law which commands submission by both parties. Incorporation per se does not and may not be adequate to prevent a breach of contract by a state entity invoking sovereign immunity.

Indeed, a great problem exists currently among international legal community on the interpretation of what sovereign immunity is when a state enters into a commercial relationship with other parties. The International Convention on the Settlement of Investment Dispute (ICSID) provides a legal framework, however, the language of the law remains highly equivocal especially when burdened with the arbitration process. Sovereign immunity is a "question to which there is no uniform answer." The rules regarding sovereign immunity are in greater disarray than any other portion of international law.

The question of whether contracts between states and private international units can be removed from domestic law and made subject to international rules of law has attracted much controversy within and outside the international legal community. Will it be

judged better by both parties or either one if contractual agreements are "internationalized" or "localized" or "de-localized?" This question has now been clearly answered in the affirmative by Article 42 of the ICSID Convention. There is also a broad agreement on this issue among several authorities. I found one very much instructive - the Institut de Droit International at its 1954 session discussed the question of state immunity and came to the conclusion that "attachment" of or execution against foreign state property is prohibited if the property arising from contractual obligation is used for "governmental" purposes distinct from any commercial or economic undertaking. Thus the state is liable to be sued if and when it engages in commercial activities (*jure gestionis*) with other states or with non-state actors. It does not however remove the possibilities that an accused state should not resort to sovereign acts *(jure imperii)* to safeguard its national interests.

It seems likely that the question of sovereignty (*suprema potestas*) and doctrines of changing circumstance will continue to shield non-compliant states from treaties which are considered unjust or harmful to national interest. Until international law ascertains clearly and unequivocably what changing circumstance is, and a system of bounded sovereignty under which nations are allowed to operate, the principle of Pacta sunt servanda remains basically weak providing some nations the license to undermine international agreements at will.

What the international community needs is a "code of conduct" which binds both transnational corporations and the host country, taking into account the special needs and requirements of each party.

"Code of Conduct"?

The fundamental purpose of a code of conduct for transnational corporations is to prevent the abuse of power. No matter how one sees and judges these corporations, they are powerful and where power exists, there also exists the possibility of its abuse. There is no consensus among "experts" and within academia on what Robert Heilbroner calls "business atrocities," however, it is widely agreed that transnationl corporations possess considerable power and influence and that countries may find their national sovereignty infringed upon and their policy instruments blunted by such corporations. As George Ball has noted, multinational corporations "have the power to affect the lives of people and nations in a manner that necessarily challenges the perogatives and responsibilities of political authority."[11]

Moreover, judging the capabilities of these organizations, it is clear they pose a credible threat to nation states as well as the global community at large. Professor Neufield argues, "multinational firms have acquired such important international dimensions...that they seem to enjoy an unusual degree of independence in their relation with particular governments.[12]

Most observers and analysts therefore feel (and correctly so) that such independence and power of transnational corporations poses a "threat" to the global community, because there is no existing body of laws aimed directly at keeping these "giant conglomerates" in check. A law to guide the activities of transnational corporations is inevitably an idea whose time has come.

It is against this background that the United Nations Commission on Transnational Corporations, meeting in Lima,Peru, recommended the establishment of a working group to elaborate a code of conduct. In addition,

> the Commission identified four other key areas on which it believed it should concentrate its activities. They were the establishment of a comprehensive information system; research into the political, legal, economic and social effects of the operations of transnationals; technical cooperation programs to strengthen the negotiating capacities of developing countries in their dealings with transnational corporations, and work leading to a more precise definition of the term "transnational corporations."13

However, addressing the commission at the opening session, the Minister for Foreign Affairs of Peru, Migel Angel de la Flor Valle, stated that "it was the desire of the developing world that a code of conduct [aimed at governing] the operations of transnational corporations should take the form of an enforceable statute" rather than merely a declaration of international intent.

Thus, a code of conduct must be seen within two perspectives:

1) Political effects and

2) Legal implementation

Political Approach

It might prove difficult distinguishing between the political and legal mode of a code of conduct where political statements and acts are easily transformed into normative rules or principles of international law. However, in order for any code of conduct to succeed, it must distinguish clearly the political and legal dimensions.

The logic of political legitimacy requires that a code of conduct be internationally acceptable. This calls for the so-called "set" of formula or "common elements" or standards on which agreements will eventually rest. Up to this moment, no set of common elements have been agreed on and if history be the judge, the community of nations will not agree on a common standard for some time to come.*

If there is ever a common code of conduct, it should spell out the obligations of governments as well as obligations of the corporations. As William I. Spencer of Citicorp points out, "a crucial step is recognition by the host countries that they need to spell out clearly to MNCs the role they can expect to play in achieving national objectives."[14] But will this spelling out of functions be within the framework of an internationally recognized and accepted code of conduct? Nation-states as well as the MNCs are faced with varying degrees of difficulties which may render the need for a code largely trivial. Moreover, considering the different situations and the needs of each nation, the response to a code of conduct may differ widely among states.[15] This is so because governments (especially those of the developing nations) have clearly and carefully sought to achieve balance between the presentation of an "anti-social" conduct and the desirability of encouraging foreign enterprises and maximizing their contribution to social and economic development. The code exercise has thus been a lesson in tight-rope walking for developing nations because they are clearly caught in a dilemma.

*For example, seeking common standards on which to agree the law of the seas - a "common heritage of mankind" is taking over a decade to formulate. It might even take longer before "common elements" on which to base a code of conduct for transnationals emerges, taking into consideration the "social and cultural objectives" of each country.

However, the need for a code of conduct originating from the perceived and often real injustices of the present economic system and the desire for redress, occupies a "centre stage" in the world agenda. Whether the code of conduct will in fact significantly alter transnational corporations activities and eventually lead to a "New International Economic Order" depends largely on the success of its implementation.

Legal Implementation

Since code of conduct for transnational corporations remains an "evolving" document, implementation is often difficult. Implementation, to be successful, must take into account the broad issue of the relationship between TNCs and nation states.* Intergovernmental organizations such as the OECD drafted a guideline code proposing, among other things, that companies be required to divulge confidential

*There is still no agreement on the nature of this relationship. While some analysts see the TNCs as the villain, others exonerate them. For example, one Justice Brandeis, writing in Liggett Co. vs Lee (288 U.S. 517, 514 (1933)) proclaims, "Through size, corporations, once merely an efficient toll employed by individuals in the conduct of private business, have become an institution - an institution which has brought such concentration of economic power that the so-called private corporations are sometimes able to dominate the state." Barnet and Muller's Global Reach, and Vernon's Sovereignty at Bay, etc., render the same judgment. But others see it differently. According to Seymour J. Rubin, "there may be a time dimension to that proposition: it may be the TNC, not the Nation-state, which is "at bay"[17] (Rubin. The Multinational Enterprise at Bay. 68 AJIL. 475 (1974).

financial data about their operations and taxes, country by country. The U.S. - a member of the OECD, objected! This invariably raises the question of whether a global formulation of a code of conduct should have a "direct" effect on those formulated under domestic or municipal law. In other words, should a code of conduct accepted by the international community be self-executing? It is only when this question is answered in the affirmative will we see the emergence of a genuine code. Presently, legislation on this issue in different countries has either suffered setbacks due to the so-called supremacy clause, or in the process of being "penetrated" by global legislation. In addition, code exercise, which Professor Horn has aptly described as "an international process of learning and law making"[16] raises the issue of which law should take precedence - will it be the law among nations or municipal law? If one accepts the principle of direct effect and the supremacy of the community law,[17] we will have a clear cut answer to the above questions. But if history should be a guide and if it did teach us a lesson, it is that the international community has been wise enough to accord international law a supreme position and the sole arbiter of international conflict.*

The code of conduct for transnational corporations is largely an international intent, lacking the force of the law. The elevation of this recommendatory resolution to the level of "enforceable statute" demands that many questions be answered; it also requires an unusual unanimity among international community members that such a code is

*In theory, members of the international community proclaim the supremacy of international law; in practice, this has been otherwise. On occasions, members have broken these laws if doing so furthers their interest.

indeed necessary and the establishment of common elements or standards on which the code will be based. Again, judging from experience in international relations, enforcing a code of conduct about transnational will be a difficult objective to achieve. Successful attempts at reaching this goal will largely depend on how individual nations perceive the problem[18] and tact brought into negotiations with transnational corporations. The outcome of this goal in turn reflects the historical role played by major actors in transnational relations.

NOTES

[1]Ethical practices of the transnational corporation and its accountability has been a subject of intense study, however, there is no agreement as to how to make them be more socially responsible and accountable to public authority. For skimpy treatment, see James Jennings, "Multinational Corporations: Friend or Foe?" New Catholic World, 218 (September/October 1975), pp. 228-231. See also, Raymond Vernon, "Multinational Enterprise: Performance and Accountability," (unpublished paper), November 1973, p. 14, and contrast it with Milton Friedman's assertion that "there is one and only one social responsibility of business...to make as much money for the stockholders as possible." Acceptance of any other social responsibility "is a fundamentally subversive doctrine," in New York Times Magazine, September 13, 1970.

[2]For more on natural resources and U.N. *casus sui generis*, see Foreign Investment in Developing Countries, United Nations Publication, sales No. E·68·11·D·2, New York, 1968, p. 16.

[3]Bergsten et.al., op. cit., p. 339.

[4]For arguments on "sovereignty at bay," see particularly Raymond Vernon, Sovereignty at Bay (New York: Basic Books, 1971); Barnet and Muller, Global Reach, 1974, op. cit.; see also an article by Arthur Barber, "Emerging New Power: The World Corporation," from War and Peace Report, October 1968; also an article from the same author entitled "Big, Bigger, Biggest - American Business goes Global," from the New Republic, April 30, 1966.

[5]See General Assembly 1803 (XVII) and 2158 (XXI) on Permanent Sovereignty over natural resources (U.N. Publication, sales No.: 62·V·6 and E/3846).

[6]Issues concerning transnational corporation's activities have always been surrounded in controversy. Such issues are complex and complexity of the subject demands serious, impartial and sober analysis. See a comprehensive study prepared by the Department of Economic and Social Affairs of the U.N. Secretariat entitled Multinational Corporations in World Development, United Nations publication, sales No. E·73·II·A·11, New York, 1972, p. 1.

[7]Gurney Breckenfeld, "Multinational at Bay: Coping with the Nation-State," Saturday Review, January 24, 1976, p. 20.

[8]This author writes from his experience as a member of the International Court of Justice, and as one from the third world (Nigeria). T.O. Elias argues that the basis for revision of international law is enhancement of "social justice" and that impetus will come mostly from the so-called third world. For full details, see New Horizons in International Law (Alphen aan den Rijn, Netherlands: Sithoff and Noordhoff; New York: Oceana Publications, Inc, 1979).

[9]See, for example, S. Sinha,"New Nations and the Law of Nations," American Journal of International Law, 26 (1967); R. Ariand,"New States and International Law," American Journal of International Law, 57 (1972); see also, Rozental, "The Charter of Economic Rights and Duties of States and the New Economic Order," 16, Va. Journal of International Law, 309 and 315 (1976). Developing nations are increasingly taking this position in international forums on matters affecting their interests.

[10]See, A.V. Lowe, "Blocking Extraterritorial Jurisdiction: The British Protection of Trading Interests Act, 1980," in American Journal of International Law, 257 (1981).

[11]Quoted in James Jennings, "Multinational Corporation: Friend or Foe?", op. cit., p. 231.

[12]This quote is taken from Richard Ells, "Corporate Autonomy," in Global Corporation (New York: The Free Press, 1976), p. 35.

[13]The aim of this commission, according to Peru's Foreign Affairs Minister, was to "contruct a better modus vivendi in which the positive effects of the operations of the corporations would be enhanced and the negative effects reduced. For a comprehensive statement, see Commission on Transnational Corporations recommends working group to prepare code for Transnationals. U.N. Chronicle, 13 (April 1976), pp. 38-40.

[14]"Who Controls MNCs," Interview: W.I. Spencer, Harvard Business Review, Vol. LIII (November 1975), p. 99.

[15]See U.N. Commission on Transnational Corporations, Working Paper No. 10., Formulations by the Chairman (November 7, 1979).

[16]Legal Problems of Codes of Conduct for Multinational Enterprises, Vol. 1. Edited by Norbert Horn (Deventen: Kluwer, 1980).

[17]For detailed analysis, see "Lawyers, Judges, and the Making of a Transnational Constitution," by Eric Stein. American Journal of International Law (AJIL), Vol. 75, no. 1 (January 1981), pp. 1-24.

[18]Making the code of conduct for transnational corporations an "enforceable statute" can be a sticky issue. Among other things, it requires that the community of nations agree on common standards on which such a code will be based, secondly, it requires an effective means of implementation. These requirements are not easy to meet

considering the nature of the international system, and taking into account the contradictory nature of foreign investment and the need to control it.

Naturally, the United States government, which provides a home-base from which most transnational corporations operate, gave its view on the code of conduct. The then Secretary of State, Henry Kissinger, set forth in some detail the view of his government which read in part: For our part, the United States is prepared to meet the proper concerns of governments in whose territory transnational enterprises operate. We affirm that enterprises must act in full account of their public policy. Countries are entitled to regulate the operations of transnational enterprises within their borders But countries wishing the benefits of these enterprises should foster the conditions that attract and maintain their productive operations (U.S. Gives Its Views on U.N. Resolution on Transnational Corporations. Statements, with text of Resolution, adopted December 15, 1975. State Department Bulletin, 74 (January 26, 1976), pp. 121-123.

It is then a clearly stated objective of the U.S. Government to promote a series of "international agreements" on such issues as taxation, antitrusts, and jurisdictional disputes involving global companies, aiming eventually at a "General Agreement on Multinationals" (Commission on Transnational Corporations (proposed), U.N. Plan to Monitor the Multinationals, Business Week, June 15, 1974.

This would eventually provide for enforcement machinery and sanctions. But some regional interests have voiced their correctional, if not dissenting view. The Organization of American States (OAS) "approve and even encourage" the admittance of foreign capital and enterprise within their boundaries, "provided that applicable laws are observed and that a contribution to national development goals is clearly implied." But in practice, "the conduct of some of those undertakings has proved detrimental to the best interests of the host nation" ("Transnational Corporations and the OAS," Americas, Vol. 27, No. 9 (September 1975)).

C H A P T E R III

BRIEF HISTORY OF THE OIL MAJORS OVERSEAS

The study of international relations can be properly carried out through an analysis of their historical context. Its relevance depends to a large extent on the selection of the crucial period. Historical periods have witnessed the rise of rise and demise of nation-states, the emergence of non-state actors and global forces whose influence in global affairs could only be legitimately judged with the passage of time. International relations seek to define and explain relationships among these global actors. Selecting particular and crucial periods of history, this study will attempt to explore, define and explain the relationship between the nation-state and transnational oil corporations.

Although this study draws heavily from the historical relationship between oil producing nations and transnational oil corporations, emphasis is laid on Nigeria as a case study. But before this is done, it is essential to present a background and history of global oil industry.

A hard historical look at the global oil industry and the system in which it operated revealed a remarkably complete division of the world of oil by transnational oil corporations sponsored and supported by their respective governments. It also revealed the imperialism of oil on a grand and global scale, generated and

perpetuated by diplomatic as well as commercial treaties among interested industrialized nations. Access to oil and security of supply, therefore, were vital (as they are currently) to the industrialized nations for whom foreign oil and its acquisition was relatively easy and cheap. This access was determined by the sheer needs of the industrialized nations, who were consequently driven in search of foreign reserves. If access was in question at all, it involved rivalries among the great powers over partition and over "ownership." Concurrent to the questions of access, partition and ownership was the problem of colonial and commercial dominance.

Concession under the Colonial System

A distinguishing feature of global oil industry derives from the fact that the various oil giants (corporations) deliberately partitioned global oil into corporate trusts based on colonial ties and "joint control." The colonial system provided an essentially "automatic" mechanism by which the metropolitan countries acquired easy access to raw materials. However the impetus for colonial expansion cannot be explained by economic causes alone. Colonial expansion has strong geo-political, strategic as well as "humanitarian" dimension. But on the whole, the ideology of global expansion is that of power ensuring access to needed raw materials.

The central point, however, is that colonial ties and the benefits derived from it, reinforced the desire by the great powers to pre-empt raw materials in their favor and to deny similar advantanges to others. This maneuver for foreign raw materials,

especially oil resources, gave impetus to a series of diplomatic as well as commercial rivalry among the great powers.

The structure and politics of international relations under the colonial system made it quite possible that metropolitan countries demanded, received and plundered whatever resources necessary for her economic and industrial growth. As a system of international relations, colonialism, to a considerable extent, depended on the ability of the metropolis to enforce its wishes and dominance on the colony. This phase I call the Hegemony Period.* It is characterized by privilege enjoyed by transnational oil corporations, supported by their respective countries. Privilege, by its nature, belonged to the powerful because out of it was based the security which the great powers sought.

Every colonization is the product of an imperialist drive. The history of post World War international relations on energy matters provides an adequate example of how great powers fought each other for a strong foothold on those areas of the world where oil was found. The rush for presence was not limited to commerce; the acquisition of territories usually follows. Professor A.P. Thornton has correctly observed that when commercial empire has been established, territorial imperialism of a definable kind necessarily begins. In the age of achievement, every energy is taken up with the purpose at hand...the planning of a system of commerce to include East and West. The age

*For analytical purposes, I have divided the history of global oil into three periods. They are 1) The Hegemony period, 2) Direct response period, 3) Tacit bargaining period. This division will provide an analytical framework for a discussion of global oil industry in the later chapters.

of imperialism is properly the age that follows the success of the purpose. What has been got must be kept.[1]

Access to foreign oil was secured by the great powers through two distinct approaches. The first one was through the colonial system which I have described above. The second was and continues to be through commerce. With respect to the former, further analysis will be based on :

a) Interest of Great Powers in Foreign Oil

b) Changes in the International Environment

<u>Interest in Foreign Oil</u>

The First World War ushered in a period in which the several uses of crude oil and petroleum products were recognized. Oil became a unique commodity, its multiple uses and varied derivatives gave rise to complex industrial construction. But the industrial reconstruction of Europe after World War II significantly influenced the international oil market and spurred interest in increased production. As world demand expanded, oil companies devoted considerable efforts to developing global oil resources especially in the Middle East where oil reserves were huge and cost of production very low. The United States of America had become a net importer of crude oil to supplement domestic production. The necessity for imported oil resulted from fears of a prospective shortage of American oil and of a British-Dutch monopoly of foreign reserves. But most importantly, this increasing interest for foreign commercial production

was also stimulated by the rising costs of American oil and by the current and prospective discoveries of large foreign reserves.[2] Basing its judgment largely on commercial and strategic reasons, the U.S. government decided that cheaper production of crude oil in foreign lands (especially the Middle East) and the geopolitical strategic advantage it offers, serves the national interest better than costly domestic production. This assumption gave rise to a determined imperial posture in foreign oil

Fear of an oil shortage in American spurred interest in foreign oil was a fundamental factor in international relations after World War I. The vital role of oil in a modern industrial economy forced industrial nations, especially Great Britain and the United States, into a policy of oil imperialism. Great Britain then had exceptional concessions to the huge oil reserves located in the Middle East which was under her "protectorate." Exploration and production was cheap and the U.S., including other industrial nations, wanted a piece of the action. However, Great Britain was unyielding. Oil in the Middle East was hers. She assumed the role of the jealous mistress eager to defend that which was hers, acquired as it were, through colonization. The unyielding British posture became a matter of serious concern to other industrial nations especially to the U.S. whose sound foreign oil policy will envisage not only the adoption of well conceived principles, but also their ultimate implementation through machinery of international understanding.[3]

An agreement with Britain for shared concession and access was important then to the U.S. A large part of the known oil reserves

involved in international trade was owned, controlled, or under concessions held by the citizens of Great Britain and the United States. It is necessary, therefore, that the two governments reach an agreement to guide oil exploration and supply.

Moreover, concurrent with deep fears of oil shortage in the U.S., and with unfavorable British response to American oil companies requests for Middle East oil, there was also developing a general fear of foreign monopoly of all foreign oil resources especially by the British, the Dutch and Germans. In fact, this strategy of control was based first on the "acquisition" of territory in which reserves were found, and secondly on monopoly of production and supply.

In 1920 and 1921, the U.S. Senate demanded an investigation of the restrictions imposed on American nations by foreign countries. But the British position was impregnable. All the known oil fields, all the likely or probable oil fields outside of the United States itself, are in British hands or under British management of controlled and financed by British capital.[4] The British-Dutch Companies were endeavoring to prevent the surrender of the colony reserves to the American "oil trusts" while simultaneously busily protecting a similar trust of their own. Today, this trust is known as the Royal Dutch Shell-British Petroleum.

The alleged British monopoly in the Middle East and the signing of the San Remo Agreement* led to heated and prolonged diplomatic disputes and exchanges between American and British governments over

*The San Remo Agreement was concluded by the British and French governments for oil concessions in the Middle East on April 24, 1920. This agreement further convinced the Americans of a conspiracy aimed at shutting them off from Middle East oil.

the oil resources of the Middle East. The American government, under Secretary Colby and later under Secretary of State Hughes waged a "determined" diplomatic war with the British regarding the rights of U.S. oil companies to participate in the development of Middle East oil resources.[5] The American position in the dispute was that no one nation or group of nations should enjoy exclusive rights to the mineral or oil resources anywhere in the world. Concurrent to this position, is the view that freedom of access should also be extended to other natural resources vital for industrial production and thus "open-door" policy, among other diplomatic demands, was introduced.

"Open-Door" Policy

A diplomatic dispute arose when, in 1919, the British refused to permit American oil companies to send exploration parties into Mesopotamia (now Iraq). The American position in the dispute was essentially the "open-door" policy. The most important provisions in this policy were:

a) That no economic concessions in any mandated territories be so large as to be exclusive.
b) That the San Remo Agreement discriminated against American nationals.

The British point of view was that British nationals had "acquired rights," that these rights must be protected and respected. The controversy between the British and American governments raged on until Turkish Petroleum Company decided to discuss American participation.

The resultant negotiation was set around the open door policy. Thus, American nationals were granted oil concessions by Turkish government and in the process gained a stronghold in the Middle East oil from which she would eventually dominate global oil enterprises.

Concession During the Period of Commercial Dominance

Access to foreign oil was based on two fundamental factors. The first factor was the necessity to "acquire" colonies, which showed promise of oil reserves. The second was the desire to dominate commerce associated with oil. Thus, the metropolitan countries, having established their political control over the colonies, often left the economic sphere to their private companies. In other words, the task of clearing the way for private oil companies fell upon metropolitan governments because this task was fundamentally political, moreover, private oil companies could not and did not muster the strength for colonial dominance. This lack of strength on the part of private international oil companies vis-a-vis host governments undermines the legitimacy and endurance of the former in current global oil industry when sovereign powers of metropolitan nations is shoved aside. Lack of metropolitan government's (now consuming metropolitan nations) direct intervention in the oil industry which historically was the case, reduces the role of private oil companies to one of inferior participation. More will be discussed on this issue in Part II, Chapter 2 of this study.

The period of commercial access dominated the mechanisms of access to raw materials and though colonialism took another form,

both formed a close association. The essence of commerce was profit; its security depended largely on accessibility to markets. Colonialism or its variant - neocolonialism - provided the access, and in the process commerce was tainted by the association. However, desire for profit was a common guide to action, even though other motives were declared for it. Any worthwhile study of the global oil industry must pay close attention to it. Indeed, many such studies pay close attention to little else. But this approach in itself is inadequate for a comprehensive treatment of global oil politics, because economic interpretation alone will not best illuminate the imperial scene or ask why great powers struggle for presence in global oil reserves.

In addition to the profit motive, the doctrine of strategic advantage provides a useful framework within which imperial action during this period could be interpreted. Neither the British nor the Americans coveted the Middle East and other areas of the world for oil alone. There were many other reasons. One fundamental reason was geopolitical. This was certainly the case with regards to British and American interest in oil. British interests in the Gulf States initially reflected British concern to protect the commercial and communication links and the "territorial integrity" of its Indian empire from Russian encroachments. Only later, on March 3, 1913, when the British Royal Commission appointed to study the problem of converting the Royal Navy from coal to oil did the interest in oil add another dimension to British interest in the Persian Gulf. Winston Churchill, the First Lord of the Admiralty, announced the

Admiralty's oil policy in a speech before the House of Commons on July 17, 1913, in the following words:

> Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel...We must become the owners, or at any rate, the controllers at the source, of at least a proportion of the supply of natural oil which we require.[6]

This policy was of strategic importance for the British who through the San Remo Agreement with the French had a monopoly in Middle East oil. It should be pointed out that American influence in the Persian Gulf during this period was perhaps virtually non-existent. The Middle East and the Gulf States were exclusively under British sphere of influence. But following the war (World War I) which has "brought about radical changes in the status of the United States in respect to the oil resources of the world," a well thought out foreign oil policy requires not only the adoption of well conceived principles but also their ultimate implementation through a machinery of international understanding.[7] In pursuit of this policy, Britain had to be consulted because a large part of the proven oil reserves of the world are either owned or controlled by the British. Obviously judging from diplomatic notes exchanged between the two governments, Britain was not particularly interested in reaching an understanding with America on matters concerning Persian Gulf oil reserves because doing so would mean "trespassing on acquired rights" and Britain would not have it so. But America, realizing the profoundly important role oil was destined to play in post-war reconstruction and its belief that world wide oil

developments by their own nationals will not only add to the security of the United States but will be a major factor in effective national defense. It could be argued that the United States during this period did not achieve substantial political advantage in the Persian Gulf region which predominantly remained in British hands.[8]

The most important point which needs remembering when considering colonial and commercial control and dominance over global oil until the late fifties is that once the metropolitan governments had secured a place either through diplomatic intervention or colonial acquisition, they stepped back and let commercial interests provide adequate supply for domestic consumption. The "vindication" of this reliability and responsibility came immediately after World War II when oil was discovered to have many uses, but this was made possible by the considerable managerial, technical and capital assets held by dominant transnational oil corporations.[9]

Inspite of the enormous commercial as well as diplomatic successes scored by international oil companies in developing and supplying the world with oil, it is only realistic to note that changes in the international environment drastically transformed this advantageous position. The system, as pointed out earlier, depended first on the colonial pattern of relationships which assured easy access to raw materials, and after the decline of colonialism, the functioning of the commercial mechanism. All these depended on a particular structure of international relations - a structure created and dominated by the metropolis and which conferred automatic advantage to it. Today, the doctrines of sovereignty and of

"changing circumstances" induced by changes in the international environment occasioned a revision in the rules of how the game is played.

Changes in the International Environment

Post-war developments in international politics undermined the advantageous position of transnational oil companies and also the international oil system. These developments include:

1) Independence and Nationalism
2) The evolution of Organization of Petroleum Exporting Countries (OPEC)
3) Creation of National Oil Corporations
4) Post-war recovery and phenomenal demand for energy
5) Nuclear Stalemate
6) Geopolitics of oil

These developments are quite different but in the context of global oil, they are importantly related. Post-war developments, as they affect the global energy resources and international relations, are discussed in detail in Part III.

So far, a historical background of global oil industry is presented. For a thorough analysis and comprehension of global oil industry within a national context, it was necessary to present its overall activity around the world. History in this context shows the genesis of oil acquisition and production, the various interlocking decision making strategies, because the politics and economics

of global oil cannot be fully understood when studied in isolation. It must be understood as constituting a meaningful whole where decisions made in area A affect area B, C, etc. However, this study pays particular attention to oil industry in Nigeria within the context of global oil. A less useful study will ensue, if it is done otherwise.

NOTES

[1]None captures completely and succinctly the menacing faces of imperial ambitions and augury than this author. Pointing out that the doctrines of power, profit and civilization ostensibly shade intentions and motives of imperial expansion, the desire for profit remains a "common guide to action even though other motives are declared for it." For full details on this, see A.P. Thornton, Doctrines of Imperialism (London: John Wiley and Sons, Inc., 1965); especially chapter three.

[2]See International Petroleum Cartel, Staff Report to the Federal Trade Commission. Submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, 94th Congress, 1st Session, August 22, 1952. There is a reprint of this issue dated April 22, 1975.

[3]A Documentary History of the Petroleum Reserves Corporation, 1943-1944, Prepared for use of the Subcommittee of Multinational Corporations of the Committee on Foreign Relations, United States Senate, 93rd Congress, 2nd Session, May 8, 1974 (Washington, D.C.: United States Government Printing Office, 1974).

[4]The Annals of American Petroleum Industry, May 1920.

[5]For full details, see Herbert Feis, Petroleum and American Foreign Policy (Stanford, California: Stanford University, March 1944). See also, Diplomatic Protection of American Petroleum Interests in Mesopotamia, Netherlands East Indies and Mexico. Senate Document Number 43, 79th Congress, 1st Session.

[6]Statement to the House of Commons of the British Parliament, July 17, 1913.

[7]A Documentary History of the Petroleum Reserves Corporation, op. cit. (1974).

[8]British influence in the region started waning after granting independence to most of her overseas colonies and most notably after the Suez Crisis of 1956.

[9]The outstanding characteristics of global oil industry is the dominant position held by seven international oil companies. The seven companies that conduct most of the international oil business include five American companies and two European groups. They are: Exxon, Mobil, Chevron, Texaco, Gulf, Royal Dutch Shell and British Petroleum (BP). The words "corporation" and "company" are used interchangably in this study.

Part II

CHAPTER IV

THEORETICAL PERSPECTIVES ON NEGOTIATIONS AND BARGAINING

This chapter attempts to communicate the central and fundamental ideas about the theory of games and related decision-making models as they apply to sociology of conflict. It seeks to relate the results of game theory to negotiating and bargaining in international oil industry. The emphasis will be mostly on the concepts; no effort is made toward the mathematical "solution" of any specific game. However, it is believed that the application of certain conceptually relevant aspects of the theory of game, for example, those on decision-making, cooperation, competitive and coalition behavior may assist in unravelling the often complex and difficult strategies employed by actors in the global oil industry. Moreover, in general, the theory of games assists in clarifying situations of conflict among parties where conflict resolution is achieved mostly by collusion and conciliation.

Contrary to the prevailing notion among social scientists that the theory of games of strategy offers little if any use or insight into the study of social behavior, it is a contention of this study that it does. As a basis for explaining the sociology of conflict and conflict resolution, games of strategy can offer useful insight as a tool for analysis. Presently, game theory deals with

the choices actors may make, or refine the choices made in order to "better" them in the resulting equilibrium outcomes, and in some aspects of the communication and collusion which may occur among players in their attempts to improve the outcome of a negotiation or bargaining situation.[1]

Games of strategy depend considerably on the assumption that players are rational and that in situations of conflict involving strategy, players strive to maximize an advantage or utility while simultaneously minimizing loss. It assumes, in addition, that players recognize and are aware of possible outcomes of a given situation because of the way a given situation is perceived. Correct perception of a given situation naturally leads to a desire to maximize an advantage assuming that behavior is correctly described as the maximization of utility. Games theory assumes that players "know" them in full and are aware also of the preference patterns of other players.

But it is not always easy to maximize one's utility in a game when utility functions cannot be measured or are susceptible to non-measurement. For instance, maximization of utility in the global oil industry does not readily lend itself to measurable "utilities" because the situation is usually one of political and economic controversies and maneuvers. In fact, the parameters within which players in the oil industry are supposedly confined usually are ill-defined domains of action where there is considerable ambiguity as to the outcome of particular negotiations or situations within the global oil industry. In this situation, the value of knowledge

and the use put to it becomes severely limited because the pay off function elude the most skilled players even over a known domain of possible moves. Although an argument could be posited that interactions among players within the global oil industry is "commercial" in nature and hence susceptible to the principles of the market (which may or may not be readily measured), it overlooks dangerously the political and ethical basis on which current international agreements on oil negotiations rest. In this sense, utility is not measurable no matter what may be the precise meaning of a market induced agreement.

The hypothesis that players choose among alternatives as if seeking to maximize the expected value of some quality called "utility," is simply intended to be a scientific hypothesis enabling correct predictions to be made about certain behavior. I argue that in international oil industry (and particularly presently) no such thing as discrete measurable utility exists within negotiations between transnational oil corporations and producer governments because political and ethical considerations are brought to bear on most negotiations. Although the outcomes of several negotiations tend to reflect the demands of the market, they should be seen within the perspective of political demands. Therefore, the theory of games have limited application to social and behavioral sciences under conditions of conflict.

Strategy as a Sociology of Conflict

Strategic negotiation in most cases involves an acute perception of a participant's interest which may or may not be compatible with that of the opponent. This unique element of strategy distinguishes the sociology of conflict from ordinary bargaining situations where a constant thread of opposition and conflict is largely absent and unnecessary.

The logic of strategic negotiation is expectation based on interests; its outcome is dependent upon personal moves of the participants conditioned by historical events In seeking to understand the art of negotiation, there need to be a realization that it is one of the means by which individuals, organizations, groups, nations, etc., manage their relationship with one another. In most cases, negotiation is chosen over other means of reaching an understanding because it offers the path to a least cost of interaction, certainly it holds out the advantage over armed conflict and spares the combatants the perils of destruction. In other situations, negotiations are preferred because of the real benefits, perceived by the participants; they allow the presentation of facts, ideas and arguments by parties which ipso facto allow for a "mutual learning," trust, and the exploration of alternatives necessary for reaching an agreement. But as a sociology of conflict, strategic negotiation usually involves the deliberate obscurity of interest by participants whose disclosure could have profound effects on the outcome of a negotiation. For instance, Ivory Coast was deprived of a much needed investment revenue amounting to a

U.S. one billion Eurodollar loan for developing the promising Espoir oil fields. Phillips Petroleum of the U.S. and a consortium of other oil companies were main agents who sought this loan, which was denied because Phillips Petroleum reportedly stalled transmitting the vital information on Espoir reserves which two of the French banks in the leading syndicate requested. Such obscurity does not however impinge on the necessity for "extention agreement" needed for bargaining continuation.

On the contrary, obscurity of particular information ensures the protection of strategic interests and the gradual transformation of one's position in a strategic situation. Von Neumann has described the strategical situation as the interaction between two or more persons, each of whose actions is based on an expectation concerning the actions of others over whom he has no control. The outcome is dependent upon the personal moves of the participants. The policy followed in making these moves is strategy; and policy in a strategical situation is often shrouded in implicit, non-comprehensive moves designed intentionally to confuse the opponent. In other words, the aim of policy is to make an opponent act continously in a state of "suspended animation" because they generally act in the final analysis on hunch; that is, they gamble without being able to calculate the risk.

Moreover, strategic negotiation as a sociology of conflict offers some remarkable illuminations on how negotiating teams view one another in terms of economic and political behavior because usually conflict perception govern such interactions. Although

J.C.C. McKinsey, in his Theory of Games eloquently argues that strategic negotiation "will throw light on all kinds of situations in which various people have opposing goals and in which each of them, although he may exert some influence on the outcome cannot completely dominate the course of events,"[1] from this writer's point of view, strategic negotiation, in addition to McKinsey's observation, involves competition, conflict, cooperation and diplomatic maneuvers. In economics, the basic example is the exchange relationship of a buyer and a seller. It is a mixed game of skill and chance, describing the elusive nature of the constant interplay of cooperation, opposition and conflict that runs through various interrelationships of men, from the striking of a bargain in the market place to the unenviable military solution.

Nevertheless, in the literature of social conflict, an exact description of the nature of strategy has not been made, despite the enormous progress made on the purely mathematical analysis of it. But games of strategy offer great potentiality for application to political and economic behavior in conflict situations and to resolution of such conflicts through negotiation. Countless number of human interaction is carried on through negotiation and there is an enormous diversity on the nature of negotiations, methods of reaching an agreement and how agreements are reached. Governments as well as intergovernmental organizations are constantly engaged in diplomatic bargaining, non-governmental entities negotiate among themselves, governments and other actors in the international system. These negotiations represent different types of social conflict

and social interaction and in order to render them more meaningful, one must distinguish among different purposes for which the parties negotiate.

The parties for which this study is concerned include the Organization of Petroleum and Exporting Countries (OPEC), the multinational oil corporations and the diplomatic representatives of governments. I have gone through theoretical formulation of games of strategy as a prelude to understanding the triangular relationship between the above actors in the workings of international oil industry, and secondly, in the formulation, articulation and the implementation of "development plans" of oil-producing countries. It was observed that conflict, competition and cooperation underlie negotiations between oil-producing government planners and oil company negotiators; though there was refutation as to the existence of conflict.[2]

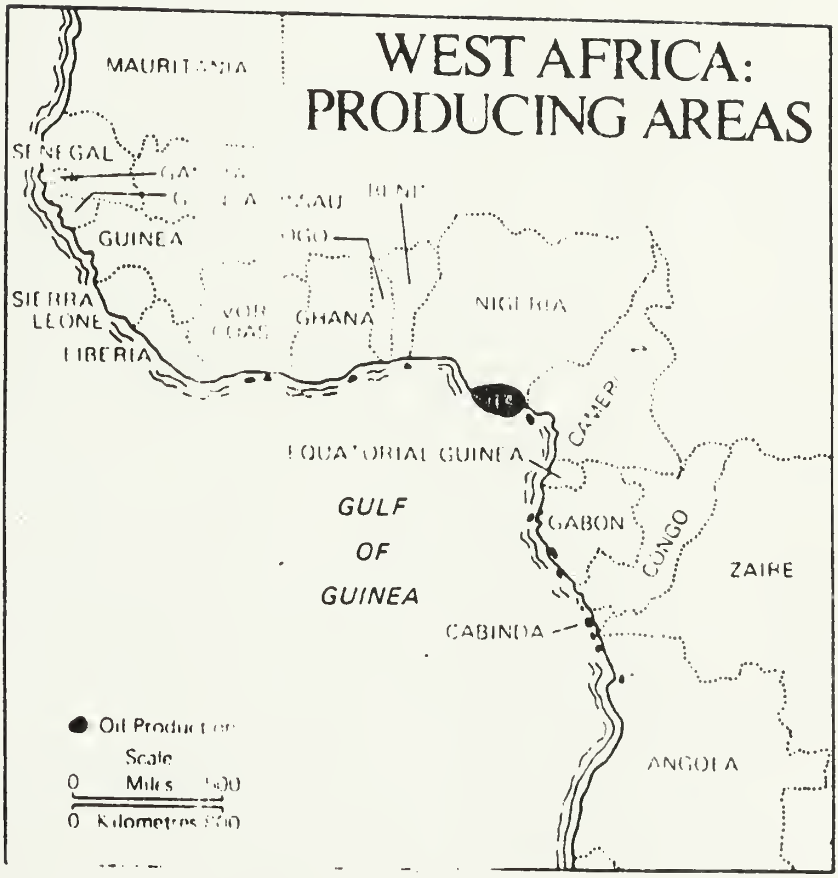
Strategic decision in the international oil industry has always involved a conflict of interest; the need for cooperation and coordination. Conflict of interests occasionally surfaces as a result of misperception deeply embedded in historical events experienced by "developing" oil-producing nations, and as a result of "side effects" - that is, effects on outcome which does not concern the agreement at hand. For example, a country whose foreign policy is fundamentally based on "social justice" or the elimination of apartheid policy may engage in negotiating for side-effects when in fact the focus of negotiation may be oil matters. The inevitable consequence of such a conviction is that more efforts and ingenuity

WEST AFRICA: OIL PRODUCTION, CAPACITY AND RESERVES

	Production 1981 barrels/day	Production 1982 barrels/day	Capacity barrels/day	Estimated 1985 capacity barrels/day	Reserves million barrels
Nigeria	1 442 000	1 292 000	2 400 000	2 400 000	18 000
Gabon	150 990	154 000	155 000	170 000	600
Angola	130 000	140 000	160 000	320 000	1 200
Cameroun	86 000	106 900	115 000	150 000	200
Congo	82 000	91 040	95 000	130 000	400
Ivory Coast	8 000	16 000	30 000	50 000	100
Zaire	21 000	21 000	22 000	22 000	100
Benin	—	—	4 000	10 000	22
Ghana	1 640	1 200	1 500	6 000	30
Total	1 921 630	1 822 140	2 982 500	3 258 000	
of which, non-OPEC	*328 640*	*376 140*	*427 500*	*688 000*	

Sources: Official and company figures where available, otherwise estimates based on the best available information.

Petroleum Economist May 1983


WEST AFRICA:
PRODUCING AREAS
MAURITANIA
SENEGAL
GUINEA
SIERRA
LEONE
LIBERIA
GHANA
NIGERIA
EQUATORIAL GUINEA
GULF
OF
GUINEA
GABON
CONGO
ZAIRE
CABINDA
ANGOLA
Scale
0 Miles
0 Kilometres

is expended on pursuing these side effects, no matter how irrelevant than in coming to grips with the substance of the negotiations. The mere fact that this is so confers subjective legitimacy to the nation's foreign policy.

Oil development in some West African states obviously start from the basic assumption that states should not be victims of neo-colonial exploitation and therefore officials are increasingly aware of and engage in suspicions of large multinational oil companies, resulting from lessons of colonial exploitation. For example, Howard Schissel reports that "tiny" Benin has chosen a different path for its oil development which excludes large multinational oil companies (South Magazine, January 1983). The government of President Mathiew Kerekou chose to award service contracts to two small Norwegian companies, Saga Petroleum and Kraeusner. However, this strategy seems to be an exception. Small oil companies simply do not have the resources "which covers Africa's needs."

Moreover, the formulation and execution of foreign policy (especially those of oil-producing nations) has been deliberately tied to fighting foreign "oppression," exploitation and the trappings of imperial ambition by the multinational corporations nurtured and supported by their respective imperial "centres." Such ambitions can be "intoxicating," and has been repeatedly applied to nations representing the "weakest link" in the chain of "underdevelopment." Bingu W.T. Mutharika, the acting chief of Africa Trade Centre of the United Nations Economic Commission for Africa, argues that "the experience in Africa is such that multinational corporations have

not changed the image of colonial exploitation. We are, therefore, led to regard their activities in general as being neo-colonialistic. The most pertinent observation in this respect is that countries with rich mineral resources are almost invariably the trouble-prone or potential politico-economic crisis areas."[3] Certainly, Mr. Mutharika raised important issues concerning the activities of multinational corporations in developing countries, but substantiating these claims is a difficult task indeed and one beyond the scope of this study. Earlier on and on the same path as Mr. Mutharika, R. Krishnamurti asserts that since multinational corporations follow a world-wide strategy of interest, they do not normally conform to the interests of the countries in which they operate.[4] In all, issues of colonialism, neo-colonialism, imperialism, etc., have all been dealt with in Part I of this study and elsewhere,[5] however, understanding the nature and practice of these issues is indispensable to coming to grips with the much celebrated demand of a new international economic order by developing countries, and the sociological conflict which underlie "north-south" interaction especially in areas of natural resources including crude oil.

Th historical advantage enjoyed by the multinational oil companies in global oil affairs as a result of the hegemonical role they played, paved the way for future conflict in perception. Most oil producing countries presently feel that granted of access to oil companies and the subsequent arrangement in production and distribution was one of "unequal exchange." The oil producers felt cheated and exploited, but most, if not all, nevertheless, needed

the revenues from oil. A system was created in which groups of companies tended to ensure access to oil resources and to maximize their gains in a world in which they had control over most of the factors of production.

The oil companies buttressed by an entrenched position of hegemony in the international oil industry and convinced of the inability of producer governments to intervene in oil matters either directly or otherwise, unilaterally abrogated the posted prices of Middle East and Venezuelan crude oil in the spring of 1959. Furthermore, in August 1960, the oil companies reduced posted prices of Middle East crude oil which precipitated consultations between Venezuela and the Middle Eastern countries on measures to deal with the lower oil prices.[6] This unilateral reduction of posted crude oil prices (which incidentally was a basis on which royalty payments were made to producer governments) by the oil companies indeed, became the first recorded instance of major conflict of interest between the latter and the producer governments. The incidence formed a basis on which a more careful and closer scrutiny of oil matters by producer governments became the norm. Although the excuse given for lowering the posted price of crude oil was ostensibly due to "expanded production" resulting in a "world surplus," the producer governments have long felt cheated and exploited and this incident provided the spark to act. In fact, the oil companies forced the producer governments to respond by uniting in a common front against this highly provocative activity.

The shock suffered as a result of reduction in posted price led to the formation in 1960 of the Organization of Petroleum Exporting Countries (OPEC). And, as Peter R. Odell argued in his highly perceptive book, Oil and World Power, "the oil producers sought collectively to enhance their bargaining power by standing together in order to prevent the companies from playing one country off against another in a situation of surplus oil-production potential."[7]

Strategic considerations of the multinational oil companies in matters of "posted" price reduction, therefore, worked immensely against their interest because strategic thinking failed to take into account the behavior of other actors, including the multinational oil companies. In other words, the logic of strategic moves should, according to sociologist Jessie Bernard, depend on plans or policies or choices of behavior which always involve some expectation regarding the behavior of others. As a source of conflict, the oil companies failed to anticipate the consequences of their moves or simply neglected such consequences as trivial. The result was that multinational oil companies, as never before, were subjected to rigorously and even rigidly limits in their economic activities and socio-political behavior. Now there is the sober recognition and acute awareness that corporate planning must be achieved with the "knowledge that they may be checkmated at any point" by other actors in the international oil system. In the case of African producers governments, however, the lack of regional cooperation and coordination argues Nicolas Sarkis, director of the Paris-based Arab Petroleum Research Centre (APRC), and adviser to several

African states on oil matters, leaves African states in a "precarious bargaining position." This is so because oil companies are large, worldwide inter-locking conglomerates with powerful political and economic machinery which individual African nations can rarely match.

This lesson on strategic thought has the curious effect of making the oil companies more secretive and manipulative because they do not have a free situation in which they can maximize their benefits. They are in a system in which every choice of behavior on their part may be nullified by some choice of behavior on the part of someone else.[8] They are faced by countervailing forces very much willing to redress past inequities. This interplay of forces inevitably leads to a situation where sociological conflict not only dominates the psychological constitution of negotiators but threaten to becloud their professional judgment. More energy is then expended not on coming to grips with the substance of the negotiation, but of creating an atmosphere conducive to serious and fruitful outcome. In this scenario, decisions on policy are not simple problems of maximizing one's gain in a situation of game, but problems of maximization under adverse conditions, that is, under conditions in which other players are also attempting to optimize or maximize their gains, so that a situation of interference occurs. Moreover, under this antagonistic atmosphere no amount of astute or clever diplomacy can "force moves or deflect policy" because psychology is fixed and no concessions must be made to the probable behavior of an opposing groups.

The breakdown of mutual trust necessary for any negotiated settlement on controversial issues inevitably leads to quest for

manipulation, deceit and a deliberate beclouding of an otherwise calm situation. The formulation of policy consequently degenerates into an orgy of mutual distrust and accusations. In 1970 when the Libyan government started negotiations with the oil companies in the country for a higher posted price, and when the companies resisted, followed by production cuts and nationalization by the Libyan government led by Colonel Ghadaffi,it was rumored that that was a "communist plot." Ghadaffi has, however, built a reputation for "leap frogging" on agreements already reached elsewhere in the Gulf states. Thus confronted with the OPEC Cartel and Libya's tactics, the multinational oil companies "seemed to have evolved a coherent counter strategy" insisting on one global negotiation to avert the Libyan "leap frogging." In pursuance, thus, companies sought to negotiate as a group rather than as individual entities. Oil companies were in luck, concerted global strategy, which itself was a violation of U.S. antitrust regulations, was cleared with the Departments of State and Justice. Hence, the companies were set for negotiation, but prior arrangements failed due largely to political interference from producer governments.

The truth of the matter was the absence of a conducive atmosphere which parties need for a negotiated agreement. For example, it has been the policy of the Nigerian government to create conditions which stimulate and ensure meaningful and mutual concerns on matters affecting her oil industry. However, the oil companies operating in the country have repeatedly engaged in price manipulation to increase their profit. Such corporate behavior leads to conflict situations.

Equity Profit Margin Increased to $2

In a move back-dated to 1st February, the government increased the official profit margin to $2 per barrel of equity production, from the $1.60 level applying since 1st July last year. The increase — which followed presidential oil adviser Mallam Yahaya Dikko's round of visits to oil companies in the US and Europe in February — is achieved through a cut in the posted price and an increase, also to $2 from $1.60/barrel, in the allowance against tax for production costs. New fiscal terms for Bonny Light 37° API are as follows:

	Prior to 1st July 1982	Effective 1st July 1982	Efffective 1st Feb 1983
Posted price a	39.250	38.250	31.477
Royalty (20%) b	7.850	7.650	6.295
Production cost allowance c	1.100	1.600	2.000
Taxable base a-(b+c)	30.300	29.000	23.182
Petroleum production tax (85%) d	25.755	24.650	19.705
Companies' tax-paid cost b+c+d	34.705	33.900	28.000
Official sales price*	35.500	35.500	30.000
Therefore, official profit margin	0.795	1.600	2.000
Government take b+d	33.605	32.300	26.000
Government take as % of official sales price	94.662	90.986	86.667

*Additionally there is a 2 c/b harbour fee.

With their traditional secrecy the oil companies do not disclose what profits they make on the Nigerian operation, reports Alan Hutchinson,[9] yet repeated demands from them are made on the government for increased profit margin. In view of these demands, the Presidential adviser on Petroleum and Energy, Alhaji Yahaya Dikko, replied that "the government would act after a logical and persuasive case has been made and the case must be clearly understood not only by those in government, but also by the Nigerian public at large."[10]

Evidently a combination of several factors have made it possible for the oil companies to engage in manipulative adventures which lacked bold maneuver and daring, but which at any rate proved effective and successful. One area where success was recorded was on the supply of crude oil to Rhodesia and South Africa where shipment was boycotted by oil-producing third world nations. Shell-owned tankers are being sent from Oman to Durban, breaking the Arab Oil Embargo against South Africa, the Observer Newspaper alleged in London." Shell-BP also broke the Nigerian oil embargo to South Africa. But Mr. P.F. Holmes, Chairman and Managing Director of Shell vehemently denied the allegation saying "not a drop of Shell's Nigerian crude oil reaches South Africa directly or indirectly."[12]

It could be hardly disproved that this strategy or rather tactic employed by Shell-BP and perhaps other oil companies contributed to unnecessary upheaval in the negotiating process and may introduce an element of conflict in a situation which least needs it. Perfidous and treacherous behavior such as this undoubtedly pushes OPEC countries to use their oil resources for "political purposes" which

it has, on occasion, used. The point here is that conflict situations arising from producer government-oil company interaction should be avoided as much as possible in order also to avoid the "sterility of confrontation and nationalization." "Agreements," observes Under Secretary of State for Economic Affairs, William Casey, "cannot in themselves, of course, guarantee the stability of new arrangements or the flow of oil. These will depend on the good faith of the parties as well as other developments in the world, including perhaps political ones."[13]

Games as Decision-Making Under Uncertainty and Certainty

The theory of games is essentially a theory of strategy which takes into consideration expectations concerning the actions of other players over whom he has no control. The outcome is dependent upon the moves of the participants based largely on decisions as to what moves to make. The choice made by a player is highly conditioned by the amount of information known to him or conversely by lack of information. The availability of information or lack of it invariably leads to a strategic situation and players under the perils of deprivation intuitively adopt a mood of conflict of interest. The situation either degenerates into a problem of individual or group decision-making under a mixture of "risk" and uncertainty or stabilizes as an interaction where cooperation, mutuality of need and reason reign. The general assumption is that the later scenario is more desirable because everyone is a "winner." In reality, however, this is not always the case. The need for negotiation hardly arises

when participants readily agree on issues especially those of highly political nature. Under these conditions, if agreement is ever reached, it is not because there are no points over which not to agree, but because participants decide to come to terms. Games are "sets of rules" comparable in the abstract to the rules that define economic behavior. For example, decision-making in the international oil industry often takes the form of "games" in that players usually obey rules laid down by international political and economic events and norms. However, rules that define international economic life are no longer as definitive and constant as they were before the 1973 energy upheaval. There was, after this event, a deepening uncertainty on the nature and supply of crude oil on which most developed industrial economies depend.

Decision-making on oil issues under these uncertain conditions are subsequently susceptible to international political and economic developments. Zaki Yamani, in his discussions with Aramco and other major oil companies, informed them "again and again" that any agreement arrived at could be undone by deals elsewhere. Although oil companies represent a major link between producer governments and world market, these governments "were discovering that they can market their oil in the global market independent of the oil companies and at prices higher than what major oil companies are offering. Furthermore, the Tehran Agreement became a symbol of the fragility and instability of international oil agreements. There was reason to believe the agreement will be short lived. Again, Sheik Yamani in a conversation with Exxon's George Piercy in Tehran on January 20, 1971,

conveyed the impression "that he was not so sure that we would obtain the five years stability that we were seeking." And in the case of African production, of the so-called "risk factor" which most Western oil men frequently refer to - the continent's geography and geological constitution. In fact, argues Mr. Sarkis, the geological risk factor is "extremely low," and according to his calculation, "the rate of discoveries in relationship to the number of wells drilled is amongst the highest in the world." For example, between 1975 and 1979, exploration permits granted in Africa to the top twenty multinational oil companies, totalled 1.8 million square kilometers, equal to 52.2 percent of all exploration acreage awarded around the world over this period (South Magazine, January 1983, p. 61).

Since the early 1970s, there has been considerable discussion on the notion of a "new international economic order." Among the demands of this new economic arrangement has been the overriding desire of "developing" nations for a just and adequate share of the global economic prosperity. The impetus for a revisioı in the global economic order was indeed occasioned by the new found strength of the oil producing exporting countries, OPEC, who, having been rallied around by a majority of the "third" world, sought a major overhaul in the international economic system.

Although OPEC member countries in thier "historic" meeting of the Sovereigns and Heads of State held in Algiers in March 1975 issued a "solemn declaration" reiterating their "profound faith in the capability of all peoples to bring about a new economic order via international consultation and cooperation rather than confrontation,"

it is clear that the method or approach employed toward this cooperation was one of redress. The birth of OPEC, for example, "was an act of protest...a revolt against the highhandedness of the multinational oil companies which [has] held sway in our sovereign territories and produced and sold our oil as if it were their own. We, the host countries, were not consulted; the multis determined prices and production in accordance with their own interests and those of their national foreign policies."[14]

Thus the game which the producer governments wish to play is one conditioned and legitimized by "changing circumstances" and new developments in the international arena. In the first place, the events of 1973, coupled with the rapid increase in energy consumption by the developed countries inevitably introduced numerous uncertainties in the decision-making processes of the international oil industry and ushered in an era in which fundamental policy making decision on matters of crude oil production and pricing primarily reside with producer governments. This development effectively shattered and clouded long term strategic decisions already made by international oil companies. The producing governments in turn suffer uncertainties on whether the oil produced could fetch its share of the market value. Under these conditions, a curious situation develops; actors who supposedly have conflicting interests band together to bring "order" to the oil enterprise.

This apparent identity of interests does not however, remove the sociology of conflict described earlier in this chapter. Producer governments and multinational oil companies, obeying the highly

convenient doctrine of *Rebuc Sic Stantibus* have on occasion either unilaterally abrogated terms of contract or have amended it so as to suit their purposes. This issue will be treated in deatil in the next chapter. What to bear in mind. however, is that "renegotiation clauses" are increasingly becoming a permanent feature of international legal transactions. But new African oil-producing nations have sparingly changed basic legislation governing company-state relations over the past decade. Such policy of judicious protection of interests became necessary in a climate where decisions are made under uncertain conditions.

The instability and unpredictability of the outcome of any game as decision-making in the international oil industry could be clearly stated by referring to recent concrete examples. These examples are political as well as economic. By the early 1970s, OPEC's power had increased as did demand for crude oil grew more rapidly than supply. In June 1968 OPEC adopted a "Declaratory Statement of Petroleum Policy in Member Countries" which stated the intention of OPEC countries to obtain the maximum control of their oil and set the framework for future activity within OPEC. This was done firstly by obtaining more revenues for their oil through a series of negotiations with the oil companies and later abrogating the terms of these agreements. There were several agreements most importantly the Tehran agreement, Tripoli agreement, Geneva agreement and the OPEC participation agreements.[15]

These agreements were individually and collectively altered, abrogated or neglected due to institutional safeguards. The Djakarta

Agreement of 1965 in effect provided that the OPEC position should be the moderate one; however, individual members would be permitted to depart from that position if they so desired. Leap frogging by individual member countries stemmed from that agreement and is not regarded as a breach of OPEC unity.[16]

International oil industry is fundamentally based on political foundations; a proper analysis cannot be made unless one takes into consideration the part played by political negotiations. The formation of OPEC and what this organization hopes to achieve proceeds from this assumption.

The OPEC Statutes of 1960, reaffirmed in 1968, are as follows:

1. Unification of the Petroleum policies of member countries,
2. Stabilization of prices in international markets, and
3. Efficient economic, regular supply to consuming nations and a fair return on their capital to those investing in the petroleum industry.

In addition, recent developments in the international political economy have made it necessary for the OPEC to add a number of factors to its statutes. These include:

1. Development of national petroleum industry
2. Equity sharing and control
3. Compensation for monetary fluctuation
4. Conservation.

These last four factors, borne of increased bargaining strength of OPEC members, came as a surprise to major international oil

companies whose decision-making structures were almost rendered ineffective. As a result uncertainty was introduced in decision-making and the oil companies were forced to rearrange decision-making structures in order to maintain "order" and harmonize interaction in the global oil industry.

Inspite of this rearrangement, other factors brought to bear on the oil industry. One of these was the Arab Israeli War and the consequent embargo and supply shortage. On October 16, 1973, ten days after the outbreak of the fourth Arab-Israeli War, Saudi Arabia, Qatar, Kuwait, Iraq, Abu Dhabi, and Iran "declared themselves to be the sole arbiters of price and unilaterally raised" their crude oil posted prices by an average of $1.99 to $5.00 per barrel, effectively nullifying the Tehran Agreement. Subsequently, the other OPEC members announced similar increases.

Contributing also to this atmosphere of uncertainty is the vagaries in the oil industry including the issues of "transfer pricing," production limits and manipulation by the oil majors and the instability of prices since the traditional concession agreements were brought to an end by the 1968 Vienna Conference. In order to secure "economic and political justice for "our peoples," the producing countries are demanding that changes be made in order to get the most out of their oil. There are several methods which the different oil producing countries have exercised to reach this goal: partial nationalization (Algeria), joint ventures (Nigeria, Saudi Arabia), nationalization (Algeria, Libya and Iraq), service contracts (Indonesia, Venezuela, etc.) and finally participation which is the official OPEC option.

These developments undoubtedly influence the long term decision-making strategies of producer governments, the oil companies and the consumers. Firstly national control of oil production would certainly produce complicated movement of petroleum, although almost impossible to determine, could be analyzed with some precision by state owned oil corporations who will monitor and control these movements. Projected estimates of oil requirements (largely a duty of consumers and oil companies) and price stability (mostly determined by producer governments) could be theoretically brought into equilibrium. Secondly, prudent measures will be taken by all concerned to intensify the efforts for alternative energy sources and the reduction in energy growth rates. Thirdly, OPEC members would have to reconcile themselves to the continuance of output restrictions if they wish to avoid determining the price structure. Fourthly, producer governments would be guided by prudent measures on pumping of oil to meet declared development objectives and needs. Thus, flooding the market with oil would be largely eliminated. And on balance, concluded one report, "we consider that the uncertainties surrounding international economic developments are likely to intensify rather than to diminish during the next few years with the concomitant implication for energy developments."[17]

The international oil industry is an enterprise in dynamic flux and hence susceptible to change, and any long-term strategy designed to bring order and certainty in the industry is bound to fail. Peter R. Odell in Oil and World Power has convincingly argued that the traumatic events in the oil world indicate that the interrelationships of the several sets of actors involved have become more, rather than

less, complex. They have also produced a realignment of forces which made the world of oil in the second half of the 1970s significantly different from the one to which we became used between 1945 and 1973.[18]

The vagaries of the international oil enterprise, especially in recent developments, render decisions made in light of proven certainties in the industry unreasonable and invalid. The strategy of games as decision-making, then, can be fruitful only in the short term rather than in the longer term because only those arrangements which prevail at a particular point in time can be trusted. Serious negotiations between actors in the global oil industry take this fact inot consideration.

NOTES

[1]See J.C.C. McKinsey, Theory of Games (New York: McGraw Hill Book Company, 1952), p. 3.

[2]In an interview with Martin M. Olisa, Barrister and Solicitor, Nigerian National Petroleum Corporation, Lagos; and Mr. Duomo, a Public Relations Officer, Press Division, also of the above mentioned corporation, both officials made it clear that while cooperation, competition and conflict underlie most negotiations, the case with the national oil company seems different. The National Oil Company in its negotiations with the international oil companies has made it a "duty" to minimize conflict; as a result, little or no conflict even competition exists. The absence of conflict in these negotiations is a dubious assertion, however we know the government of Nigeria has over the years been very generous with the international oil companies.

[3]For more details on "colonial exploitation" and the African Experience, see Bingu W.T. Mutharika, "Multinational Corporations in Regional Integration: The African Experience," in The African Review: A Journal of African Politics, Development and International Affairs, Vol. 5, No. 4, 1975.

[4]R. Krishnamurti discusses some of the adverse effects of transnational corporations on the economic and social advancement of African countries. For details on this, see R. Krishnamurti, "Some Effects of the Multinational Corporations," Intereconomics, No. 12 (December 1973), pp. 362-366.

[5]Those works which I consider essential and important are dealt with here. They include the following: R. Owen and R. Sutcliffe, eds., Studies in the Theory of Imperialism (London: Longmans, 1972); John Galtung, The European Community: A Super Power in the Making (London: George Allen and Unwin, 1973); A. Emmanuel, Unequal Exchange: A Study in the Imperialism of Trade (New York: Monthly Review Press, 1972); Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington: Brookings Institution, 1967); The Political Economy of Underdevelopment by Tamas Szentes (Budapest: Akademiai Kiado, 1971); A. Frank, "The Development of Underdevelopment," in R.I. Rhodes, ed., Imperialism and Underdevelopment: A Reader (New York: Monthly Review Press, n.d.); K. Nkrumah, Neo-Colonialism (New York: International Publishers, 1965); V.I. Lenin, Imperialism The Highest Stage of Capitalism (Moscow: Foreign Languages House, n.d.);

Richard Koebner, "The Concept of Economic Imperialism," Economic History Review, Vol. II, No. 1 (1949).

[6]See the Report to the Congress by the Comptroller General of the United States entitled "More Attention Should Be Paid to Making the U.S. Less Vulnerable to Foreign Oil Price and Supply Decision," January 3, 1978, p. 5.

[7]For more on "bargaining power" and its enhancement by producer countries, see Peter R. Odell, Oil and World Power, new fully revised and expanded 6th edition (New York: Penguin Books, 1981). This is not a specialized work on the theory of bargaining, however, the emphasis it brought on "power" and how power affects bargaining positions is interesting and noteworthy.

[8]This is the essence of strategic choice, and Jessie Bernard treats this behavior as constituting a "sociology of conflict" in social reaction. A detailed treatment could be found in "The Theory of Games of Strategy as a Modern Sociology of Conflict," The American Journal of Sociology, Vol. LIX, No. 5 (March 1954). The article is by Jessie Bernard.

[9]Alan Hutchinson, "A Critical Time for Development in the Oil Industry: At the Heart of the Problem of Development of Oil Resources is Money - and the Relationship with the International Firms," Nigeria Economic Survey in African Development, December 1976, p. 1271.

[10]See "Companies Abandoned New Oil Fields," reported by Joe Nwokedi and published by the National Concord Newspaper, Lagos, Nigeria, Vol. 3, No. 731, Friday, July 2, 1982.

[11]Quoted in Daily Times of Nigeria, "Shell Oil for South Africa," page 10, February 24, 1981.

[12]For more information on denial of this allegation, see "We Don't Ship Oil to South Africa: Holmes Clears the Air on Daily Times Story," in Shell Bulletin, Vol. 26, No. 1, January 1981.

[13]On details of Mr. Casey's testimony, see "Oil Negotiation, OPEC, and the Stability of Supply, during hearings before the Subcommittee on Foreign Economic Policy and on the Near East and South Asia, of the Committee on Foreign Affairs, House of Representatives, Ninety-Third Congress, First Session, Wednesday, July 11, 1973. Published by U.S. Government Printing Office, Washington, D.C., 1973, p. 131.

[14]There are many reasons behind the establishment of OPEC as an institution. One of these is political and an "act of protest" against the international oil companies. For more details, see OPEC Press Release Information Department, No. 5-78, Vienna, September 15, 1978,

Anniversary Recollections, in OPEC Official Resolutions and Press Releases, 1960-1980, p. 182.

[15]See Report to Congress by the Comptroller General of the United States, op. cit., p. 6.

[16]Part of the Statement of William F. Penniman, Jr., Petroleum Consultant, "Currently based in Beirut, Lebanon, to the House of Representatives, Committee on Foreign Affairs, Subcommittees on Foreign Economic Policy and the Near East and South Asia on the subject of Oil Negoiations, OPEC, and the Stability of Supply," op. cit., p. 47.

[17]There are many technical reports making projections on the future of energy developments, however, such prognosis are usually beclouded by uncertainties in the global oil system. Uncertainties are "likely to intensify" argues a report prepared for the U.S. Department of Energy, and entitled "Technical Analysis of International Oil Market" by Petroleum Economics Limited, June 1978, p. 50.

[18] Peter Odell, op. cit., p. 276.

CHAPTER V

NEGOTIATION IN INTERNATIONAL OIL INDUSTRY

In this chapter, I analyze the traditional "concession contract system in the international oil industry as they evolved over the years, the strengths and weaknesses of this system, and the constraints on it, dictated primarily by the doctrines of "sovereignty" and of "changing circumstances." These doctrines, presently, offer producer-governments impetus and tremendous leverage over transnational oil corporations on matters affecting international oil negotiation. As a result, efforts made by oil corporations and recourse to international rule of the game have proved largely ineffective.

There is no law or rule of law presently under international law which has precisely and coherently addressed the issues of "changing circumstances" and "sovereign act." And because this is so, transnational oil corporations have found themselves mercilessly at the whims and caprices of producer-governments demands. In my view, a state's legitimate right to permanent sovereignty over natural resources take "precedence"over contracts between it and a third party. This is the inalienable rights of sovereign governments. Thus in the language of international diplomacy and law, permanent sovereignty over resources is a "higher law" than contractual claims.

Sovereign acts presently constitute defense mechanisms as well as offensive devices through which producer countries have sought redress for historical and long-standing exploitation of their natural oil resources by the oil companies.

This decision by producer-countries (most notably those members of OPEC) to get even with oil companies is inherently ideologically motivated and implicitly stated in major speeches and press releases.[1] Thus bargaining theory cannot fully explain the evolution of an agreement, as other extraneous factors and "conflicting goals" impinge on the negotiation outcome. Economic rationality which presumably govern these negotiations may therefore not apply. Moreover, in the conduct of oil negotiations, much energy is expended in order to incorporate the element of the "new economic order," than coming to grips with the substantive content of negotiation. The general emphasis is on setting a transformational framework of negotiation aimed at radically altering the traditional mode of international oil negotiation rather than understanding concretely the nature and content of particular petroleum deals.[2]

Altering the traditional method of petroleum agreements has inevitably led to producer-governments recourse to those elements of international law which can be advantageously employed in dealings with oil companies. But invoking these clauses have economic as well as political costs in the relation between states. A state which habitually resorts to invoking a *rebuc sic stantibus* in order to escape its international obligations would lose its credibility

and eventually its credit worthiness. Thus most states shy away from escape clauses and are pushed to use them only on very pressing occasions. Aside from this, the convention has been that international law and agreements should be obeyed, and record shows that agreements have to a large extent been kept. For example, these governments can be legally blameless when a *Rebuc Sic Stantibus* is invoked or claimed under the tenets of international law, for revoking a long-standing agreement with an oil company. The standard practice of the international community is one of *Pacta Sunt Servanda*. Until the international legal community settle the issue of the status of what Johan Galtung called non-territorial actors,[3] (such as the oil companies), under international law, producer-governments will continue to enjoy an advantage in most oil negotiations.

In this chapter also, I argue that government-oil company negotiation approach to petroleum matters is anachronistic and does not justify the trust placed on it by the governments of major industrialized[4] nations including the United States. I submit, in its place, an alternative method; producer-government versus consumer government negotiation. This will have the advantage of reducing contract uncertainties and introducing concurrently elements of contract stability because producer-governments would understand the mutuality of sovereign power (*supreme potestas*). Moreover, taking into consideration the fact that the United Nations acting as a

Casuis sui generis has legitimized several resolutions* which has proved advantageous to producer-countries, consumer-governments, also members of the United Nations could act as countervailing force to this power. International oil companies are non-territorial actors and hence non-members of the United Nations.

My argument is not that oil companies be left out entirely of the international oil dealings, rather I submit that governments should comprehensively and generally agree on petroleum matters with the oil companies playing peripheral parts and sorting out the substantive and detailed aspect of the international oil industry.

Before I elaborate on the structure and the constitution of this alternative approach to international oil negotiation, it is necessary that a discussion of the traditional international oil agreement approach follows.

Negotiation Based on Government-Company Approach

To understand fully the mechanism and the regime under which this approach operated or rather operates, it would be useful to theoretically analyze the evolutionary trend which characterizes these "petroleum contracts." The process of evolution seems best in describing our present international oil industry and understanding its dynamics and negotiating behavior demands that one focus on evolutionary trends. For purposes of analysis, description and

*Most importantly are General Assembly Resolutions 1803 (XVII) and 2158 (XXI) calling for permanent sovereignty over natural resources. This gave impetus to the agressive "natural resource ideology."

clarification, I have divided the period which describes government-company approach into three phases. These include:

1. The Hegemony Phase
2. The Direct-Response Phase and
3. Tacit-Agreement Phase.

<u>The Hegemony Phase (1901-1957)</u>[5]

The Hegemony phase was characterized by the granting of full <u>concessions</u> to the major oil companies. Across the board concessionary power and advantage meant "effective control by the oil companies of the entire range of petroleum activities." The State exercised no real voice in either the management or conduct of petroleum operations[6] or the profits that accrue from said operations except the receipt of "royalty."* Especially in the Middle East, their control over levels of production was absolute and was determined by their ability to sell.[7]

Producer governments played less active role because then, knowledge of petroleum uses and its worth were virtually absent, and the technology and management needed for extraction were lacked. Moreover, the resource and poverty ridden nations were relieved by the much needed royalty payments. A closer investigation of this hegemonical relationship and the "far reaching rights exercised by the oil companies" would indicate the dynamism of exploitation, domination and imperialism by the industrialized nations.[8] This

*Amount paid by oil companies to producer nations as "owners share of product or profit" for the right to explore, produce and market oil.

traditional concession and the inevitability of hegemony "was by its very nature a state within a state, and it was a matter of time before the state would assert its legislative and executive powers"[9] to that which belongs to it. Gabon, the smallest OPEC member, producing around 7.1 million tonnes, for example, was a veritable case of domination under the traditional concession system. This nation has been struggling against the wishes of Elf-Acquitine, the French state-controlled group, to increase its equity in Elf-Gabon from twenty five percent to between thirty five and forty one percent. But Elf organization proved difficult and very strong for tiny Gabon. Elf indeed has tremendous bargaining power and leverage over the state, for the company produces about eighty five percent of the country's output.

Another example of a state which seeks gradual transformation in concession agreements and increased state's share of her oil revenue was Congo against Aquitine and Italy's Agip. The reaction against Congo's request was "sharp": payments of taxes were halted, and all new investments were halted. The government was, however, forced to work out new arrangements. Oil revenue provides about half of the nation's revenues.

The dominance of the oil companies persisted through the two world wars, with two major exceptions; the Soviet Union nationalized its oil industry following the October Revolution of 1917, and Mexico's expropriation of domestic assets of foreign oil companies in 1938.[10] Dominance was hegemonic; its advantage was strategic, and strategic

interaction was a central feature involving all bargaining between oil companies and producer-nations no matter how small or trivial such negotiations were.

Access to oil was not the only driving motive behind dominance, strategic behavior increasingly became manifest. Choice of action employed by the international oil companies became contingent upon its estimates of the actions or choices of producer-nations which was in most cases minimal. The oil companies fully exploited this situation and turned negotiations into series of strategic interactions and strategic choices made possible by the passivity of governments. Strategic behavior consequently degenerated into a game of assymetrical choice, when in theory, choice and behavior should be independent and strategic interaction measured by outcomes controlled by interdependence.[11]

Change in the regime and mechanism of negotiation and concession was inevitable. The process of change was economic and, increasingly, political in nature.[12] By the late fifties, expanded production capacity of oil resulted in a world surplus of available crude oil, and in the spring of 1959, oil companies unilaterally lowered the posted prices of Middle East and Venezuelan crude oil. Further reductions in the posted prices took place in August 1960 precipitating consultations between Venezuela and the Middle Eastern countries on measures to deal with the lower prices.[13] The product of this consultation was the birth of OPEC in September 1960,

which was an act of protest...a revolt against the highhandedness of the multinational oil companies.[14]

The Direct-Response Phase (1957-1966)

The formation of OPEC marked the demise of the Hegemony phase based on visible dominance and exploitation of producer-countries. Direct-response period ushered in regimes of concession measurements based on joint venture agreements. "Production-sharing" became also part of the package of transformation included into joint ventures which included creation of state oil companies. Transformation of this sort is characterized by an "increasingly active state role in the conduct of oil company operations."

Political considerations played an important part during this phase in the sense that producer-nations wished to redress past exploitations stemming from the fact that multinational oil companies explored, exploited and "sold our own oil as if it were their own," and the explicitly stated intention of producer governments for "participation"in the running of the international oil industry.[15]

Not all governments experienced the hegemonial, or direct phases of negotiation, but most are experiencing the tacit phase. For example, Nigeria did not enter the direct-response phase until she joined the OPEC in 1971, although a series of legislative and executive moves were made to regulate but not direct the activities of the international oil companies.[16]

If the Hegemonic period was characterized by dependency relationship between oil companies and producer-nations, direct-

response period was geared towards carving out elements of independence and the gradual reduction of dependency by oil producing nations. Elements of independence adopted are various, but the most significant of these are the establishment of state oil companies which became an important policy instrument in forging self-reliant practices in matters concerning petroleum development, and concurrently "increasing the host country's equity position", and the formation of the Organization of Petroleum Exporting Countries.

The creation of these elements of independence was based on a radical transformation of the existing structural relation in the international oil industry and the inducement of a regime change whose inspiration and conception was primarily politically motivated and managed.

For example, in 1973, ninety three percent of OPEC production which amounted to 27.9 million barrels per day, went to major oil companies on long term basis. By 1979-1980, this amount dropped to about fifty percent of OPEC exports and forty two percent of world trade in crude oil. Concurrent to these developments, OPEC nations' ownership "entitlements" of crude oil produced rose from two percent in 1970 to eighty percent in 1980. Currently, the thirteen OPEC National Oil Companies (NOCs) directly market more than fifty percent of OPEC exports compared to virtually nothing in 1970 and barely five percent in 1973.

Important points to note in this phase are that the bargaining strengths of producing countries became increased and stabilized with the creation of the elements of independence mentioned above. Most

importantly, majority of world opinion as expressed in numerous United Nations General Assembly resolutions, gave solid foundation to the bargaining position of producing countries. Strengthening the bargaining capacity of oil-producing nations inevitably led to restructuring of the fabric of international oil industry and the rearrangement of the rules of the game. Hegemony and dominance gave way to direct negotiation based on strategy and manipulations. Strategic interaction assumed a strategical situation; its logic one of opposition and conflict. Substantial energy became expended in order to outmaneuver the opponent and hence gain an advantage. In essence, the whole strategical behavior degenerates into one of "games" whereby each player must take the other fellow's thoughts and moves into account,[17] because in theory each was expected to make an optimum move based on strategical considerations.

The point, however, is that in conditions of direct response negotiating phase, it is generally assumed that each player usually examines strategical relationships before any move is made. This is based furthermore on the unproven assumption that rules of the game has been identified and that rules should define economic and strategic behavior. A closer investigation of strategic, economic behavior of most African governments, for example, indicates otherwise. A study by Robert L. Curry, Jr. and Donald Rothchild on the economic bargaining between African governments and multinational companies reveals that "impatience" and "reciprocal demand intensity" usually prove decisive in most negotiations.[18] Although the oil industry

represents a unique case, several developing nations with potential oil reserves in their bid halt excessive oil import bills which drain hard foreign exchange, are in a hurry to conclude contracts with transnational oil companies. These nations may not always get the best deal on their resources. The issue of impatience however may not be a major concern of those developing nations where large proved reserves of crude oil have been discovered and where there has been a long history of oil dealings with transnational oil companies.

Mature oil-producing developing countries have particularly endeavored to understand this phase in their negotiations with oil companies.* Therefore, they have insisted on joint ventures and production-sharing contracts, and in some cases, outright participation in day to day operations of the oil industry. The extent of successful "participation"in the affairs of their oil industry differ from nation to nation. For example, a review of the contracts signed by Indonesia (which pioneered the concept of production-sharing) in 1979 and 1980 indicate that Pertamina has suspended its "joint participation" scheme with Conoco.[19] However, production-sharing was a success and was widely adopted by the new producing countries as well as those with no traditional petroleum industry. Outside Indonesia, production-sharing has been adopted in countries as diverse as Egypt, Libya, Chile, Nigeria, Angola, and India.[20]

"Service contracts" have also been a main feature of the direct-response negotiating phase. These are two types of service

*For Nigeria, the direct-response phase may have begun in 1971 when she joined OPEC as a full member. Prior to this date,attempts at participating in her petroleum affairs was mostly in the form of scattered legislative enactments geared toward regulation of the activities of oil companies.

contracts: under one kind, the government bears all or some part of exploration risk, hiring an oil company as a contractor to provide the nation's oil industry with needed services. A gōod example of this is the Saudi Arabian arrangement with the Aramco consortium whereby Aramco provides a "full range of exploration, development and production services to Petromin" - the state-owned oil company, for "reimbursable costs plus a fee of less than twenty cents per barrel of purchased crude; under another kind, the oil company furnishes all capital necessary for exploration and development of petroleum fields. The producer government would in turn reimburse to the company over a period of years after the field comes into production. This is done either in cash with interest or in crude which the company's entitled to purchase. On the whole, service contracts are most applicable in cases with proven oil reserves and therefore may not provide an available option to some countries. However, this sort of contract recognizes the status of producer states as owner of the oil produced with international oil companies as providers of technical services. This kind of contract first came into use in the late 1960s, particularly between oil-producing countries and the companies which desired to gain access to assured supplies of crude oil.[21] Service contracts agreements were concluded in Iran in 1966, in Iraq in 1968 and Venezuela in 1971. Similar agreements have been recently signed by oil companies with the state oil companies of Nigeria, Brazil and Vietnam.

The extent of success recorded by various governments on "modern" concession regime vary. Modern concession agreements include as detailed earlier service-contracts and production-sharing contract, and typically, they might include a limited contract area, a limited life or duration with possibility of extension, royalties due to producer-nation is calculated on the value of production and producer government has authority to review and control company decision and activities, and finally provision for government equity participation. These provisions imply the increasing power of producer governments over oil companies. Often success is a factor of how technologically, economically and managerially advanced a nation is. However, the "tendency of governments to copy parts of agreements from other countries" render these innovative concession regimes more of a framework on which specific agreements are reached. For example, in April 1971, terms of a five-year agreement on oil revenues were agreed "in substance" between Nigeria's government and Shell-BP. The agreement follows "closely" the pattern set in Teheran and Libya.[22] Again, in May 1971, following the Shell-BP agreement of April of the same year, Nigeria signed a five-year oil settlement for all companies. "It is patterned almost identically on the 1971 Libyan settlement"[23] except for the temporary freight premium which was established at nine cents/bbl.

In sum, the direct phase of negotiation represents a period in the history of global oil negotiations in which strategic behavior and interaction took the form of exchange relationship of buyer and

seller each trying to "maximize" his gain and of course minimize loss. In the process, a curious distortion usually takes place; first of cooperation and then of conflict. Conflict more than cooperation usually characterizes this period because situations have been created in which several possible outcomes will result with respect to which certain preferences are desired. Though players may have some control over the variables which determine outcome they do not in most cases have full control.[24] When such is the case, then, the one with more determinate control over variables usually ends up calling the shots. This, of course, does not necessarily mean that a state of perfect control has been reached in which action cannot be nullified by some choice of strategical behavior on the part of an opponent.[25]

Tacit-Response Phase (1966-1979?)

This phase represents the most recent period, although beyond that, events in the international oil industry have not fully crystallized and predictions based on post 1980 events are merely assumptions and not concrete. Tacit-response phase can be further divided for analytical clarity into 1966-1973 and 1973-1979, and "was marked by the emergence of the oil producing states as fully active and controlling actors."[26] The years beginning from 1966 to 1973 represent the emergence of producing nations as the "arbiters" of their petroleum resources because their bargaining strength was increased due to the politically and economically instigated creation of elements of independence including production sharing contracts

and service contracts. These two methods of concession regimes are innovative and aimed at eroding furthermore, the powers of the oil companies and entrenching the position of the state.

In terms of concrete realization of bargaining strength, the tacit response is remarkably important in the history of the international oil industry because it witnessed the entrenchment of OPEC goals and ambitions. This was particularly so in the early 1970s, when, according to Fadhil J-Al-Chalabi, a "radical transformation of the international oil industry took place with bargaining advantages accruing to producer-governments."[27] Analyzing the interaction and interdependence of the international legal and economic dimensions of government-company relations in petroleum development, and the changing roles of the multinational oil companies operating within the market, Kamal Hossain correctly placed 1970 as the turning point in relations between producer governments and the operating companies. He traces the course of change in the bargaining power against the oil companies and suggests that the establishment of National, State-owned companies have been instrumental in strengthening the producer-government position.[28]

If the direct-negotiating phase was usually a period of great tension and maneuver, the tacit response period was characterized by situational acquiescence of the oil companies to demands made by producer-governments. The logic of this phase was transformation buttressed by a favorable shift in the bargaining position; its success depended considerably on the advantages of a coalition

strategy adopted by major oil producing countries.

Moreover, the major emphasis was on direct control over development and production strategy of oil reserves. The oil company acts merely as a contractor, providing technical services and in many cases assuming the exploration risk.[29] The consequent result of this policy was a "steady advance in the terms and conditions of arrangements" between various actors in the oil industry. The nature of the arrangements prevailing at particular periods between particular actors usually reflects the bargaining strengths of each. However, the general mode of concession arrangements have been set, one which takes into account the new powers of producing governments and of course the eroding powers of the oil transnationals. It is my contention that producing governments over time will acquire more strength through the process of economic growth and technological diffusion and development, and will eventually displace the transnational oil companies in matters affecting domestic crude production and refining. I submit that this is so after a careful study of State oil companies as instruments of government policy, and the introduction of innovative-type concession agreements.

It has been argued several places[30] that sovereign states are "feeling naked," and that the "structural transformation of the world economy through globalization of Big Business is undermining the power of the nation-state," the fact is that as represented by tacit response phase, it is the multinationals who are really feeling naked. The nation-state, particularly the powerful ones, possess enormous powers to deal with transnational corporations including of course the recourse to "sovereign acts."

The years 1973-1979 marked the indiscriminate use of sovereign acts by major oil producing governments particularly those of OPEC organization. As governments on their subunits increasingly became part of the global economic and commercial domain, they continued to claim and enjoy total immunity for their activities even in a competitive environment, and individuals and non-state actors doing business with them were placed at an unfair disadvantage. As a recognition of their newly found wealth and strength (as a result of the events of 1973 and its effect on the international oil industry),[31] producer-nations quadrupled the price of oil, nationalized certain oil companies,[32] dictated the agenda to operating oil companies and generally assumed political control of the international oil industry.

The response of the oil companies to the new posture of producer governments have been varied; each company is different. But it is possible to make broad generalizations as to how each company reacted. Generally, the companies have accommodated the needs and concerns of producer-nations, however, the logic of concessions was mostly strategic. The essence of it was access to production; the strategy behind it assumes fundamentally that debt should be incurred in lieu of equity. For smaller companies, acquiescence became a means of challenging the "majors" traditional control over the world's main oil producing areas. For example, Occidental in 1970 agreed to terms with Libya which were significantly more favorable than those applying in the major's concession areas in the Middle East.[33] As a

rule, these oil companies through various inter and intra corporate transactions and through manipulative mechanisms as "transfer pricing" eventually either get even or profit more from oil transactions with producer nations.

Althought the economic analysis of global oil may have some validity in earlier periods, and presently, it "tends to obscure the political significance" of tacit response phase. Several regimes and mechanisms of concession including service contracts and production sharing as practiced in this phase "undoubtedly emphasized the status of host State as owner of the oil even after recovery, relegating TNC to the role of a general contractor" and provider of technical services. The oil companies understand in general terms this transformation and the advantage conferred on host states, thus their policies have been one of cooperation rather than confrontation.

As for earlier governmental and intergovernmental considerations of forming what Walter Levy (possibly the top American private oil consultant), has called a "countervailing power" to the oil-producers cartel OPEC, most top U.S. oil officials have concluded that such a "confrontation organization" would be counterproductive."[34] Cooperation, rather than confrontation most observers assume, would ensure access and production and alleviate the tendency of what the then Under Secretary of State for Economic Affairs, William J. Casey, described as "an increasing Balkanization of the oil market" as each country seeks its own oil policies and preserves.

Negotiations in this phase are therefore delicate and fragile. Any false move from the oil comapnies may invite sovereign acts

from host governments and hence efforts are made toward developing appeasement packages and rhetoric which presumably should have soothing effect on producer-government-company relationship. For example, American oil contracts in the Gulf are not merely commercial. Increasingly, they are being negotiated in the context of complex, explicit or implicit, military and political relationships. "Oil negotiations are in effect only part of a tacit 'package deal' involving broader ties."[35]

Cultivating broader ties thus leads to injecting extraneous affairs in the negotiating process which in many cases are fundamentally politically inspired. On the other hand, on several occasions, producer-nations have indulged in political manipulation of supplies to extricate concessions from oil companies and their governments. Such linkage strategies tend to serve immediate demands of actors, defeating a major purpose of long-term relationship which in the first place it is meant to cement.

It is obvious then that dealings in the international oil industry could not be only understood in economic, commercial terms. Undeniably, elements of political interplay are increasingly important and essential as a medium and means of play. There are arguments which purport to convince us that politics and political variables are unnecessary in determining the dynamics of global oil. To the proponents of this argument, I caution the dangers and folly of ideological proclivities and their simplistic view and interpretation of global politics. In response, I submit the primacy of politics

over economic postulation and argue that the present crisis of global oil cannot be understood on economic terms alone. A thorough analysis and grasp of fundamental knowledge of international politics is needed. This study proceeded from that assumption.

Oil Reserves, Production, and Exports

Structural Changes in the World Petroleum Market

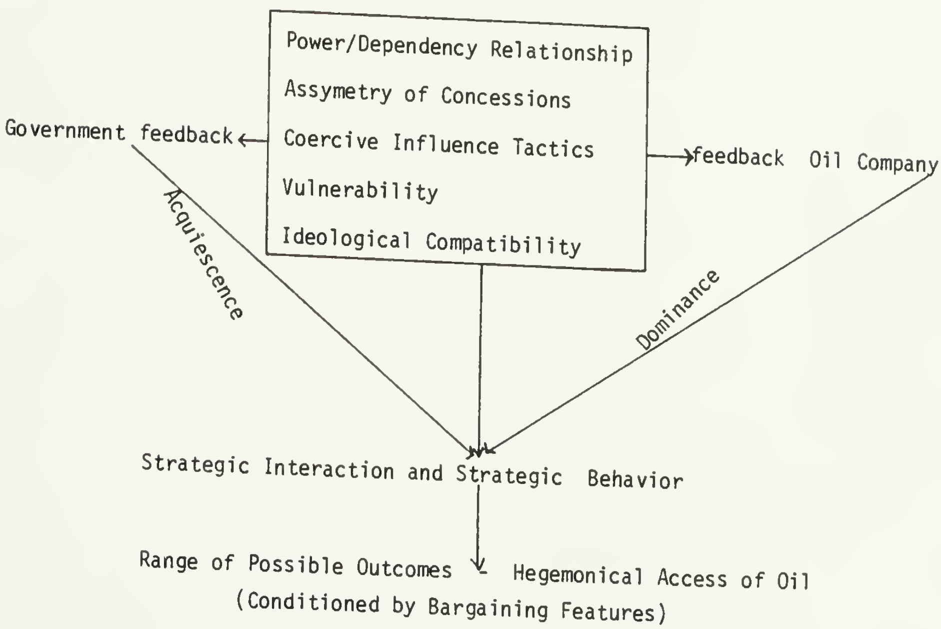
	1970	1973	1978	1979	1980	1981
OPEC Sales of Crude (mmb/d)						
To Majors						
Affiliates	-	21.1	14.5	14.1	-	-
Third party	-	6.8	4.8	3.4	0.9	-
Total	-	27.9	19.3	17.5	-	-
Direct Sales						
State-to-state	-	1.5	4.6	5.0	7.6	6.0
Commercial	-	0.9	5.1	7.8	-	-
Total	-	2.4	9.7	12.8	-	-
Total	-	30.3	29.0	30.3	-	-
Other Indicators (%)						
OPEC Ownership/entitlements to own crude	2	20	75	80	80	80
Direct OPEC exports	1	7	33	42	50+	45
State-to-state deals	1	7	19	24	37	35
Majors' share in OPEC oil	99	93	67	58	50	--
Majors' share in world oil trade	92	90	50	42	--	--

Sources: Petroleum Intelligence Weekly, February 25, 1980; J. H. Mohnfeld, "Changing Pattern of Trade," Petroleum Economist, August 1980; A Statistical Approach to Analyze the Evolution of Major Oil Companies' Control of the World Market (Vienna, Austria: Organization of Petroleum Exporting Countries, August 1980); J. Roeber Associates, quoted in Middle East Economic Survey, February 1, 1982.

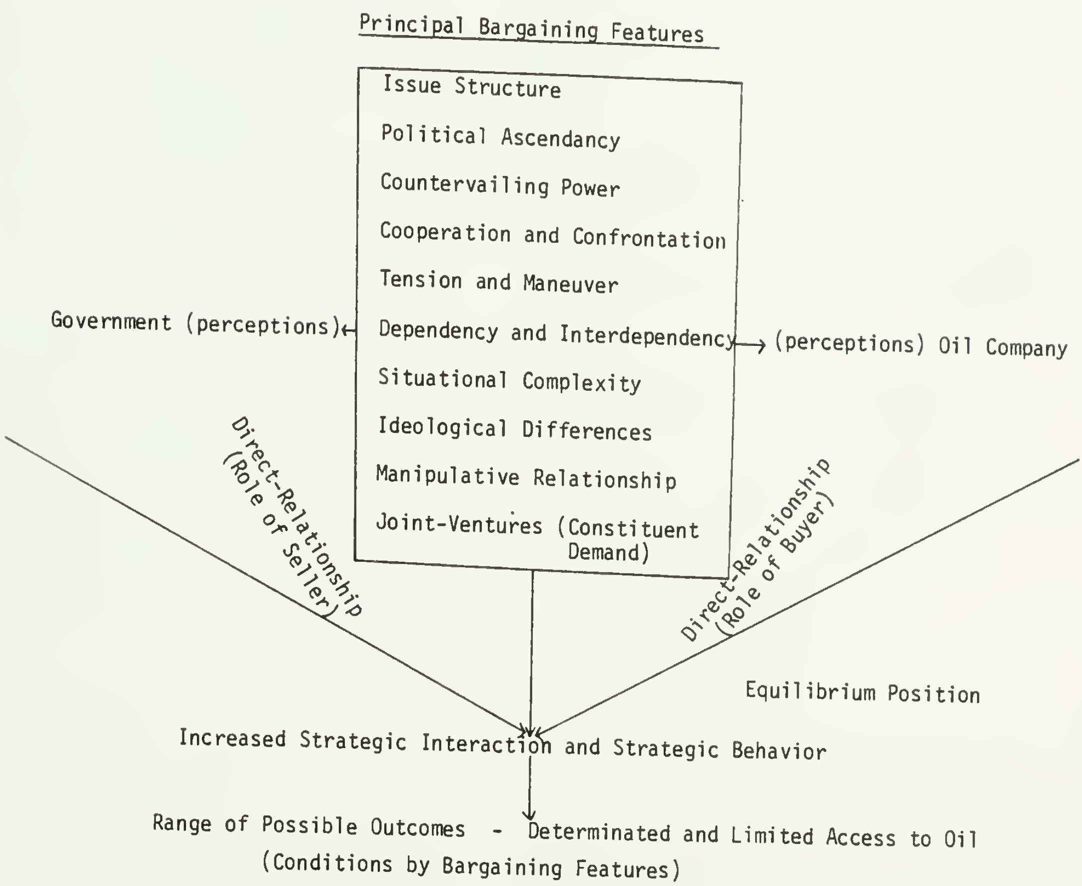
General Schematic Diagram of Government-Company Bargaining Model in the International Oil Industry (In Phases)

HEGEMONY PHASE

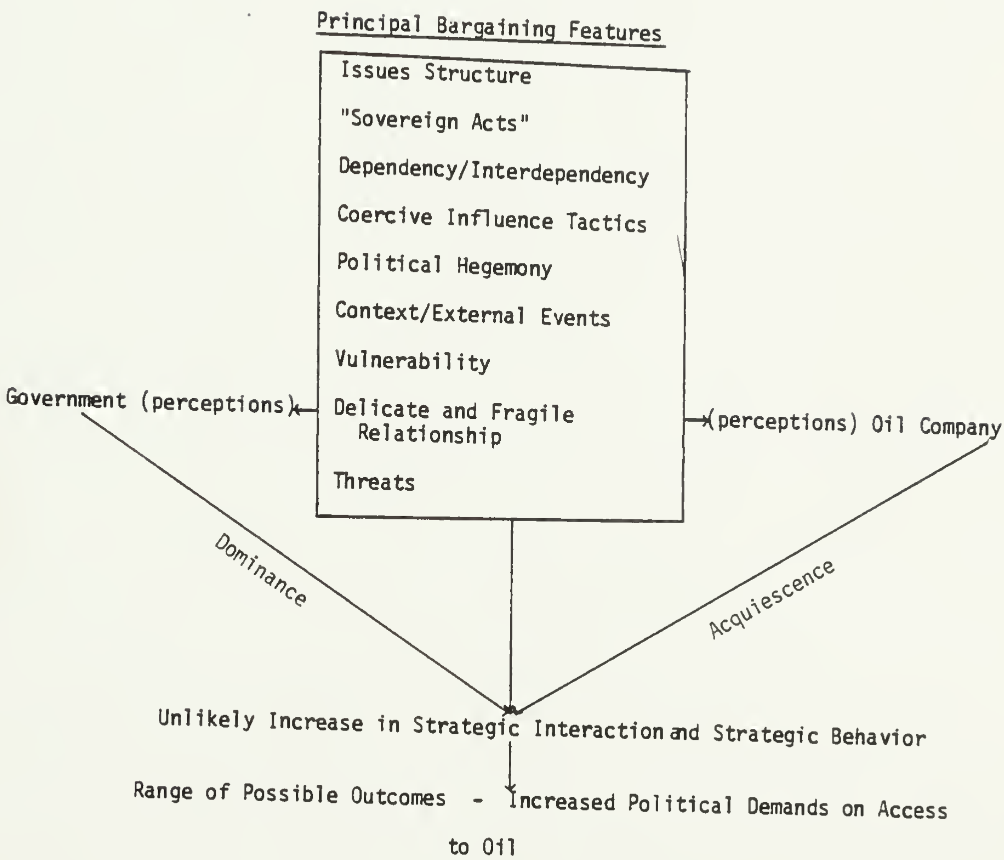
Principal Bargaining Features



DIRECT NEGOTIATING PHASE



TACIT-RESPONSE PHASE



The Waning of Hegemony: London Policy Group

Throughout the tacit response period, there has been a "steady advance" in the terms and conditions of arrangement between oil-producing states and the oil companies. This steady advance of arrangements produced enormous political and economic advantage for producing-nations while simultaneously creating a steady deterioration of the bargaining positions of the oil transnational companies.

Gradual erosion of the powers of the oil companies came as a result of the creation of OPEC and it "demonstrated clearly that the balance of power in the oil world was moving away from oil companies and in favor of the nations with oil resources." The oil companies felt vulnerable and apprehensive.

To improve its bargaining position and reverse the fastly deteriorating hegemonical position in global oil industry, the major international oil companies created what has been called the London Policy Group (LPG). The establishment of this international association of petroleum companies, in which all consumer nation's petroleum companies which play a substantial role in the international petroleum industry would be represented, was directed to the objective of maximizing the bargaining leverage of companies in their dealings with producer governments and expanding the understanding of consumer governments of the limits of the companies bargaining position.[36] The formation of London Policy Group was therefore a product of the general admission that the "companies are no longer able to effectively

bargain with producer governments over price" and other major issues such as access to and the determination of production level of crude oil.

Thus the institutional goal of London Policy Group (henceforth referred to as LPG) was the enhancement of their bargaining position through "coordinated planning and strategy," supported and encouraged by their respective governments. In other words, the logic of LPG was the provision of countervailing power; its essence was the assurance of continued access to favorable treatment in oil matters and the avoidance of risks, and castastrophe even when conditions have changed and the perils and threats of producer governments imminent.

Although oil companies still maintain a "residue" of the market power which ensured almost half a century of global oil dominance and control, this power has been gradually eroded by the increased strength of producer governments. Transnational oil companies subsequently faced a premonition of catastrophe and subsequent effort was judiciously directed towards ameliorating their weakened position in future negotiations. One of the factors of catastrophe was the "extreme vulnerability of certain companies to threats of production cuts or nationalizations which thereby reduced the ability of the companies to maintain a united front. A second important factor was the "shortsighted policies of the United States and other consuming governments which not only impeded the ability of the companies to coordinate their 1970-1971 negotiations in Teheran and Tripoli, but actually undermined their position by making concessions to producer governments at the diplomatic level."[37]

In contrast to the relative cohesion of the OPEC governments, governments of consuming nations tend to act independently and in some instances at each other throat. Reacting to the possibility of a future oil shortage, consumer governments have sought to protect their interest by seeking special access to sources of supply. One major consequence of this policy is general insecurity which might induce consumers to bid up prices, thus strengthening the negotiating position of OPEC governments.

Until the early 1970s, the United States had no consistent and comprehensive national policy regarding energy with the result that during the "energy crisis," she found it almost impossible to convince her allies of the need for cooperation on energy matters. The European Parliament went along, however, Japan, which imports more than ninety percent of its energy needs, refused to join a "consuming group." Such a state of affairs was hardly conducive to the efforts of oil companies at negotiating effectively with producer governments.

Most importantly, the State Department's attitude toward a united bargaining front for oil companies was negative. The U.S. antitrust laws posed a major problem for industry cooperation of this sort. This concern for "maintaining competition among its companies in the acquisition of foreign supplies has not only been unappreciated by other consuming nations but has contributed materially to the inability of these companies to negotiate lower prices from OPEC governments. In addition, diplomatic solutions proved

unpragmatic and ill-timed. The "Irving Mission" to Teheran sent conflicting signals both to the London Policy Group and producer governments as well. The mission instead of communicationg effectively its desire that oil companies present united front on bargaining positions, the Shah of Iran maintained his unacceptance of this strategy. The Irving Mission acquiesced. Henceforth, the London Policy Group was unable to negotiate as a group.

How successful LPG would have been without government assistance is open to question; however, one point is clear - the successive meetings held by this group only served to cement the cooperation between oil companies and producer governments. Why cooperation instead of conflict became the outcome was not clear, but it seems plausible to think that oil companies cannot afford a prolonged risk of confrontation with a strengthened producer government.

It is highly paradoxical to infer that LPG which is supposedly a countervailing power, would engage in overt cooperation with producer nations. Inference such as this may form part of the inexplicable mass of strategic interaction and behavior which has confounded observers of global oil. Peter R. Odell explains that this cooperation was a "development of immense importance in the distribution of world oil power. The immediate impact of such cooperation was strongly felt in oil price rises and shortages in many consuming countries in the period between 1971 and 1973."[38]

One possible explanation of this strategic cooperation was the desire of the oil companies to accomplish their objectives of

improving company bargaining strength through tacit cooperation and acquiscence to the demands of producer governments. The companies needed a "safety net" and this was found largely in cooperating with other actors. There is considerable evidence to indicate that oil companies may have received numerous orders from their respective governments on the need for cooperation rather than confrontation.[39]

Several factors combined to render the companies incapable of bargaining individually and left their attempt at "shoring"up their position through the LPG largely "fragmented and ineffectual." One of these factors is the perception by the members of the London Policy Group that they operate in an "apolitical environment" and that dealings in the global oil industry is mostly commercial. Consequently, negotiations on price, for example, was pursued solely on the economic laws of supply and demand. It was thought that the dangers inherent in diplomatic confrontation over price levels may be replaced by subtler effects of indirect coordination of supply arrangements so as to maximize the incentive and opportunity of producer-governments to compete. This approach and assumption is fundamentally wrong! Once a member of OPEC, member governments usually obey the laws of a cartel which in this instance is highly politically strengthened. Economical considerations are usually made, but the oil-producing nations regard disposition of their most vital resource as a subject for governmental negotiations, and they have in fact been making government-to-government agreements with some European countries for years.[40]

Although the U.S., deviating from its long-standing antitrust laws, encouraged the gathering of the oil majors in London for a discussion of issues of mutual interest, the Policy Group was basically a failure. It was a failure because of its treatment of global oil as economic matters, and its proven failure to recognize the fundamentally political nature of the Organization of Petroleum Exporting Countries (OPEC). Evidently acting on the instructions from their respective governments, oil companies (who on most occasions serve as instruments of foreign policy) refused to recognize the political nature of OPEC.

On a more technical level, the various individual oil companies have divergent views and interests and could not therefore form a coherent, consistent front against producer nations. In addition, the idea of a formal countercartel to OPEC has lost a great deal of ground because of fears of arousing the producers' ire. A respected oil economist, Professor Walter Meade, says that the exclusive supplier negotiating with the exclusive buyer is a classic example of a "bilateral monopoly," which "inevitably leads to stalemate."[41]

Bringing "order" back to the world oil market was supposedly the mission of the London Policy Group. This order was aimed at reversing gains and the advantages accumulated by producer-governments since the formation of OPEC, and improving deteriorating position of companies in world oil. This "order" was never achieved; instead several arrangements based on tacit consent and cooperation emerged,

taking into full account the newly achieved powers of producing governments. Oil companies were forced to reach "collective agreements" with oil producers while still maintaining the "appearance" of fighting OPEC tooth and nail over the agreements - as they sought to keep their increased tax obligations to a minimum and to delay "participation" in the global oil industry...they certainly recognized that their best hopes of future profitability and even of survival, depended on their successful cooperation with the major oil producing countries... thus OPEC/oil companies cooperation became a fact of the oil-power system of early 1970s.[42]

The failure of the London Policy Group effectively entrenched the tacit-response phase of bargaining in international oil, and implicitly recognized the dominant position of producing nations. It furthermore, "forever" ended the era in which the companies could dictate price levels and production limits to producer governments, though this failure has not completely nullified the ability of the oil companies to negotiate price in times of excess global capacity.

Producer-governments were aware of the shrinking and eroding powers of the oil companies and took advantage of this situation by gradually but effectively transforming their position.

<u>The Politics of Transformation: Nigeria, OPEC, and the Oil Companies</u>

In the earlier chapters, attempt was made to explore, analyze, and explain theoretically the dynamics of global oil taking into special consideration the bargaining strategies inherent in the oil

realignment of forces and the political will to maintain and sustain the new position. Efforts to this end usually are accompanied by new political and economic issues which threaten the viability of the new regime and works to support the established order. The first strategy breeds discontent and revolution leading to systemic instability; the second only strives to sustain implied legitimacy.

The politics of global oil is strategy; its objective is access based on particular interests. The outcome of strategy could either be predicted, called with certain amount of accuracy according to the role of each actor and the environment of action. Limit has been placed on the number of actors to be dealt with here because of space and most importantly scope. I have chosen to discuss the position of Nigeria within the framework of OPEC and the politics of transformation which by no means is limited to the oil sector. The politics of transformation in the Nigerian context extends to other fields of economic enterprise. This extention will be discussed later in this study.

Nigeria is rich with large amounts of hydrocarbons. Indication that Nigeria might be a potential oil-producing country led a German company known as the Nigerian Bitumen Corporation to take a license for its exploitation in 1908. But this company folded up at the outbreak of the first world war.

Two decades later, the Anglo-Dutch Consortium Shell D'Archy[43] entered the stage. The company's search for oil in Nigeria began in 1937. The operations of this group were also disrupted by the

second world war. However, in 1956 perseverence and effort paid off and oil was discovered in promising quantities at Oloibiri in Jenagoe Province. This find was rapidly developed and two years later and an expenditure of 25M (British pounds Sterling), Nigeria was in the oil business.[44] At that time the government and the company came to an agreement that profits which might derive from the company's activities should be divided on a 50/50 basis which was in line with prevailing international practice. Initial agreements were quite elementary, reflecting the assymetry of bargaining strengths, with oil companies of course enjoying the advantage. In fact, serious interpretation of available data indicated a process of unequal exchange. Today, the 50/50 sharing agreement has subsequently been modified in favor of the government. For instance, by the present equity share the government receives 98.2 percent of the profit while the companies get 1.8 percent based on 60/40 joint-venture agreement.

Subsequent modification, creation of new agreements has substantially transformed the government position from one of unequal partner to one of comfortable, full-fledged actor, reflecting among others, historical developments which confer advantage. The government position gradually was transformed from one of bargaining inferiority to that of roughly equal strength based on the fact that hegemony favoring oil companies gave way to direct bargaining phase and finally to tacit-response phase. These

chronological adaptation of the history of global oil reflects the eroding of the powers of the oil companies and a massive transfer of instruments of power to producer-governments. The transfer of power and how it operated was analyzed earlier in this chapter, and in the Nigerian context such a state was reached largely through political means and by the instrumental role played by high level bureaucrats whose contributions remain highly controversial even up to the present.

In Nigeria where pluralism is most pronounced but where autocratic tendencies flourish, choice of instruments and techniques in the planning process usually tend to be formulated and presented by high-level bureaucrats in morsels of unquestionable dogma. This means that the conduct of policy usually entails "disagreeable debates and controversies conducted in terms of personal abuse with a conflict of personalities and largely by those who cannot fully appreciate the meaning of the great issues at stake,"[45] because there has always been a conflict of interest between the "political class" and the bureaucrats.

The political class in Nigeria "is not articulate" and consequently policy formulation and execution has largely been left solely to the bureaucratic regime legitimized by occasional and incoherent compromises forged in concert with the ruling or political class. The result was that policies formulated took bureaucratic forms and imperatives, and popular participation when possible and desirable denied. Bureaucratic dominance naturally led to several

abuses of power and corruption, and resũlted accidentally in the complete control of the machinery of government. Thus, the bureaucratic group drawn from the intellectual and professional class play a disproportionately significant role in the determination of development objectives particularly where the political class is not articulate.[46]

Bureaucratic dominance of policy formulation is highly dangerous in a country so diverse and làrge as Nigeria. In the process, the Nigerian character was subdued and bureaucracy inevitably became an instrument of national policy. The abdication of the powers of policy formulation by the then military government (who presumably are the guardians of national growth and welfare) to a bunch of self-seeking bureaucrats constitutes one of the most political mistakes in the history of the Republic and invariably destroys the legitimate participation of the body politic in affairs which determine their future. This abdication is dangerous because the spirit of policy and that of bureaucracy are diametrically opposed. The essence of policy is its contingency and accommodation; its success depends on the "correctness of an estimate which in part is conjectural." But that of bureaucracy is its quest for "safety" and calculability based on a given legislative mandate. In this sense, policy involves an adjustment of risks and demands; administration an avoidance of deviation.

Analyzing the role of the bureaucrat in policy formulation and execution of development objectives in Nigeria is necessary

because one cannot understand fully how critical decisions (especially those on petroleum matters) are arrived at, unless a thorough analysis is made of the bureaucrat and his power in the government machinery. In other words, negotiations with oil companies in Nigeria can be analyzed and understood when the significant role played by the bureaucrat is considered because apparently they were and still are the main actors.

The kind of game Nigerian "planners" decided to play in dealings with international oil companies was not one of bold maneuver which risked prudence and caution on a quick checkmate. Rather, it was deliberate, cunning and purposeful; a game where the advantage lay in a gradual transformation of the position, in which the opponents moves were utilized first to paralyze him and then force him into submission. It was a game whose daring resided in the protection and advantages of an alliance through which it has to by played, when one wrong move might mean disaster and loss of confidence might spell isolation.

The principles of the game have been formulated and executed with the conviction that a transformation of the government position on matters concerning her natural resources was indeed necessary and sensible. The need for transformation reflects the urgent need on the part of the government to maximize benefits from natural resource extraction.

It is a common knowledge however that several resource-rich nations of the "third world" do not have the financial and technological base to exploit those resources.

In order to tap those resources, nations have resorted to either one or all of the following basic methods:

1) undertake joint ventures in which foreign investors supply management and technology and markets as well as a portion of the capital - with remaining capital furnished by the host country,
2) institute management contracts whereby experienced foreign corporations offer management and technology only, and the host nation supplies the capital and tries to market the product,
3) do without foreign participation entirely and furnish management and technology, capital and markets itself.

The British colonial government in Nigeria, as "soleowner" of petroleum minerals in Nigeria implemented the first method.[47] But the government of the independent Republic of Nigeria presently employs options 2 and 3.

However, at various points in the negotiating process, Nigeria has demanded from the oil companies options 1, 2, and 3 depending on the package deal presented by companies and more importantly depending on how government negotiators perceive each deal. Reliance on these options as guidelines for her oil industry was not completely attractive to the government of Nigeria and governing legislation for petroleum operations in the country contained in Mineral Oil Ordinance (Chapter 135) and its subsequent amendments as well as Petroleum Decree 51 were published on November 27, 1969.

Petroleum Decree 51 seems to be the most important and perhaps the most powerful government pronouncement on petroleum matters up to date. It repealed some of the previous scattered legislation and provided for petroleum rights under defined terms.[48] Decree 51 also made it clear that "no further" petroleum mining rights be granted and that henceforth all rights would be granted in the form of production contracts through the government's national oil company.[49] Furthermore, the decree provided that "special terms and conditions" - including government participation and "special provisions applying to any national gas discovery" - may be imposed on a prospecting license of mining lease "if considered to be in the public interest." Existing rights were allowed to remain in force at the government's discretion.

A clear definition of government's policy and purpose was therefore instrumental and influential in determining the future course of oil exploitation in Nigeria. In addition, clarity of purpose had tremendous impact in the formulation and execution of policy by high-level bureaucrats, and also in preparations for strategic bargaining and negotiations with the international oil companies.

Following the drastic changes in concession terms which began in the Middle East in 1970, Nigeria, following such example and trend, transformed her position into one of advantage. The 1970s ushered in an era of increased production and increased revenue and consequently of boom for Nigeria. The 1970s also represented an era of increased

dynamism in the Nigerian oil industry characterized largely by the direct-type negotiating strategy.

Nigeria's entry into the Organization of Petroleum Exporting Countries (OPEC) in July 1971 gave tremendous boost and impetus to her bargaining position within the international oil industry. In fact, Nigeria's entry into OPEC had an immediate impact on her bargaining position. Not only was she able in the short run to enjoy the wealth of OPEC experiences which proved tremendously helpful in the series of participation agreements reached with various oil companies, the huge increases in the price of oil during the 1973 Yom Kippur War swelled her treasury. Before 1973, the top quality Bonny Crude was selling for less that $3 per barrel; in January 1981, it hit the record high of $44 per barrel on the spot market. Thus between 1977 and 1980, Nigeria earned $53.4 billion as oil revenues.

Before 1971, Nigeria's control of its oil industry was virtually nil. Oil companies were given free hand to operate the industry as they saw fit and the country "drew whatever small revenues were offered." After 1971, and immediately after accepting membership into OPEC, all these measures changed. The nation has taken greater control of the oil operations in terms of participation and equity share-holding, expatriate quota and the employment and training of local manpower. Major steps such as these have contributed immensely to confidence building measures which the nation enjoys.

Before she joined the organization, Nigeria relied mostly on the traditional concession and contract agreements with international

oil companies for the production and disposal of her crude oil. Recently, "innovative" agreements such as production-sharing and service contracts regimes, drawn upon the pool of international knowledge and experience, has dominated contractual agreements. In general, these innovative contracts are designed to reflect the growing strength of producer-government and the gradual erosion of the powers of international oil companies. This has been so with Nigeria and indeed with major, mature oil producing countries. Since her inception into OPEC, Nigeria has achieved enormous powers and advantages over the oil companies which represented an important step toward the fulfillment of her economic development plans. However, on several occasions, these triumphs have proved to by pyrrhic victories.

Several major concession regimes and contracts concluded during the 1970s reflected for the most part the increasing strength of the government and her ability to transform without much difficulty a stated position. Moreover, elements of independence have been judiciously created and where necessary have displaced foreign establishments or have, when complete displacement is impossible, entered into joint-venture arrangements. The aggressive stance of the government stems in part from her increased sophisticated knowledge of the intricacies of the global oil and perhaps more importantly on the international knowledge and experience on which the majority of her agreements have been drawn and based.

The nature of agreements concluded with major oil producers indicate attempts at following closely those arrived at with OPEC and its members. This trend increasingly reflects the importance of membership ties to this organization by the government of Nigeria, but recently, arguments abound within governmental circles whether OPEC as a cartel is indisposable to the needs of Nigeria. In other words, Nigeria's membership in OPEC became controversial. Several authoritative figures have voiced "we do not need OPEC," but I argue that Nigeria does need her membership in the organization. A short survey of major agreements reached by the government and significant international oil companies will undoubtedly shed light on the various arguments. However, before this can be done, it is necessary to take a look at the major agreements.

In April 1971, terms of a five-year agreement on oil revenues were agreed "in substance" between Nigeria's government and Shell/ British Petroleum, the nation's major oil producer. A new clause refers to "a new schedule of producer capital allowances" under which Nigeria reduced capital expenditure that companies may offset against tax liability. The overall effect may be to reduce capital allowances by between ten and fifteen percent. Effect of reductions will be granted for companies operating offshore such as Mobil, Texaco and Gulf, which have more production costs than companies operating onshore, such as Shell-BP. The agreement closely follows a pattern set in Teheran and Libya.[50] A new posted price for Nigerian 34-gravity API crude was fixed at $3.41 per barrel. This

represents an increase of 85¢ over basic posted price of $2.36 fixed in September 1970. The new agreement also contains the 2½ percent escalation rate to insure against inflation and 5¢ per barrel annual price increase from January 1973. A 10¢ per barrle with 2¢ annual increase premium for sulphur is also part of the agreement because of low sulphur quality of Nigerian crude.

On May 3, 1971, the five-year oil "settlement" was signed. It was patterned almost identically on the 1971 Libyan settlement except for the temporary freight premium which was established at 9 cents/bbl. Libya's freight premium was set at 6 cents/bbl. The Nigerian settlement is effective on March 20, 1971 just as the Tripoli agreement, and includes the same 10¢ low-sulphur premium escalating upwards 2¢ annually, the same temporary short-haul premium (adjusted for Nigeria's geographical position), the same inflation escalation provisions and the same rise in the base tax rate from fifty percent to fifty five percent.[51]

These new arrangements, although it undercut significantly the profit base of major oil companies, nevertheless kept the companies operating in Nigeria. This is because many economic and political factors influence oil company operations in the country. These include,but are not limited to, assured access to crude oil, rate and extent of exploration, rate and extent of sector development, financial arrangements with the government, rate of production and level of output, transfer of skills and technology, sharing of financial returns, pricing and so on.

In the case of Shell-BP operations in Nigeria, these factors have contributed to the forging and establishment of "linkage" mechanism whereby a loss in the "upstream" operations is compensated with a gain in "downstream" operations in Nigeria and elsewhere. This is made possible by the vertical network of corporate arrangement and by the interlocking directorates among international petroleum companies which made it possible for the "establishment of a common oil policy throughout the world." Thus, a loss in Nigeria could translate into a gain in Indonesia, for example, and vice-versa. Moreover, ownership of factors of production and distribution is "shared." Such a network of joint ownership obviously provided opportunity, and even necessity, for joint action.[52]

In fact, a temporary setback for Shell-British Petroleum has not discouraged her from exploring and producing Nigerian oil because the company's strategy has been mainly one of access and assured production of crude oil. In addition, as Pearson has pointed out, concrete economic factors include the location and quality of Nigerian crude. Advantages of location include both international shipping charges and security of supply routes.[53] Therefore, it is understandable why Shell-BP including other oil "majors" are very much interested in Nigerian crude even at exorbitant prices, which occasionally go beyond the official postings of OPEC. Despite the price hike, the activities of Shell-BP logistically and otherwise have increased dramatically.

Like most oil companies, Shell-British Petroleum has a vast collection of diverse affiliates with different functions operating

in different countries both in the "upstream" and "downstream" operations. These include exploration and production, refining operations, petrochemicals, shipping and distribution of products, research and development. Although major oil companies place a great deal of emphasis and importance on access to crude oil production, when access proves unprofitable, recuperation usually follows with enormous profits made from downstream operations such as refining of crude oil and petro-chemicals.

Therefore, investment patterns of major companies tend to be highly diversified. The head office of the entire "integrated" operation systematically reassess its global marketing position and then reallocates production to its various producing areas by choosing the most promising and profitable investment alternatives. In this, the overriding strategy is to maximize profits on a global scale. Christopher Tugendhat observes that oil companies are not philanthropic organizations, nor are they for the most part instruments of government policy. They are independent commercial concerns trying to make money.[54]

Corporate directors and executives have this notion of healthy return on investment before them while making investment decisions. Host governments normally are aware of this need and tailor their own demands during negotiations in such a way as to control and check profits earned by companies. This attitude has on many occasions given rise to reciprocal demand intensity whereby both parties are bent on achieving the best possible results on given set of bargaining

issues. Inevitably, the central question emerging from this situation is, What will be the benefit-to-cost ratio that is simultaneously acceptable to each agent?[55]

The directors of Shell-BP in Nigeria over the years have been "pushing" for increased crude oil output - a concession the government granted in return for increased royalty payments. Though head offices plan globally so as to balance supply and demand, in the case of Nigeria, production has been geared toward maximum output, but during time of "glut," exploration has been halted requiring the government to grant tax incentives for a renewed effort. This was so in 1977 when the government was forced to "arrest the decline in oil exploration activity by granting several incentives."[56] However, keenly aware that petroleum is a wasting asset and that current world prices are affected by oversupply, some Nigerians, anxious to make the best possible use of potential oil revenues to spur agricultural and industrial development, have called for restraints upon production in the short term.[57]

It is enough to say that oil companies through a concerted, coordinated effort, deliberately reduce production in order to maximize profits. However, this trend does not entirely capture Shell-BP's long-term investment goal in Nigeria where total investment currently, according to British financial circles, approximates or varies from 210 million (Financial Times) to 600 million [58] (British pound Sterling). The strategy is to produce as much oil as possible, refine some at home base and most abroad and then in turn

resale the refined crude and allied products at exorbitant profits to Nigeria and other buyers. This lucrative business continued until Nigerian government nationalized British Petroleum. Before "Nigeria's axe fell," British Petroleum was getting 2.4 million barrels per day from all sources, so it could afford to resell 400,000 barrels per day after 2 million barrels per day must have gone to satisfy her internal demands, Nigeria's chop cuts out 240,000 barrels per day, leaving a mere 160,000 barrels per day to resale. The 240,000 barrels per day nationalized was sold in the "spot market." Monty Pennell, BP's deputy chairman predicted this will act as a "destabilization factor" on world oil prices.[59] It did, but however the effect seemed trivial since the excess figure represented what BP would have at any rate sold to customers all be it on contract basis.

Another major agreement was between the government of Nigeria and Elf's Safrap under which the company "is to be allowed to resume operations in association with the government, which will acquire a 35 percent interest in the Company, scaled to rise later to 50 percent."[60] One important feature of this agreement and all others is the provision for government "participation" and ultimately control of oil operations. The government announced in 1972 that no further rights would be granted under Decree 51 and that henceforth all rights would be granted in the form of production-sharing contracts and service contracts through the government's national oil company.

By decree of April 27, 1971, the Nigerian National Oil Company (now Nigerian National Petroleum Corporation, NNPC) was established. This organization, although it "had no statutory duty to regulate and supervise the operations of the oil industry in Nigeria," nevertheless became the instrument with which the government was able to concretely carry out her participation policy. NNOC requested thirty five percent participation in 1973 from operating oil companies in Nigeria, and in 1975 raised its request to fifty five percent and in 1979 to sixty percent. Most companies, including Agip, Marathon, Texaco/Chevron, Phillips, Mobil, and others signed "agreements of assent to participation" in early 1974. The policy became effective April 1, 1974, and "covers all production." Under the agreement, the government obtained fifty five percent participation, but allowed producers options to buy up to 86.25 percent of total production.[61] In pursuit furthermore of Decree 27, NNOC was empowered to enter into contract or partnership with any company, firm or person, who, in its opinion, will "facilitate the discharge of its duty." Negotiations as a result became more difficult and protracted because the national oil corporation "shall have powers to do anything which in its opinion is calculated to facilitate the carrying out of its duties" and because the "Commissioner" was granted enormous powers.[62] Enormous and unproperly defined powers inevitably led to finding faults where there was none and consequently some of these participation agreements were slow to finalize. Texaco and Standard of California announced final agreement on fifty five percent only in January 1978.

Safrap Agreement was signed in 1972. Under the agreement, an initial thirty five percent participation in all of Safrap's interest was obtained to be increased in stages to a maximum fifty percent if the joint venture's crude oil production reaches 400,000 barrels per day. 1972 output was 50,000 barrels per day. Today, participation percentage has been revised to sixty percent in conformity with the general rule.

By far, the most controversial of these agreements was signed with Ashland Oil (Nigeria) Ltd., on June 12, 1973. This agreement is based on new innovative concession regime known as production sharing described earlier in this chapter. Nigerian National Petroleum Corporation (NNPC) acting on behalf of the government appoints Ashland Oil Company to conduct petroleum operations. Ashland bears exploration costs "and has economic interest in development of crude oil deposits in the contract area." The company also bears risks if no commercial discovery is made. Proceeds from the sale of up to forty percent of crude oil produced, known as "cost oil," is set aside for the recovery of capital invested by Ashland and the company's operating expenses. A percentage of the remaining part is set aside for the payment of all fiscal dues by Ashland. The net remaining is shared between the government and Ashland in the ratio of 65-35 percent basis for output of up to 50,000 barrels per day and 70-30 percent basis if output exceeds 50,000 barrels per day.

Although government's policy on new agreements were in general tough, and although government officials followed prudent measures

on negotiating deals, Ashland agreements were embroiled in controversy. It was generally thought Ashland earned a better deal by enjoying the uniquely newly introduced marketing commission on specified quantity of NNPC oil disposed by the company. Moreover, Ashland secured access to the much needed low sulphur Nigerian crude for a comfortable period of time which under older concession regimes would have otherwise been difficult. Although it is because of the "measure of its success" in Indonesia (which pioneered it), that production-sharing was adopted by Nigeria and by other major country producers, advantages went to Ashland because "the overall management of petroleum operations by the State" which is one of the provisions of production sharing regime, was left largely to Ashland Company due to technical reasons. Nigerian planners presently have not, unfortunately, mastered the intricacies of petroleum production technology. Although the state legally retains overall management control, in practice, the oil company exercises day-to-day control. A major reason for the adoption of production-sharing contracts and service-contracts by the government of Nigeria was because of the political significance of the new legal arrangements which was a factor in quieting informed public opinion on issues of petroleum concession regimes. Although in practice, the control of the petroleum operations tended to remain in the hands of the contractor, the ownership factor was not without significance.[63] The essence of these innovative contracts was its attractiveness based on the notion of national control. At a time when calls for "natural

resource ideology" became a cliche, production sharing and service contracts were engaged largely to cement the politics of transformation and add legitimacy to this transformation. Indeed Nigerian public opinion needed that, and the notion of control became synonymous with supervisory effectiveness and efficiency.

In pursuit of her policy of diversifying agents for the country's crude oil production, Nigeria also granted an oil Prospecting License No. 90 to Occidental Petroleum of Nigeria commencing October 1, 1971 and good for five years. This, of course, was subject to the Petroleum Decree 1969 and the regulation thereunder. This agreement was the joint venture type and different from the more innovative types described above. The government, through its agent, the NNPC, participates in an undivided working interest with Occidental in the proportion of fifty one percent for the government and forty nine percent for Occidental. This arrangement is different from innovative methods because "all investments, costs and expenses of operations borne by in proportion to respective percentages interest provided" however, until discovery of petroleum in commercial quantities Occidental shall advance all funds necessary and shall be solely responsible for all investments, costs and expenses.

Unlike the production sharing agreements of Ashland Oil Company, arrangements with Occidental place enormous financial burdens on the company while the government retains a de jure control of operations. Occidental's strategy has been one of gaining access

to Nigeria's oil fields, and although the financial rewards are based on gambling instincts, the company nevertheless went along with the deal. An unprecedented loss on the company's side will, of course, be written off as tax deductible in the parent country. Therefore, on the whole, the arrangements were attractive because from discovery of petroleum in commercial qunatities, NNPC shall pay currently its share of all investments, costs and expenses,[64] and Occidental won the right of management and "as operator" of the joint venture.

In general, the outcome of negotiations leading to agreements tend to depend on the nature of demands made or not made by participants. However, I submit that the presence or absence of certain crucial variables alter the bargaining situation and strength of either participant in the negotiation process. It is evident that company's operations in both resource and product markets are often influenced by impositions made, or not made, by the government of Nigeria. Conversely, it is clear that company's operations in the country is dependent on how favorable the country's commercial and foreign investment laws are to it. This situation, thus, results in bargaining between actors in which each negotiating agent is intent upon obtaining the most preferred conditions. However, in Nigeria, investment and commercial laws have been most favorable to oil companies who are exempted from the several rounds of "indigenization" decree.

This is, of course, not to argue that negotiations and arrangements in Nigeria's oil industry have been smooth and devoid of conflictual demands and factors. Intense bargaining and negotiations characterize it, and usually bargaining in these situations involves the perception of a desired position or an outcome mutually acceptable to negotiators. Participants juggle for a position which enhances or "maximizes" a "desired state of affairs" in which the perceived benefits outweigh costs. This realtionship which approximates the direct-response phase of negotiation, is typical of the bargaining model developed by several writers.[65] The central focus of the bargaining model is upon the impact the variables of impatience, flexibility, dependency and reciprocal demand intensity have on the cost-to-benefit ratio established in a bargaining situation.

The suspicious nature of government officials, initially unaware of the many complexities surrounding the international petroleum industry, have combined lack of oil experience with a very justifiable feeling of rationalistic caution regarding foreign exploitation of a depleting natural asset. This view that oil is not a "lasting natural asset" and therefore one has to make the maximum out of it dominated the mentality of Nigerian oil planners and negotiators. Because oil is a much needed commodity, Nigerian negotiators were extremely patient in negotiating oil deals with international oil companies operating within the country. In addition, Nigeria is first and foremost a rich agricultural country,[66] and this fact gave the Nigerian authorities added boosts and more

bargaining chips in the negotiating process. They know that if the oil sector falters, recourse to agricultural sector is inevitable. Unfortunately, the faith placed on agricultural production has been misplaced and distorted. Agricultural sector is performing dismally poor and paradoxically this sector has proved to be the Achilles Heel of Nigeria at the negotiation tables. Nigeria has to feed her teeming millions; the authorities know this, the oil company negotiators know this fact as well. Hence caution and prudent efforts are made to reach agreements with these companies with the necessity for averting national catastrophe. The perils of not reaching agreements are compounded by the fact that Nigeria is a developing nation and hence needs every dime of the oil revenue. Nevertheless, efforts are always made at extracting the maximum concession from the oil companies by insisting on reaching the "bargaining reference" (that which is reasonable to seek) based on internal and global conditions of the oil industry.

Nigeria's entrance into OPEC was a giant step into realizing substantially the dreams, power and wealth which comes with ownership and production of petroleum, but she has, on several occasions, broken ranks with this organization fundamentally on matters affecting national interests and security. On the fence posture of Nigeria regarding her membership in OPEC reflects the acrimonious fact that membership has "remained an issue of public debate" and very controversial ever since the country joined the "cartel." This shaky relationship has been largely so because of

the topsy-turvy nature of the international oil industry and because Nigeria which has, since the "oil boom" depended precariously on the oil sector as the major source of foreign exchange and development finance, have on several occasions experienced "many ups and downs" in the oil enterprise. Dependence on OPEC (an organization dominated by Arab states) for crucial and sensitive policy decisions simply did not augur well for Nigeria. And right from her inception into the organization, skepticisms, debates and controversies have characterized her membership, and occasionally, questions from respectable quarters have been heard on whether Nigeria needed OPEC membership, dismissing in effect, the benefits and costs inherent in being a member of OPEC. Clearly, a necessity for choice exists; dismissing OPEC as an institutional burden is not a logical step or alternative to follow in situations calling for reflection.

The Organization of Petroleum Exporting Countries (OPEC) was formed on September 9, 1960 as "an act of protest...a revolt against the highhandedness of the multinational oil companies,"[67] who have kept oil prices "artificially low." One of the functions of the organization is therefore to ensure a fair price to oil and "such price shall be determined by the government."[68] Realizing that oil is and will be an important commodity to advanced industrial nations and that the supply of this commodity is limited, the thirteen countries which make up the Organization of Petroleum Exporting Countries have been bargaining from positions of enormous strength. In addition to possessing the preponderant share of the

Free World petroleum reserves and accounting for nearly ninety percent of the oil moving into world markets, the OPEC countries "have banded together to form a highly effective bargaining unit in dealings with major oil companies. However, OPEC nations may or may not be able to maintain their cohesiveness in future years."[69]

But what is OPEC? and why has the organization been a fascinating subject of study for political scientists, economists as well as statesmen? We shall begin to answer these questions by mentioning the various stages of the development of that organization, its behavior within these various stages, taking into consideration four fundamental theories explaining behavior. Conventional wisdom endorses the view that OPEC is a cartel. But what kind of cartel is it? We make the distinction between ordinary commercial oligopolies or cartels and political cartels organized by intergovernmental solidarity. We believe although international oil has undeniable economic consequences, economic considerations tend to serve political goals. Depending on how one characterizes OPEC and the consuming nations, events in global oil is best understood as an interplay of competing interests and we would wish to emphasize on the uncertainties and complexities which characterize the global oil industry.

Following a conference held in Baghdad in September 1960, the Organization of Petroleum Exporting Countries (OPEC) was established by the then five major producer countries: Saudi Arabia, Iran, Kuwait, Iraq and Venezuela. Events that led to the formation

of this organization included the realization that the price of oil has been kept "artificially low" by producing oil companies. Producer governments became gradually aware also that substantial economic rents from the world oil market could accrue to them if they pressed demands. In addition, and perhaps the most important feature in explaining OPEC behavior is that "OPEC would no longer allow its fate to be tied to the world oil market but rather would insist upon being insulated from the market."[70] Hence the use of "shadow prices" as a basis for tax payments to producer governments.

Market conditions, as James M. Griffin pointed out, "greatly limited" OPEC's set of possible action.[71] A surplus of oil flooded the world market and the emergence of new oil producers aggravated the situation further. Thus neither OPEC protests, nor subsequent negotiations with the oil companies restored prices to the former levels.

By the early 1970s, however, demand of oil outstripped supply and OPEC's strength increased dramatically. Thus three major systemic developments were put in motion: (1) Participation arrangements, (2) Production controls, (3) Changes in the tax structure. Libya, under Colonel Gaddafi, spearheaded the drive for more government revenue. In order to strengthen its bargaining position, the Libyan government ordered a series of production cutbacks, and won out over Occidental Oil Company which was "singled out" for pressure. Libyan success sent waves of protests over the entire Gulf region and "leap frogging" became a regular feature

of oil negotiations. The Libyan negotiations thus were of critical importance to the entire structure of international oil pricing.[72]

Between December 9-12, 1970, OPEC countries met in Caracas, Venezuela and adopted Resolution Number XX 1120 which called for a fifty five percent tax rate for all member countries as well as various other adjustments. Major concessions were won from the oil companies under the terms of the following negotiated agreements:

Date	Agreement	Countries involved
February 1971	Teheran	Abu Dhabi, Iran, Iraq Kuwait, Qatar, and Saudi Arabia
April 1971	Tripoli	Libya
June 1971	Mediterranean	Saudi Arabia and Iraq
January 1972	Geneva	Abu Dhabi, Iran, Iraq Kuwait, Qatar and Saudi Arabia
December 1972	OPEC Participation	Abu Dhabi, Kuwait, Qatar, and Saudi Arabia
March 1973	Iranian Consortium	Iran
June 1973	Geneva Supplemental	Abu Dhabi, Kuwait, Iran, Iraq, Qatar, Saudi Arabia

The Teheran agreement provided for an average 30¢ per barrel immediate increase in government take escalating to 50¢ by 1975. In addition, "its provisions constituted a "binding settlement" on the parties for five years for the purposes of establishing security of supply and stable financial arrangements. This agreement lasted for only six months after which fresh negotiations started.

Teheren Agreement was closely followed by a March 20, 1971, Tripoli settlement which resulted in an immediate increase in Libyan government take of 65¢ per barrel. This increase is on the average about 20¢ to 30¢ per barrel higher than what the government achieved in September and October of 1970.

The Geneva and OPEC participation Agreements were unique and very much unlike Teheran and Tripoli. Geneva agreement adjusted for the 1971 U.S. dollar devaluation. The Supplemental version increased the posted price to adjust for the second U.S. dollar devaluation. The Participation Agreement provided the host countries with a twenty five percent equity in the companies' operations to be increased gradually to fifty one percent by 1982. These percentages act only as guidelines; members of the organization retain the right under Djakarta Agreement of 1963 to demand what percentage suited the national interest. Thus in Nigeria, this percentage escalated to sixty percent while in Saudi Arabia it is one hundred percent.

On October 16, 1973, just days after the outbreak of the fourth Arab-Israeli war, Saudi Arabia, Kuwait, Iraq, Qatar, Iran and Abu Dhabi declared themselves to be "sole arbiters" of price and unilaterally raised their crude oil posted price by an average of \$1.99 to \$5.00 per barrel. This increase effectively nullified the Teheran Agreement. Other OPEC members subsequently announced similar increases.

In November 1973, the international oil companies protested this unilateral OPEC action. But it was clear that the era of negotiated

pricing had come to an end. Shortly after this, there was a one hundred thirty percent hike in the posted price of oil to $11.65. While the origin of the Arab oil embargo was political, the international supply crisis it created drove up market prices and while OPEC did not raise international oil prices in 1974, member countries continued to raise international oil prices. By 1980, the Iranian revolution and the subsequent Iran-Iraq War sent prices to over $32 per barrel and considerable differences of opinion arose over the appropriate price increase among OPEC members. OPEC, argues Fereidum Fesharaki, has never any clear, long term policy but to get the best price it could given the various systemic constraints,[73] and neither did the members agree on any unified pricing schedule. The question of differential pricing schedule has been a very difficult one and despite millions of dollars and uncountable computer time devoted to this issue, there never was answers.

Inspite of these problems, OPEC recognizes immediate and long term prospects of the global oil market. Realizing the dangers of flooding a soft-market with oil, OPEC has prudently instituted production cut-backs and quotas to shore up a sagging market. The present $29 per barrel of OPEC oil seems to hold until 1985, however, the OPEC group must contend with non-OPEC producers who are increasingly cutting into the market once held by OPEC.

This brings us to the question of OPEC behavior. Is OPEC really a cartel? We think it is a cartel with the same goals as

any other but a different sort. An exhaustive analysis of OPEC as a cartel is well beyond the scope of this work, but we do believe that several energy experts have argued it is not. Several theories have been advanced - some useful, others merely polemical - explaining OPEC behavior. We examine some of these theories while conceding that theories designed solely to predict behavior have inherent limits to success or failure. For these purposes, we examine models of OPEC behavior, advanced by James M. Griffin and David J. Teece in their book, OPEC and Behavior and World Oil Prices (1982). Firstly, the authors categorize model behavior into two major groups: (1) Wealth-maximizing models and,(2) Nonwealth-Maximizing Models. These categories are further broken down as shown:

- Wealth-Maximizing Models
  - Monopoly: Dominant Producer Model
  - Competition: Property Rights Model
- Nonwealth-Maximizing Models
  - Target Revenue Model
  - Political Models

The monopoly or dominant producer model sees Saudi Arabia - the OPEC member with the largest oil reserve - in the role of setting price allowing the other producers the option of selling "all they wish." Thus essentially, Saudi Arabia is the "swing producer" capable of absorbing fluctuations on demand and supply in the world market in order to maintain monopoly price. The Property Rights model

attributes the dramatic increase in the price of oil before and after 1973/74 to the change in ownership patterns which began in the early 1970s. However, it could not explain the equally dramatic doubling of oil prices in 1978/79. Thus we look closer to other models for answers. Target revenue model posits that production and pricing decisions are made with reference to the requirements of national budgets. But we do know that several OPEC members including Saudi Arabia and Kuwait have produced oil in excess of what they need to meet national development budget. This model is a more adequate description of OPEC behavior in the short run than in the long run. This brings us to the last model - Political models. While economic wealth or determinism is important, it is not the sole factor in guiding decisions. From the view of OPEC nations, while wealth maximizing models seem a guide through global oil market, the overriding factor in the disposition of their oil is political influence and security. Theodore Moran makes this point in the context of Saudi Arabia political decision-making process.[74]

We argue that although wealth-maximizing models seem important in determining energy policies of producer-governments, they only serve long range political goals - goals which embody political models. Dealings in international oil is thus generally political in nature. These models should attempt measuring not so much wealth an OPEC member might make in the world oil market, but the power to control, to nationalize, and the power to cut production and set prices. OPEC nations, unlike other cartels with rigid agreements on

prices, production controls and market shares, merely agree on production quotas and on the price of OPEC marker crude oil. Ordinary commercial cartels can easily incur the wrath of public consumers and the disciplinary powers of governments under which they operate; OPEC cartel is an association of sovereign, independent nations with no central authority to account to, and with a large segment of world public opinion in support of the call for a New International Economic Order.

The formation of OPEC largely meant the effective control of member nations over their natural petroleum reserves and this control has been translated into a success in achieving their objectives. OPEC is essentially a cartel; a coalition of a group of oil producers whose intention is the control, and maximization of benefits derivable from their commodity. In this, there was an implicit assumption that there is an advantage in banding or coming together over a declared purpose. In a sellers market where great advantage lay in forming cartels, any seller "who fails to attempt a coalition in such circumstances will lose or, more exactly, will gain less. On the economic premise that man seeks gain, it follows that he must attempt to form a coalition."[75] Coalition, in this sense, is based on "cooperative agreement" or arrangements which assume the possibility that two or more players will cooperate to beat the rest.[76] However, arrangements for coalition does not necessarily mean or imply integration of decision-making. If at all, it means integration of functional decision-making, which in

the case of OPEC, has occasionally been fragile. The "logic of isomorphism" which is understood to underlie most need for integration[77] exist in OPEC only to the extent of forging a united front against the "highhandedness" of the international oil companies. Using as a major indicator, the "volume of transactions" as advocated by Karl Deutsch,[78] to determine the extent of integration in OPEC's decision-making structure, one finds that volume or level of transactions as indicators may be misleading because members largely act or reach decisions on issues largely from the perspective of national interest. When decisions are mutually or collectively arrived at, it is not always an indication of the harmony of national interests; rather it is an indication of solidarity behind the organization which is susceptible to "break up" when crucial and difficult issues face her. This single assumption explains why the organization is presently going through a rough period. The assertion that OPEC is about to break up is at best a premature prognosis; worst of all, it could be a cry from anxious consumers eager to see the cartel fold up. I submit that the present crisis is temporary and strategical; one where advantage lay in gradual transformation.

Identifying OPEC's long and short term strategy in detail is beyond the scope of this study, but one point is clear - that major decisions reached must reflect the collective interests of the members of the group which in many cases replace the interest of

individual members. In a collective sense, OPEC, despite internal rivalry and differences, has managed to catalogue a list of objectives and achievements.

First, the OPEC countries have sought to gain control over production and pricing decisions of their crude oil. These have usually taken the form of service-contracts and production-sharing agreements with each nation's petroleum companies. Arrangements have been termed "innovative" because of emphasis on "control." In pursuance of this, Resolution 90 demanding participation was passed by OPEC in 1968, however, serious negotiations to this effect started in 1972. Resolution 139 permitted other member nations to independently negotiate their own "participation percentages."

Second, a remarkable success was achieved toward increased government revenues. The rising royalty and tax payments per barrel, coupled with growing volumes of output, are occasioning some very large increases in the total financial income of the OPEC countries. Mr. John McLean, chairman and chief executive officer of Continental Oil Company, has estimated that "in the 15-year period (1971-1985), the total funds flowing to the OPEC countries will aggregate at least half a trillion dollars - approximately nine times the amount they received in the prior 15-year period."[79] This huge transfer indeed represents the "most dramatic expansion of wealth and financial power" ever transferred to a "small group of countries."

Thirdly, the creation of what I have earlier termed elements of independence gave added impetus to the need for control. OPEC

countries are increasingly training their own nationals in the technical and managerial skills required for the intricacies of the oil business. Today, most OPEC nations require that the oil companies employ nationals in key operational activities and in prescribed percentages.

Fourth, on several occasions, OPEC countries have sought to use their oil resources as a weapon for political purposes. Most notable of these are the "ceaseless agitation against every vestige of colonialism, neo-colonialism and white racism" and of the "humiliation of the colonial past." In some cases, these are more than rhetoric. Agitation and reaction carries weight and for the Arabs, Nigeria and Venezuela, the early 1970s served as an appropriate time to apply "excruciating economic and political pressure" on the west. For the Arabs, the main beneficiaries are Israeli's adversaries, including the Palestinian Liberation Organization (PLO); in Nigeria's case, insurgent blacks in South Africa. Its early effect was primarily to make North-South relations even more tense.[80] There are reports of Libya's nationalization of British Petroleum Companies properties in Libya allegedly for aiding the Shah of Iran in the "takeover of three small islands at the mouth of the Arabian Gulf," claimed by Arab countries. British Petroleum was punished because oil was used as a "weapon of Arab self-defense." No less a personality than Sheikh Zaki Yamani, the Saudi Oil Minister, who proclaimed openly that his country may not expand production as "programmed to meet the requirements of the United States and other

free world countries over the next decade unless a suitable political climate prevailed" over the Arab-Israeli conflict.

Inspite of these achievements, which was largely possible because of the collective will of its members, "pronounced differences" among OPEC members in terms of pricing decisions, allocation of production "quotas," economic conditions and political ideologies, threaten the survival and even the existence of the organization.

More importantly, external forces apparently would like to see the cartel weakened or preferably dead. The United States, which consumes more than forty percent of OPEC's oil, has engaged extensively (both covert and overt actions) with allies in order to weaken the cartel. Says M.A. Adelman, "instead of talking about 'destroying' the cartel, we should take measures to contain or damage it."[81] Although the means of inflicting damage on the cartel vary, a fundamental agreement among western industrial nations is that OPEC's power must be curtailed and contained. Cooperative arrangements through the International Energy Agency (IEA) and the Organization for Economic Cooperation and Development (OECD), it was argued, could ease individual member nation's energy difficulties, albeit temporary, and organized policies instrumentally executed through these organs may act as a united front against OPEC's policy.

Peter Odell reports that

> By 1975, the United States conscious of the near future likelihood of the enormous strains in the Western system - has reversed its earlier, pre-1973 policy of seeking cooperation with the OPEC countries. Instead, it began to see confrontation as the required - and, indeed, the only - alternative. The formation of the International Energy Agency (IEA) in 1974 was related to this policy aim. It was constituted as a means whereby the worlds rich oil-importing nation's strategies and tactics could be coordinated and strengthened and this, indeed, is what has happened in the six years that have now passed since its creation.[82]

In fact, the policy aims as embodied in the IEA, inter alia invites policies which are geared toward exploiting the differences and diversity within OPEC with the aim of sowing seeds of discord and animosity where possible in order to ensure OPEC's demise. Diversity in this sense has worked precisely well to the advantage of the creators of IEA. Containing OPEC's economic and political power was the game; the strategy to this end was effectively exploiting the internal weaknesses of firstly, the organization, and secondly, the member nations. And OPEC, despite avowed solidarity and commonality of interests, became a victim of internal squabbles and intrigue. As I argued elsewhere, the present crisis within the ranks of OPEC should not be readily interpreted as leading to its demise. To do so would mean rendering hasty judgments devoid of concrete judicious analysis. Moreover, the present crisis reveals a period in the history of OPEC through which they must pass.

Although divisions within OPEC run deep, such divisions are inevitable in one stage of its life; this is the stage and it should not be confused with the possibilities of the cartel "losing its clout." A day hardly passes without the international petroleum industry and OPEC making news. Recently, news was that OPEC's failure to agree on production quotas and prices "could bring it down." While this has been largely true, it reflects the needs - political and economic conditions of member states - and the state of global economy which has contributed its own quota of "oil glut" and falling prices. Member states of OPEC have on most occasions based their decisions and judgments on matters affecting the organization solely on the dictates of national interest. Although, at several points, there was a need for centralized decision-making within OPEC on specific issues, such as the allocation of production quotas and the maintenance of specific or established prices, and although each member "agreed to a quota," the "pact proved to be a sham." Algeria, Nigeria, Libya,Venezuela and Iran all exceed their ceilings. Desperate to boost output and revenues, they started cheating on price as well.[83]

In this context, I dwell on Nigeria and her role in the organization, exploring and analyzing the advantages and costs of membership, taking into consideration recent debates and controversy over the nation's membership in OPEC. Debates and controversy arose in part because Nigeria has recently experienced a series of upheavals in the oil industry which repeatedly threaten its development plans and indeed political stability.

In terms of decision-making within the OPEC organization, Nigeria has essentially followed a two-track and, at times, multi-track system whereby contingency plans are drawn up to be followed should an OPEC decision outcome prove to be detrimental and inimical to the interests of the nation. This strategy has consistently underlined the strategical behavior of Nigeria on matters of crucial and important OPEC decisions. During the Arab-Israeli War of 1973, when Arab countries inflicted an oil embargo on the industrial west, Nigeria broke ranks with mainstream policy and supplied the United States, Holland and other interested buyers of her oil. Production quotas set by OPEC including price levels have on several occasions been broken by Nigeria and other members including Indonesia and Iran when not compatible with the national interest. Difficulties in keeping faith with OPEC commitments and resolutions arise in part because of what I call factors of vulnerability. OPEC members who have consistently reneged on commitments are those who have "teeming populations," are engaged in massive development projects and hence need every revenue they can get from their crude oil, and in general whose economic fortunes are closely linked with developments in global oil industry.

Indeed, Nigeria has experienced unprecedented upheavals and crisis after crisis in her dealings with the international oil industry. As global oil sales took a beating and swung downwards, and as the "oil boom" gave way to oil crisis, "it will be recalled that in 1977-78, the crude oil market was so depressed that we have to

resort to barter. We gave oil in settlement for some of our commitments."[84] Again, in the first quarter of 1982, Nigeria "confronted formidable problems on both the external and domestic fronts" because a sharp decline in output resulted in "serious cash flows" which had a disruptive effect on her Fourth National Development Plans. On the domestic front, the oil companies "agitated for a higher profit margin" threatening to abandon new oil fields if the government did not respond favorably to their demands. Industry sources said the action was a sequel to the increasing high cost of production and failure of the Federal government to review the profit margin due to oil companies. One oil company reportedly halted the development of an oil field in the Otuo area, which could increase Nigeria's output by about 4,000 barrels per day, unless the official profit margin on a barrel of oil is improved.[85] Similar measures extend to companies operating in Escaravos in the south-east, off-shore areas. On these matters, the Federal government has maintained "inexplicable silence" suggesting deep and comprehensive policy measures. By the present equity share, the government receives 98.2 percent of the profit while the companies get 1.8 percent, based on a 60/40 joint venture agreement.

In February of 1982, a slackness in the global oil market developed which was unexpected by oil producing nations, including Nigeria. Slackness was in part due to the global economic recession and massive conservation measures adopted by the oil consuming nations. Nigeria was forced simultaneously to cut prices and reduce

production. She was generally believed to be a "target" when in March 1982 the British National Oil Company (BNOC) cut her North Sea oil of comparable quality to Nigeria's from $35 per barrel to $31 per barrel. History was repeated when in February 19, 1983, Nigeria, following the lead set by Britain and Norway, cut the price of her low sulphur, high quality oil by $5.50 per barrel to $30 per barrel. Although great diplomatic maneuvers usually underlie these price-cutting wars, it was generally reasoned that with a huge but poor population to feed and the eighty-two billion dollar Development Plan to implement, Nigeria would be forced to follow suit, reduce her price, and break the OPEC line.[86]

The fact is that Nigeria, including a few OPEC nations, form the "weakest link in the OPEC chain." They possess factors of vulnerability in the magnitude far greater than other members. Thus, they are vulnerable and are liable to suffer costs imposed by external events even after policies have been altered.[87] Members of OPEC who constitute the weakest link are also susceptible to be "sensitive" on policies enacted outside their borders because "responsiveness" within the OPEC policy framework usually is swift and geared towards the avoidance of translating changes in a member country into costly changes in another. Interdependence within the organization is thus seen as a means of securing the benefits of the cartel while minimizing costs by transforming the position when national interest demands it. Although "sensitivity involves degrees of responsiveness within a policy framework," vulnerability is

particularly important for understanding the political structure of interdependence relationships because in one sense it focuses on which actors are the "definers of the ceteris paribus clause," or can set the rules of the game.[88] On this score, Saudi Arabia, which controls the preponderant portion of OPEC production output, and which has developed a "special relationship" with the United States, is in a unique position to influence prices and hence production limits. This is of course not to say that the Saudis are not vulnerable. They are, and recent developments in the oil industry prove it. With substantial cuts in oil price by Britain, Norway and Nigeria, the Saudi Oil Minister, Zaki Yamani has made it clear that his government will do everything possible to maintain the established price of crude oil and defend the country's wealth. The point to make within the policy framework of OPEC is that the degrees of sensitivity and vulnerability displayed by each member nation varies with factors of vulnerability, and in turn, generally explains the tendency toward reneging on concerted policy actions.

Nigeria remains vulnerable within the policy framework of OPEC, and although she has gained tremendously in terms of huge price increases of her crude oil, she is still nevertheless perched on the fence. The idea of production quotas and price ceilings set within the policy of OPEC was thought on several occasions to breach her sovereign authority. A nation that has not suffered a loss in policy authority finds it almost difficult to accept one arising from a central organ because acceptance means a loss in sovereign powers

which in many cases have been considered dangerous. After being targeted by British diplomacy to reduce its crude oil price, Nigeria came under "tremendous financial pressure" and was forced to hold the line by other OPEC members. She decided to hold the price line and accepted on her volition the 1.3 million barrels per day production quota alloted her by the OPEC March 19 Vienna agreement. Soon after production slumped to 600,000 barrels per day "oil tankers were leaving her shores empty because of the prevailing price" and major oil companies operating domestically served her "phase out" notices. Even third party buyers who normally buy at arms-length prices, "simply walked away from their contracts."

Tremendous pressure put on Nigeria forced her to reexamine her role and relationship within OPEC, and more importantly, the nature of commitment made to this organization. In the making of certain commitments, it was thought that some strategical interests were also lost to OPEC, and strategical game played by government planners increasingly assumed a defensive posture. This is so because the success of game theory in providing rigorous normative solutions to decision-making problems does not hide the fact that some realism has been sacrificed in the process. It has been proposed that the concept of commitment be used to bridge the gap between the normative formulation and the typical behavioral process in decision-making.[89] This theoretical process of commitment in policy-formulation has been a cornerstone of Nigeria's idea of

conjectural interdependence within the OPEC decision-making machinery. The nature of the game to be played was one of team play; moreover, it was one which does not risk everything on a quick checkmate. Rather it was deliberate and purposeful, one where the advantage lay in the gradual transformation of the position.

However, the necessity for collective action embodied in OPEC Resolution (XXIV·134) offered attractive forum on which the government of Nigeria thought it could gain and muster knowledge needed to control her oil industry. Collective action also offered collective security and risk-sharing, but this has, through experience, been tempered by a necessity for choice. Participation by member countries in oil production stipulated by Resolution 90 of 1968 became for most OPEC members a formidable instrument for initiating control of their oil business. This resolution was further strengthened by Resolution XXV·139 which reaffirms "the determination of member countries to take immediate steps towards the implementation of effective participation in the existing oil concessions. The results of such negotiations shall be submitted to the conference for coordination and in cases that "negotiations fail to achieve their purpose" objectives will be enforced through concerted action.[90]

Participation by producer-governments in their oil industry is judged generally successful as a means of gaining eventual control, but the "coordination and unification of the petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively" in light of

experience is proving to be perhaps far from successful. Resolution VIII·55, establishing the "commission," and promising "to examine the position of petroleum prices on a permanent basis" has not been very successful because the market as well as political developments have tremendously influenced what was once thought as a formidable organization. OPEC's charter has not completely lived up to expectations and this loophole has afforded several members reasons and avenues for departure. Several members, including Nigeria, have come to base OPEC decisions on "opportunity" costs - the values which must be sacrificed in order to achieve some other values.[91] In the process, rules of the game are usually bent, introducing a situation of conflict because instructions and arrangements previously ordained have been breached. The rules of the game are now the rules of nature, i.e., survival in the game of international politics, i.e., national interst. The new rules thus are invariably dependent and legitimized on the assumption of unequal distribution of factor endowment which subsequently forms part of the new rule.

From a sociological point of view, the concept of coalitions may be very important in theory of games of strategy. Although the idea is that often two players or more in combination can gain more by playing together as a unit, the actual process of forming coalitions is a competitive one.[92] "As a rule a great deal of bargaining will precede the determination of a system of gains or profits among the members of the coalition."[93] Thus, as Nigeria experienced production cuts and later in the second quarter of 1982

recovery came and production climbed up once more, some Gulf producers led by Saudi Arabia demanded that Nigeria increase the differential on the price of her "sweet" crude from 50¢ per barrel to $3.00 per barrel. This move of course would make the price of Nigeria's Bonny light crude $37 per barrel, meaning that the crude is much less competitive than the North Sea crude, which sells at $34 per barrel. The implication simply is that the sale of Nigeria's crude will stagnate, leaving others, including Saudi Arabia, to reap the profits of extended sales. The proposal by the Saudis on the price differentials is obviously unacceptable to Nigerian authorities who have taken appropriate measures to safeguard the sale of the nation's crude oil. In a sense, the determination of the distribution of payments within OPEC might be considered an "auxilliary game or subgame" since emphasis has been laid on political solidarity and unity, however, normative deviations have occasionally been met by induced collaboration and sometimes threats. Solutions have usually taken the forms of alternatives formulated so that they withstand "upsets from outside," while maintaining stability. Collectively, alternatives eliminate the danger of revolutions but the balance struck is most delicate and unstable and even becomes more sensitive as the number of players increases.

The rationale of group decision-making primarily assumes that each member ranks "motions" in a definite order of preference. In this sense, the member in question will always try to maximize the mathematical expectation of his gain or utility in a game involving

risks. But there is abundant evidence that individual decisions in situations involving risks are not always made in ways that are compatible with the assumption that decisions are made rationally with a view to maximizing the expectation of utility. Nigeria, for example, recently slashed the price of her low sulphur crude oil from the OPEC benchmark of $34 per barrel to $30 per barrel, following the British and Norwegian lead. Although she can rationally expect to maximize her gain by sticking with OPEC's benchmark price, she nevertheless chose to cut price, triggering a chain of price cuts from other members. Decision to cut price strictly was not made with profit maximization as a goal. Rather, it was deemed most appropriate in a situation involving risk to her domestic policies because OPEC proved unreliable as a guarantee of continuous, tolerable flow of oil revenue. Milton Friedman and L.J. Savage have correctly pointed out that the rejection of utility maximization as an explanation of choices among different degrees of risk was a direct consequence of the belief in diminishing marginal utility.[94]

In Nigeria, there is the belief among policy makers that strategies on oil matters must always be planned within an institutional framework which will at least take into judicious consideration the internal needs of the nation. And because the "fortunes of the economy...are closely linked with developments in the oil industry,... my administration expects to maximize the value of our crude oil resource."[95] Maximization of value has on several occasions taken the form of political and ethical considerations. The significance of political moves and considerations may be explained

in an election year, when the incumbent Shehu Shagari professes the desire of getting re-elected, he needs an infusion of oil revenue, at any cost, in order to execute the massive development projects at hand. Loss of oil revenue moreover, is bad news, no matter how justified, in an election year. Therefore, optimization of gain took the form of price slash to win customers of crude oil. The logic of the policy was undoubtedly optimization in the face of global adversity; its strategy and success was mostly political,and political victory represents the optimal choice.

When strategical relationships within OPEC are examined, one might be tempted to conclude that Nigeria's actions are, on the whole, a bluff. Strategical relationships limits independent action, but does not do so in situations where a choice between different risks have to be made especially in a game where players are unpredictable, even in terms of probabilities. In situations of strategical competition, the best move of an actor usually depends on the move of one's opponent and his actions; but the decisive move is made independently of the opponent. Independent moves are necessary in order to forestall any move by the opponent where advantage lay in the transformation of the position, even when this implies bluffing. Bluffing in itself is necessary in strategical situations and even desirable to create uncertainty in the opponents mind as to the motive behind a particular move. In this sense, Nigeria has shown real resolve and false impression of strength in position of real weakness by misleading her opponents in the international oil industry.

Impressions such as these secure the desired gain, however, a converse design may mean disaster and isolation from both friends and foe alike - a result of incorrect bluffing.

The destruction of pure opposition of interest within OPEC might be said to be a prime reason for several strategical moves made by Nigeria and some OPEC members, including Iran. On most occasions, these moves are based largely on bluffing, and the importance of "bluffing" lies not in the actual play, but in the protection which it provides against the opponent's potential deviations from the good strategy. This is essentially a "defensive" bluffing and used widely against opponents who are far more powerful. Bluffing, when used wisely, may be largely interpreted as a law of survival. However, in some games the pay-off function is of such a nature that secrecy or bluffing or outright deception would not help any player. Knowing what an opponent was going to do would not improve one's bargaining position. Situations such as these are called games with complete information; and they are said to be determined.[96] In the global oil industry, games are played with incomplete information, and the outcomes are usually not determined except of course on politically arranged games. And therein lies the sources of advantage and costs of membership to OPEC members.

Agitation and conflict within the OPEC is borne of diversity including ideological differences which have on several occasions threatened the solidarity, and viability of the organization. Several periods in OPEC's history have witnessed the forces of reaction and

agitation within its ranks threatening disintegration. 1982 will go down as one of the "most turbulent" because of "worrisome" developments in the international oil industry. It saw the seller's market of the 1970s turned into the buyers market of the early 1980s, while lingering internal dissension and schisms raised fundamental questions about the very survival of the organization.[97]

This scenario set the stage for renegades and internal dissension among the ranks of OPEC, precipitating, in the process, occasion on which to assess advantages and costs of membership. On this regard, I assess the costs and benefits of Nigeria's membership. It has been asked "What does Nigeria gain by being a member nation of the OPEC?" Indeed, it is a question worth asking and it is necessary to state there are inherent costs and benefits of membership which, of course, may not be equally and rationally allocated. The crucial question for all coalitions then arises: how to divide the coalition's gains and losses between two or more members? In Von Neumann's game he has turned up some extraordinary revelations, for the price of remaining in the coalition for any one player must be no less than the cost of defection that the opposed single player could pay to break the coalition.[98] Cost of defection may sometimes be high for weak members "but under certain conditions weakness is not a disadvantage," and for that reason, it does not always follow that the fittest will survive. Within OPEC this principle has taken the form of big actors, encouraging small ones to hold the line for the sake of the organization's survival. Thus for Nigeria, when times

were tough, Saudi Arabia promised a one billion dollar, six month interest free credit bail out. But "for some curious unexplained reasons," assistance never materialized. Nigeria was forced to "solve" her financial crisis independent of the big brother - the Saudis. Emotions ran high on disappointment and other OPEC failures, however, this is not to say that gains and losses have not characterized Nigeria's membership.

Gains from Membership

In theory, two or more sellers or buyers of a commodity form coalitions if there is an advantage in doing so. Nigeria's policy to join the organization is not far from this assumption. A major problem facing it and indeed the other members of the group is one of determining exactly what the rules of the game are or should be. This is a sticky issue within the organization presently, but on the whole, members have benefited tremendously.

Nigeria has gained enormously in several ways: 1) the bargaining strength of Nigeria has been greatly enhanced in negotiations with international oil companies, because of knowledge derived from international experience. This is reflected in the "confidence" she now possesses leading to the creation of what was earlier in this study referred to as elements of independence. 2) Membership has meant the enormous increase in the nation's oil revenue in some cases by three hundred percent and between April 1979 and February 1980, oil prices increased from an average of $19 per barrel to $34 per barrel, an increase of ninety percent within a

period of ten months.[99] Before 1973, the top quality Bonny crude was selling for less than $3 per barrel; in January 1981, it hit the record high of $44 per barrel, on the spot market. As a result, Nigeria reaped huge foreign exchange revenues from the oil sale. Between 1977 and 1980, she earned $53.4 billion in hard currency as oil revenues.[100] In May 1971, royalties and taxes due to the government per barrel of crude oil were substantially increased in an agreement that became effective in March 1971. The agreement increased the posted base price for Nigerian crude by $0.36 per barrel and at the same time eliminated many previously permissible corporate deductions. The annual escalations of 2.5 percent and $0.05 were precisely the same as OPEC provisions.[101] 3) A giant step was taken when in 1973, NNOC, now NNPC, requested thirty five percent participation arrangements from operating oil companies. This is in accordance with OPEC Resolution 90 of 1968 calling for producer government participation in the oil industry. This resolution gave the government an added impetus when in early 1972 she announced that "henceforth no concessions would be given under the terms of Petroleum Decree 51." Henceforth, rights obtained are to be through the government's National Oil Company (NNOC). Participation meant in effect "the right to be consulted by the oil companies in all matters" of oil activity. 4) Through membership, Nigeria gained access to "valuable" strategic intelligence information. Information on the international oil industry is particularly important because of its strategic nature, and because

intelligence information is a meaningful statement which has been selected, evaluated, interpreted, and finally expressed so that its significance to a current national policy problem is clear.[102] In this, the OPEC's secretariat "promotes many authoritative studies on all aspects of the oil industry and offers special technical advice, economic and statistical analyses," at "minimal cost" to its members. Strategic Intelligence production is therefore essential to a nation's foreign relations particularly where "manipulation" is possible due to lack of information or lack of coordinate activities. 5) Another major objective of the OPEC which might benefit Nigeria include the coordination and unification of petroleum policies of member-nations which would discourage renegade and independent action; the stabilization of crude oil prices and the defence of an established price, hence the permission of a "steady" income to producing nations. Fiscal provisions also include Petroleum Profits Tax Ordinance 1959 as amended. These amendments include Petroleum Profits Tax Decrees of 1967, 1970, 1973, and 1975. The 1975 amendment raised Nigerian tax and royalty rates to the "standard OPEC" rates of eighty five percent and twenty percent respectively. 6) Nigeria would gain tremendously from the OPEC's goals to "gain control" of down-stream operations. Thus, "she can share the experiences of others in the areas of refinery establishment and management, marketing organization and oil transportation. It's ambitious program on Liquified Natural Gas (LNG) and the establishment of petro-chemical plants would benefit because her membership to OPEC would "ensure reasonably fair and

equitable deals" with the international oil companies. 7) Nigeria's prestige in the international oil industry is elevated as a consequence of her membership in OPEC. Successive regimes since 1971 have all enjoyed international recognition among bankers around the world and on the strength of this recognition, Nigeria has run up serious foreign debt. Nigeria's external debt has been estimated as high as $14 billion but compared with other financially troubled countries, such as Brazil,"its small potatoes." Because of its good credit rating, the government has also accumulated huge trade debts, which totals to an estimated $5 billion. Rescheduling for these nonbank debts is being handled by a group of financial advisers - New York's Kuhn Loeb, Paris based Lazard Freres and S. G. Warburg of London. However, the new military government of General Mohammed Buhari apparently intends to honor agreements made by previous administrations. Special relationships, where desirable, have also been developed. For example, the governments of Nigeria and the United States have embarked on forming special relationships of mutual interests. Most important of these include the recently formed "Joint Agricultural Consultation Committee" which will trade excess American agricultural products for Nigeria's oil.

Costs from Membership

In coalitions, the introduction of conflict and competition usually arise when questions of how to allocate the market, how to divide the coalition's gain and partition or absorb loss because

OPEC COUNTRIES: RESERVES AND PRODUCTION

	Proved Reserves(a) Bn. bls	Production(b) million b/d				
		Potential	1982	1985	1990	2000
S. Arabia	162.4	10.5	6.5	6.0	6.5	8.0
Iran	55.3	3.0	1.9	3.5	3.5	4.0
Iraq	41.0	1.5	0.9	3.0	3.5	2.5
Kuwait	64.2	2.5	0.7	1.2	1.5	1.5
UAE	32.3	2.5	1.2	1.8	2.0	2.5
Qatar	3.4	0.6	0.3	0.5	0.5	0.3
Neutral Zone	5.8	0.6	0.3	0.5	0.4	0.2
Total above	364.4	21.2	11.8	16.5	17.9	19.0
Venezuela	21.5	2.4	1.9	2.0	2.0	1.5
Nigeria	16.7	2.4	1.3	2.0	2.0	1.5
Libya	21.5	2.0	1.2	1.7	1.7	1.5
Indonesia	9.5	1.6	1.3	1.6	1.8	1.4
Algeria	9.4	1.0	0.7	0.9	0.7	0.5
Gabon	0.5	0.2	0.2	0.2	0.1	0.1
Ecuador	1.4	0.2	0.2	0.2	0.2	0.2
OPEC total	444.9	31.0	18.6	25.1	26.4	25.7
Domestic consumption	—	—	2.6	3.2	4.2	8.0
Export availability(c)	—	—	16.0	21.9	22.2	17.7

(a) *Proved reserves* are reserves proved by drilling and recoverable at present prices and with existing techniques.
(b) *Production* includes natural gas liquids; *potential* means volume of output sustainable with present facilities; 1982 figures partly estimated; last three columns are projections by the East-West Centre, Honolulu.
(c) Includes natural gas liquids.

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OPEC: OIL EXPORTS AND REVENUES

	NET EXPORTS (a) Million barrels a day						% change	REVENUES Billion dollars						% change
	1974	1978	1979	1980	1981	1982(b)	*1981/82*	1974	1978	1979	1980	1981	1982(b)	*1981/82*
Saudi Arabia (c)	8.5	8.1	9.2	9.6	9.8	6.3	*−36*	22.6	34.6	57.5	102.0	113.2	76.0	*−33*
U.A.E.	1.7	1.8	1.8	1.7	1.5	1.3	*−13*	5.5	8.0	12.9	19.5	18.7	16.0	*−14*
Kuwait (c)	2.4	2.1	2.5	1.6	1.1	0.9	*−18*	7.0	8.0	16.7	17.9	14.9	10.0	*−33*
Iran	5.7	4.5	2.6	1.1	0.8	1.6	*+100*	17.5	20.9	19.1	13.5	8.6	19.0	*+121*
Iraq	1.8	2.4	3.3	2.4	0.7	0.7	—	5.7	9.6	21.3	26.0	10.4	9.5	*−9*
Qatar	0.5	0.5	0.5	0.5	0.4	0.4	—	1.6	2.0	3.6	5.4	5.3	4.2	*−21*
Nigeria	2.2	1.8	2.2	1.9	1.3	1.1	*−15*	8.9	8.2	16.6	25.6	18.3	14.0	*−24*
Libya	1.5	2.0	2.0	1.7	1.1	1.1	—	6.0	8.6	15.2	22.6	15.6	14.0	*−10*
Algeria	0.9	1.1	1.0	0.9	0.8	0.8	—	3.7	4.6	7.5	12.5	10.8	8.5	*−21*
Venezuela	2.8	1.9	2.1	1.8	1.8	1.6	*−11*	8.7	5.6	13.5	17.6	19.9	16.5	*−17*
Indonesia	1.2	1.4	1.3	1.2	1.2	0.9	*−25*	3.3	4.8	8.9	12.9	14.1	11.5	*−18*
Gabon	0.2	0.2	0.2	0.2	0.1	0.1	—	—	0.5	1.4	1.8	1.6	1.5	*−6*
Ecuador	0.2	0.1	0.1	0.1	0.1	0.1	—	—	0.4	1.0	1.4	1.5	1.2	*−20*
Total OPEC	29.6	27.9	28.8	24.7	20.8	16.9	*−19*	90.5	115.8	195.2	278.8	252.9	201.9	*−20*

(a) Includes oil products and NGLs (b) Provisional (c) Includes half Neutral Zone

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members more often than not are of unequal strength. This organization feature emanate from their general economic and political strength and aspirations. The outcome of how to reach an agreement is highly unpredictable. Economic theory has not been able to offer any substantive explanation. If there is an agreement, it usually involves costs and within the range of what Professor Pigou calls "the range of practical bargains."[103] This observation certainly characterizes OPEC relationships.

1) What Nigeria losses by being a member of OPEC is essentially one of sovereignty within the framework of OPEC decision-making machinery. Although as a member she has a voice and a casting vote, in theory decisions arrived through the collective will of the organization is legally binding. In this sense, she lost the power to make production and pricing decisions independently. The nature and character of the international oil industry makes it necessary that on occasion members strictly adhere to the organization's rules and decisions and sometimes to independently arrive at one. The issue here is when and how to optimize decisions which do not clash and which are not contradictory.

2) Petroleum is the single most beneficial and most strategic natural resource for Nigeria, the "freedom forgone" to unilaterally determine production and price margins could be very painful, because it means the abdication to a foreign body the inherent powers to dictate the pace of economic, social and political progress in the country. Recent renegade policies of the government towards OPEC and the international oil industry is a direct challenge and

reversal of this trend. Nigeria wants to set policies regarding her oil independently, based on national interest, and this is where policy clashes with those set by OPEC which represents the collective will of the organization. Opponents of Nigeria's membership have termed this situation the "loss of Nigeria's sovereign power" to an external power.

3) As a member of OPEC, Nigeria's foreign policy suffers considerably when OPEC fortunes dwindle because the strength and posture of the nation's foreign policy depends to a large extent on the flow of crude oil and therefore "petro-naira." The nature of foreign policy which the nation wishes to maintain is incumbent on the prestige and power which the possession of oil invariably confers. As a function of foreign policy, domestic policies suffer as well because a strong domestic front is a necessity for a stable and strong image abroad. Petroleum has provided a "solid basis" for Nigeria in the international arena, and if such a fortune is tied to the whims and caprices of an external regime, it is inevitable then that the nation is vulnerable and sensitive both in her domestic and foreign relations.

4) Within the OPEC regime, Nigeria may be vulnerable to strategic behavior and interactions of its various members. Strong groups exert strong influences on members toward conformity, and for those nations, bedevilled with what is referred earlier as factors of vulnerability, this could be dangerous. These pressures may be directed either toward uniformity of thinking and behavior or to

the fostering of heterogeneity of views. Acceptance of either of these conformity pressures may satisfy the political, economic or emotional needs of some members while frustrating those of others.[104] In each case, members may be forced to become "victims of group think."

Cost-benefit analysis of Nigeria's membership in OPEC has on several occasions been misunderstood, and in some cases, outrightly misinformed. Analysis has, on the whole, been an exercise in muddling through. Arguments are characterized by high emotional content making it indeed very difficult to base decisions on concrete rational grounds. It is important to keep in proper perspective and focus the real nature of the issues at stake. The real issues which need informed attention is how the country could maximize the benefits from her oil resources while minimizing costs in the process. OPEC has, in most cases, provided the vehicle toward optimization of gain while offering or shielding members from rough times. The argument, then, should be to what extent has OPEC offered the above goodies and protection. The answer is definitely open to debate. Certainly, this is not a place to set in a comprehensive manner the pros and cons of membership. Such an attempt is well beyond the scope of this study. Suffice it to say that any nation, or organization or individuals for that matter, who decides to form coalitions for some common benefit must expect and accept a measure of erosion of sovereign powers.

Another argument to the contrary based on a different but safer scenario, is a regime or arrangement in the international oil industry where sovereign nations take over crucial negotiations affecting the oil industry with oil companies playing complementary and peripheral roles. This regime will offer alternative bargaining model to the current company-government approach. The need for alternative arrangements and choice is based on experiences and concrete lessons derived from the history of the international oil industry.

Alternative Model: Government-Government Approach

Transnational oil companies no longer play the traditional dominant or hegemonical role in the international oil system, which they once did. During the 1930s, oil concessions were granted to the oil companies largely by Middle East countries. This type of concession gave these companies the right to develop the countries' petroleum resources and full ownership of oil produced. Outright ownership of any oil produced thrusted enormous decision-making powers in the hands of the companies concerned, and participation in oil matters by producing countries was minimal and in most cases inferior.

Today, production and pricing revolution begun by the events of 1973 to 1974 signalled the demise of the era of negotiated price in the international oil industry and throughout the Middle East and other major oil producing regions, the traditional concessional system appear to be coming to a rapid end. Innovative agreements, such as production-sharing arrangements, service-contracts or

management agreements and sometimes outright nationalizations have replaced the outmoded concession system.

Sweeping transformation of the international oil industry triggered massive revision in the modus operandi of major oil companies and led to unprecendented "unsettling shift" among them. Recent "mega mergers" among oil companies point accurately to the fact that oil wars which were largely fought in the oil fields of the Middle East and other third world producing regions before the 1970s, have now been shifted to the home fronts of the oil majors. Thus in January 6, 1984, Texaco seeking easy and profitable oil reserves, gobbled up Getty Oil with estimated reserves of 1.9 billion barrels of oil, for $10.1 billion. Combined annual sales at merger is estimated at $53.1 billion. Closely following the Texaco deal, Standard Oil of California (SOCAL) by March 5, 1984 completed its acquisition of Gulf Oil for a reported $13.2 billion - the biggest offer in merger history to date - with a combined sales at merger of $57.3 billion. For its part, Royal Dutch/Shell Group announced a $5.2 billion purchase of the thirty percent of Shell Oil Company that the Dutch Oil Group did not already own. There are rumors circulating around corporate boardrooms of yet more impending oil mergers with the apparent blessing of the Reagan Administration.

A major reason for this unsettling shift in the industry - one which should be taken seriously - is the widespread producer government displacement of oil companies from their traditional

activities of "upstream" as well as "downstream" operations around the world. The oil crisis had indicated the myth of the invulnerability of multinational oil corporations to national sovereignty. In 1973, for instance, ninety three percent of OPEC production or 27.9 million barrels per day, went to the oil majors on a long term basis. By 1979/1980, this dropped to around fifty percent of OPEC exports and forty two percent of world oil trade. This decline is directly related to the outcome of the 1973 oil crisis, the oil embargo which followed and most importantly, to the political transformation affecting the international oil industry. Displacement of oil companies indicates strongly that <u>politics can still override economics</u>. We cannot afford to underestimate the changing politics affecting world petroleum markets.

Stripped mostly of their concessionaire reserves around the world, the major oil companies are swallowing up each other through mega-mergers. Recent examples are a tip of the iceberg in an economic activity which promises more intense concentration than either the steel industry or the big automobile conglomerates. Declining oil reserves, slack demand and depressed oil prices - all contributed to the consuming desire of major oil companies to cannibalize each other ostensibly for the achievement of efficiency of production and the control of scarce reserves.

One observation should be remarked in the recent wave of merger-mania: the big oil companies have begun to "detect the whiff of death" and the only avenue of escape from the imminent

catastrophe is to retreat to home base, rethink their bullish instincts and strategies, and concentrate through merger struggles what oil reserves remain in home territory and friendly regions. We dare predict the fight among the oil companies has just begun; it will be a bitter one pitting the strong against the weak. We also predict that as the fight progresses, the smaller or "independent" oil companies will be gobbled up, a high concentration of the oil industry will ensue and governments will be forced to intervene to restore competition by directly negotiating with other producer governments for access to crude production and sales.

The changing structure of the international oil industry, the doctrines of sovereignty and "changing circumstances" and the rapid industrialization of certain parts of the globe since 1930, the creation of the Organization of Petroleum Exporting Countries (OPEC) and the emergence of "national resource ideology," all have contributed to alter the bargaining positions and strengths of actors in the international oil industry. Changing circumstances have posed numerous challenges to both consumers and producers of oil. I submit that a new approach based on government-to-government relationship (with oil companies acting a minor role) is needed to maintain order, stability and legitimacy in global oil industry.

The Arguments Stated

Negotiations between sovereign governments on matters affecting global oil activities is desirable and indeed necessary because of the breakdown of the traditional arrangement whereby

oil companies controlled decision-making powers and producer governments granted access. This is no longer so; there is,and continues to be, significant power shifts in favor of producer-governments creating as it were a situation of tacit response and acquiescence from oil companies. The oil crisis of 1973-1974 provides a good example. The price of a barrel of crude oil, largely politically determined, skyrocketed. On October 16, 1973, OPEC announced immediate increase in posted prices from $3.00 to $5.11 per barrel representing a seventy percent increase. Subsequent embargo and production cuts of ten percent by Saudi Arabia led to $17.00 per barrel in the spot market. Spurred by this unprecedented increase in oil price, the Gulf Committee led by Iranian delegation fought for higher producer revenue. The result was a one hundred thirty percent hike from $5.11 to $11.65 per barrel. On the whole, the price of a barrel of oil quadrupled.

Traditional regime in the international oil industry is unstable and dangerous to the actors concerned. Petroleum is a precious commodity with wide application and uses both in industry and the military. It therefore affects directly or indirectly the national security of most nations. Entrusting petroleum matters to the discretion and whims of international oil companies is in fact myopic, unstable and generally damaging to national security. Government-to-Government arrangement, offers a more secure, more balanced approach to international oil negotiations.

The arguments in favor of this approach are:
1) Fundamental dealings in global oil are political in nature. Strategic decision-making, arrangements and conflicts are politically managed and resolved. Increasingly, crisis mark the international oil industry and oil companies are ill-equipped for crisis-management. They lack foresight, skill and statesmanship which governments are presumed to have on matters requiring largely diplomatic maneuvers and settlement.

It has been argued that some governments (especially the United States) keep hands off company negotiations "on the grounds they are commercial in nature." The fact is that international oil negotiations have undeniable political repercussions and consequences. Even the General Accounting Office (GAO) in a report to Congress, disagrees with U.S. policy makers on the "hands off" policy. It concluded that oil negotiations have "undeniable political elements" although it "considers it premature" for a direct government participation in the negotiation process.[105] This study considers it timely for governments to take direct charge of oil negotiations which ultimately will affect the nation's consumers and security. Unsettling shifts in the international oil industry and recent wave of "mega-mergers" sweeping across the industry proclaim a distressing and unstable period for oil companies who, largely displaced from traditional activities by producer governments (NOCs), are currently fighting for oil reserves within their reach. With oil exploration now deemed economically unfeasible, oil companies are now gobbling up each other.

Given the interests at stake and the political climate, some degree of increased government involvement seems inevitable. The question is how much and for whom because the oil companies, whose once-priviledged positions are under mounting attack from foreign governments, are beseeching the [U.S.] administration to come to their aid.[106] It is reasonable to assume that under conditions of mutual equality, the call for sovereign aid should not be made. Oil companies are vulnerable in this aspect and only sovereign deterence would help.

2) I call for government-to-government interaction in the international oil industry because it is now the custom within international oil system. In early 1974, immediately after the oil crisis, throughout the Middle East and certain producing regions, the concession system appeared to be coming to a rapid end. This is evidenced by the decreasing share of the world oil trade for the international oil majors from ninety percent in 1970 to less than fifty percent today. In addition, direct state to state sales of crude oil by OPEC members rose from 1.5 million barrels per day in 1973 to about 8.5 million barrels per day today. This was largely made possible in part due to the fact that OPEC nations' ownership entitlement of crude rose from two percent in 1970 to almost eighty percent in 1980. Consequently, the international oil majors reaction was to satisfy internal demands reducing sales to third parties. In 1970, the oil majors sold between six to seven million barrels per day to third parties; this amount dropped to

3.7 million barrels per day in 1978 to less than one million barrels per day in 1980. Oil companies are undoubtedly detecting the whiff of death, without government assistance to ensure access.

Access to energy and policies designed to ensure this, should be considered a major instruments of a nation's foreign policy. As instruments, oil companies have failed to live up to global challenges. For instance, "at home in America, Exxon or Mobil may loom as Big Oil, but in their dealings with national oil companies of the [13] OPEC organizations, the U.S. companies are proving to be weaklings!"[107] Senator Abraham Ribicoff (D-Conn) recently complained that the United States companies are "in an unequal contest" against the "combined bargaining power of OPEC."[108] Evidently, companies are afraid of direct governmental control an "political management" according to Mr. Alvin J. Wirtz, special consultant of Petroleum Reserves Corporation. Fear of political management and government control may stem from the fact that the basic goals of the companies such as profit maximization in an integrated global operation, may not be met. They need not and should not be so in the opinion of Mr. Wirtz, who stated that

> If the government could control certain of the fundamental policies of the company which were affected by the public interest, that there should be no basic difference between the ownership of a control and the ownership of a minority, in so far as the achievement of the basic aims of the corporation were concerned.[109]

In effect, what we are saying is not that companies cease to exist, or forego its profit motive; rather what we are saying

is that governments assume more important and commanding positions with other governments on matters dealing with oil in such a manner as to reflect and take into consideration the dictates and needs of changing circumstances.

3) It has been argued that oil development "can best be handled by private enterprise."[110] Arguments include (a) private operations reduce the political dangers inherent in the international field. The fact is that while private operations reduce political dangers, they are weak and dependent in situations where there already exists political pressures and "dangers." Energy policy is more tractable and better coordinated when governments' make their policy directive more pronounced and clearly stated. Concerted national energy policies would guard against any major oil crisis in periods of political upheavals. Presently, the international oil system is fraught with political considerations and conceivably cannot operate without the political component. (b) That private enterprise is the best source of the venture capital required for the undertaking. The fact is that in the past few years, oil companies have "faced a triple assault": declining oil reserves, depressed prices and slack demand. Although increasing channels for capital is abundant and available to oil companies, uneconomic activities will be translated directly to increased prices at the gas pumps. On the other hand, most nations can comfortably arrange finance and are capable of doing so. For the poorer nations, there are several sources of gaining capital including the World Bank, and regional financial institutions. As a matter of fact, private enterprise is not the "best" source of

"survival through preserving the minimum necessary of international trade and other exchanges and of course, the prevention and avoidance of a major war.[111] As a means of fostering meaningful interdependency among nations, bilateral relationships have been developed based on the notion of linking issues which demand concerted action from interested nations. International oil companies are ill-equipped to handle linkage issues which go beyond their immediate goal of profit maximization. Governments, on the other hand, understand their mutual needs and can usually, through bilaterial deals and policies, provide for them. Examples of bilateral agreements abound; U.S./Saudi Arabia cooperation on oil matters and the U.S./Nigeria agreements on Joint Agricultural Consultation Committee offers nations the forum and opportunity to trade off commodities. The East bloc nations also engage in bilateral deals, based largely on agreements concluded between and among nations whereby, for example, energy is supplied by the Soviet Union to nations who need it for those commodities the Soviets need. It is my argument that stability of access to oil will be ensured and maintained when cemented by bilateral arrangements based on mutual economic and political interdependence of sovereign nations.

4) International oil companies acting as "middlemen" or agents are no longer attractive to many nations including those of the "third world." Peter Odell argues that:

venture capital because of the enormous risk in global oil activity. They cannot absorb the costs easily as governments could.

(c) That private enterprise can best supply and develop the requisite managerial and engineering techniques. Although this may be generally true, several nations on several occasions have solicited the advice and services of the United Nations Department of Technical Cooperation for Development. Furthermore, regional cooperation on "information" sharing now seems possible and useful.

(d) That oil operations involve exploration, production, transportation, refining, and distribution. Governments entering the oil business in one area will soon find themselves extended...into a far-flung complex of international complications. The fact is that the present state of international oil is indeed complicated and needed the visible hand of the government in untying the knot. Today, several nations are seriously engaged in every facet of the oil industry from "upstream" to "downstream" operations. For example, in "down-stream" activities OPEC members are pushing forward: 1.5 million barrels per day of refined products was exported in 1980 and the volume is expected to quadruple over the course of the decade - 3.5 million barrels per day by 1985 and 5.7 million barrels per day by 1990. Marketing of refined products is promising as a major source of profits for OPEC exporters challenging the oil companies whose aggregate profits since 1973 has fallen by more than twenty five percent.

5) Dependency and interdependency characterize the modern international system "as a condition of their existence" and

> Government-to-Government discussions between countries of the third world have been based on the idea that oil should flow from one developing country to another without the intervention of the international oil companies. Such possibilities became much more interesting after 1973 and several new developments began to be investigated. The emergence of political awareness and realism in the countries of the developing world, and the creation of instruments of economic policy whereby they can help each other, could in the longer term, help to eliminate the role of the international oil companies in serving them.[112]

The role of oil companies as agents in international oil industry is on the wane. For the oil majors, decreasing share of world oil trade is indeed obvious: ninety percent in 1970 to less than fifty percent today. Again, as said earlier, direct state to state discussions and sales is on the rise; in effect decreasing the share sold by the oil majors to third parties.

In pursuit of the creation of instrument of economic policy, most nations including the most industrially advanced (except the United States) have formed state owned petroleum corporations. These corporations are largely responsible for concluding arrangements with other state-owned corporations on petroleum matters, while in most cases, bypassing the international oil companies who are accused of "exploitation" and cost adding agents.

It is therefore necessary that governments "assert" pressures in oil arrangements. This option has been given impetus by the increasing presence in international petroleum affairs today of both producer and consumer government-owned companies. Such option argues Robert B. Krueger of the law firm Nossaman, Waters, Krueger

and Marsh in a 1974 study for the U.S. government, and citing the French example, would "create a vehicle for realizing a national oil policy."[113]

Although is has been argued that "government-to-government crude oil acquisition agreements have been tried by a number of oil importing countries without any particular success,"[114] I submit that such approach is necessary for lower crude prices because OPEC as an intergovernmental organization, no matter its failures, sets prices to its crude oil, moreover, the major international oil companies "lacked the will and resources" to resist demands made on them by OPEC members and other oil producing nations.

6) The exercise of permanent sovereignty over "their" natural wealth and economic activities by the developing countries (where a substantial and disproportionate amount of global oil lies), means economic nationalism and oil companies are known to meet demands arising from this ideological convictions. They cannot do much to change the situation; their threats are mostly judged not to be effective, except on occasions where government backing is expected, for example the U.S. government involvement in International Telephone and Telegraph's (ITT) case in Allende's Chile in 1973.

A government-to-government interaction will therefore offer situations where mutual deterence, mutual threat and mutual respect under international law will prevent the abuse of the "sanctity of contracts." It will also prevent the unilateral abrogation of previously concluded contracts by threatening retaliation backed by

sovereign resolve. Indeed, what this approach seeks is not confrontation but rather cooperation among actors involved noting in the process that global oil is politics in an interdependent world. 7) It will be exceedingly difficult to break the tight grip which OPEC has over global oil market without direct government participation in oil negotiations. This in part is due to the radically changed bargaining strengths in international oil industry favoring producer governments. Present relationships between actors "serve to reduce competition among those governments for market outlets." And "alternative measures" are needed according to the Federal Energy Administration, to modify existing relationships between the companies and OPEC governments.[115] Alternative measures will greatly benefit from the advantages of enhanced government role in the negotiation process. Government participation will considerably reduce the anxiety and suspicion held by most consumers that oil companies are simply agents of OPEC governments and would expend tremendous efforts to maximize profits benefitting both parties.

"At one point," Secretary Connolly (of the Department of Treasury, Nixon Adminstration) made the remark that the "U.S. government ought to be more aggressive in oil negotiations."[116] This would be in response to the huge government budget deficit, among other problems, which massive oil import has largely contributed. Most nations realizing the great havoc huge oil cost might inflict on their balance of payment position, have taken steps to include meaningful government participation in oil negotiations.

8) Multinational companies are mostly able to negotiate with producer countries on the basis of economic rather than political objectives. Company objectives are largely based on making or achieving the greatest return on investment. On the other hand, producer governments would prefer economic aid and assistance tied to oil activities. On this linkage issue, for example, "it would be difficult" says Jerry McAfee, Chairman of the Board, Gulf Oil Corporation, "to eliminate political considerations from oil negotiations between the U.S. government and the Middle Eastern governments."[117] On this basis, for instance, the United States' sovereign power might be used to negotiate on behalf of the U.S. companies where "they are unfairly disadvantaged." This power could also be employed into investigations aimed at testing whether or not company negotiations with OPEC governments are in fact consistent with individual national interests.

Yet another major reason for a government-to-government bilateral or multilateral negotiation "would be a situation in which one or more producing governments indicated a strong preference for dealing directly with consumer governments" and not with private international oil companies. Such a preference might arise from an ideological distaste of private enterprise or, more likely, a desire to deal with pruchasers who can pay for petroleum in arms or other goods and services which cannot readily be provided by petroleum companies.[118]

9) The language of global oil is diplomatic; oil company representative are in theory not diplomats and therefore not in

proper positions to conduct negotiations which largely demand diplomatic skills and decorum. Although every move would be seen and interpreted "in a political context" and every agreement would be called into question if "political disagreements" between actors arise, it is necessary to point out that the process of conflict and cooperation of crisis management and crisis resolution are politically instigated and on most occasions politically resolved. For instance, if OPEC members should be persuaded to reduce the price of their crude, this will have to be done by governments - not by oil companies.

10) It has been argued that major oil companies have historically "acted as a buffer" between governments in international oil matters. C.C. Garvin, Jr., Chairman of the Board, the Exxon Corporations, argues that:

> By concentrating on commercial matters, International oil companies have deflected political pressures. This is not to say that political developments have had no impact on the international oil industry. Clearly, they have. Still, I believe that the buffer exists and that it is relevant to the suggestion that longterm contracts be approved by the U.S. government.[119]

Governments are increasingly attacking and hence violating the "buffer" zones in the international oil industry. Attack and violation is a result of vast disruptive developments in global oil and the necessity to adjust to the changing circumstances. Moreover, governments, especially those of the developing world, would rather generate political moves in global agenda concerning the issues of the "new international economic order" based on

their new powerful positions in the global economic arena. In this sense, buffer zones provided by the oil companies are weak and ineffective and might be disruptive in alternative arrangements and regimes. In terms of "commercial give and take, the companies are reasonably well-equipped," but however when linkage of issues characterize major negotiations, the need for, and the advantages of government participation becomes evident. In these circumstances, Mr. Garvin of Exxon Corporation believes that "guidance from the government is frequently useful and sometimes essential."[120]

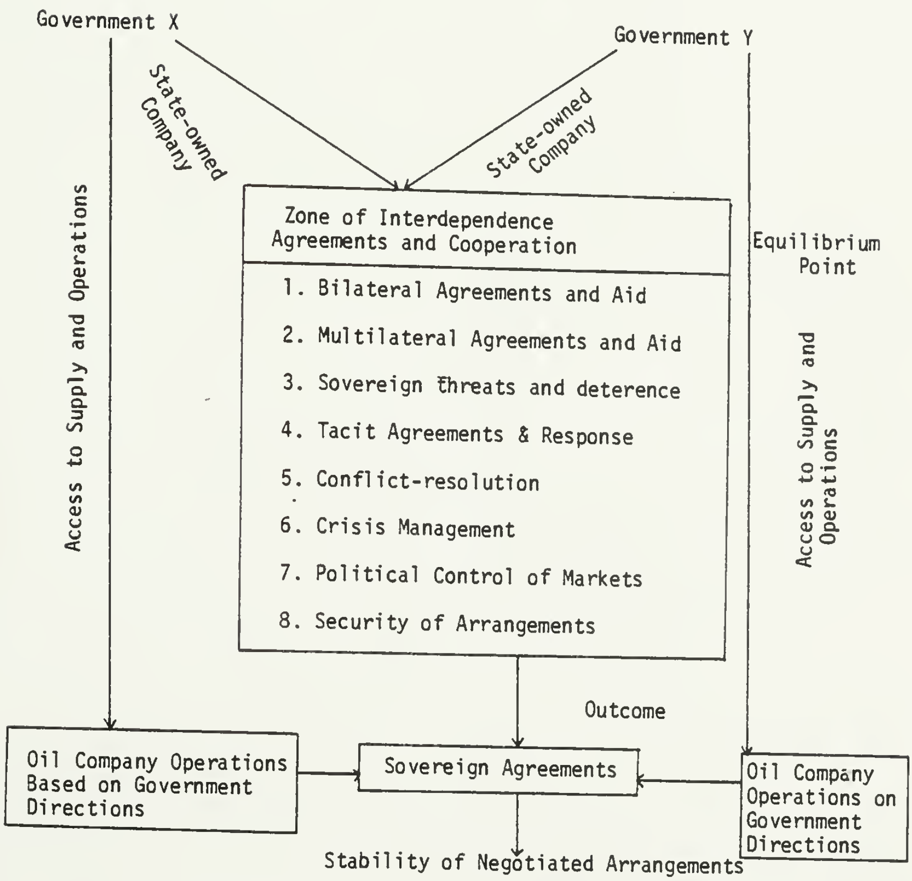
The view from Europe also supports the necessity of government participation in matters concerning oil negotiations. In pursuance of this objective, almost all industrial nations of the continent have either created a state-owned oil corporation, or are in the process of creating one. It is believed that bargaining can only be carried out within the existing national framework and cannot be dictated from a distant point. Although explicit calls for a government-to-government negotiations are not made, Mr. Geoffrey Chandler, Director, Shell International Petroleum, Ltd., London, apparently believes that the invitation of governments to the negotiation table is necessary since in the event of a dispute, for whatever reason, it must be apparent to all that the sovereign power of government is paramount.[121] The deterent offensive and defensive[122] power of an aggrieved nation could be brought to bear on the offending nation in several ways, barring the invocation of the calvo doctrine, or a recourse to the requirement of exhaustion of

national remedies. It should be noted that companies of the Royal Dutch Shell group have been nationalized in Somalia, Ethiopia, South Yemen, Zaire, Guinea, Congo Brazzaville, Morrocco to mention a few. Recently, Shell-British Petroleum (Shell-BP) was also nationalized or "nigerianized" by the military government of Nigeria.

The wave of company nationalizations by governments engaging in punitive expeditions indicates the vulnerability of oil companies who are without the deterent backing of their respective home governments.

I have attempted in the above paragraph to present a proprosal for government intervention and participation in international oil industry negotiations with oil companies playing an executionary and peripheral role. I have also presented and argued why this should be so through reasoned analysis and through lessons and experiences derived from history. I realized this suggestion could be very controversial, however, I submit this approach is the least dangerous and most stable in a changing world. It will not lead to "endless political and international complications." On the contrary, it will usher in a new era in international cooperation based on global interdependence and justice.

Schematic Presentation of Government-to-Government Approach to Negotiations in International Oil Industry



NOTES

[1]The formation of OPEC Organization followed the unilateral reduction of posted prices of crude oil by the major international oil companies. In fact, OPEC was formed to defend the "existing" posted price of crude oil before its reduction. As it turned out, the organization gradually assumed a political role and subsequently set prices for its crude oil. For more details, see OPEC Official Resolutions and Press Releases, 1960-1980. Published on behalf of the Organization of Petroleum Exporting Countries by Pergamon Press, Oxford, England. There are numerous studies and government documentation on the evolution of OPEC. A good example is a Report to the Congress of the United States by the Comptroller General of the U.S., published and distributed by the General Accounting Office (GAO), January 3, 1978.

[2]In terms of "innovation" concession agreements, Nigeria has largely relied on agreements reached elsewhere with oil companies, as a framework for negotiation text. For example, the concept of "production-sharing" was taken from Indonesia and "service-contracts" from Venezuela and other oil producing Latin American nations. Presently, production-sharing and service-contract regimes dominate Nigeria's oil negotiation strategies.

[3]For more information on "non-territorial actors," see Johan Galtung, "The Non-Territorial System" in The Multinational Corporation: A Collection of Essays published in the International Humanist and Ethical Union, Utrecht, Holland, November 1976, p. 19-27.

[4]Major industrialized nations of Western Europe, including OECD nations, have established state-owned oil corporations to coordinate and supplement the efforts and policies of the major international companies supplying them with oil. In most cases, these state owned corporations have displaced to a large extent the traditional activities of the "majors." This is in recognition of the changing bargaining positions of actors in the global oil industry favoring producer-governments. Governments realized the vulnerability of the oil majors in the international oil system, especially immediately after the events of 1973. Although the U.S. government was equally vulnerable, its trust on the oil majors was not strongly shaken.

[5]Time classification are not mine. They appear in a study done by the United Nations Centre on Transnational Corporations entitled "Main Features and Trends in Petroleum and Mining Agreements." I adopted them for analytical clarity and convenience. However, phase classifica- remains mine.

[6]For more details on this, see "Main Features and Trends in Petroleum and Mining Agreements: A Technical Paper," a study conducted by the United Nations Centre on Transnational Corporations, New York, 1982.

[7]"Technical Analysis of the International Oil Market," prepared by Petroleum Economics Limited, for the U.S. Department of Energy, June 1978, p. 2.

[8]The relationship of colonialism and imperialism to exploitation of dependent areas is well documented. Consult Chapter I of this study and footnotes after it for more details on colonialism, imperialism, dependency and exploitation.

[9]"Main Features and Trends in Petroleum and Mining Agreements," op. cit., p. 2.

[10]See "Alternative Arrangements for Petroleum Development: A Guide for Government Policy-Makers and Negotiators." A study conducted by the United Nations Centre on Transnational Corporations, New York, 1982, p. 3.

[11]Oran Young, ed., Bargaining: Formal Theories of Negotiation (Chicago: University of Illinois Press, 1975). See especially the section on "Strategic Interaction," pp. 5-19.

[12]This observation is indeed right! As the struggle for the restoration of posted price of Middle East crude oil was won by producer governments, a gradual shift from economic determinism of global oil was made in favor of political demands. Events leading to 1973 oil embargo and the "quadrupling" of oil price; the struggle for a "new international economic order," all were politically motivated. See "Main Features and Trends in Petroleum and Mining Agreements, op. cit., p. 2.

[13]Report to Congress, op. cit., p. 5.

[14]Consultation was by the invitation of the Republic of Iraq, and composed of representatives of the Governments of Iran, Kuwait, Saudi Arabia, Iraq and Venezuela. These countries are known as the "founding members" of the OPEC organization, after having met at Baghdad (capital city of Iraq), from 10th to the 14th September 1960. For details on deliberations, see Resolutions of the First OPEC Conference, Baghdad, 1960, in OPEC Official Resolutions and Press Releases, 1960-1980, op. cit., pp. 1-3 and p. 182.

[15]Ibid., and "Main Features and Trends in Petroleum and Mining Agreements," p. 2, especially on the assertion that "the traditional concession was by its nature a state within a state."

[16]Governing legislation for Petroleum Operations in Nigeria is contained in Mineral Oil Ordinance (Chapter 135) and its subsequent amendments, as well as Petroleum Decree 51, published November 27, 1969. Fiscal provisions are contained in the Petroleum Profits Tax Ordinance of 1959 as amended. See for some details, Barrow's Petroleum Legislation, Country and Revision Dates, Supplement 33, New York, 1979.

[17]See John McDonald, "A Theory of Strategy: Mathematics Has Been Turned from the Physical World to the Affairs of Men - Economic and Military - With Some Surprising Results," in Fortune, June 1949, pp. 108-110.

[18]For a detailed analysis of the factors of impatience and reciprocal demand intensity of negotiation outcomes in the African context, see Robert L. Curry, Jr. and Donald Rothchild, "On Economic Bargaining between African Governments and Multinational Companies," in The Journal of Modern African Studies, 12, 2 (1974), pp.173-189.

[19]"Main Features and Trends in Petroleum and Mining Agreements," op. cit., p. 38.

[20]The "basic elements" of production-sharing contracts are:
1) Overall management of petroleum operations by the state;
2) Cost recovery by the company of all exploration, development and production costs from a portion of the production; and
3) a "profit" split of the remaning production between the state and the oil company.

(Adopted from the "Main Features and Trends in Petrôleum Mining Agreements," Ibid., p. 12). The key point or provision in production-sharing agreements is the "overall management of petroleum operations by the state." Thus the important point to bear in mind is state control, which is largely political, not technical.

[21]Like production-sharing agreements, service contracts are innovation concession regimes. Unlike production-sharing, the "distinctive feature" of service contracts is that the companies "typically get only the right to buy 20 to 50 percent of the oil produced, at discounts from market prices ranging between 3 to 10 percent, for a specified period. For more details, see "Alternative Arrangements for Petroleum Developments," op. cit., p. 55.

[22]See Barrow's Petroleum Legislation, op. cit., Supplement 5, p. 39.

[23]Ibid., p. 41.

[24]R. Duncan Luce and Howard Raiffa, Games and Decisions: An Introduction and Critical Survey (New York: John Wiley & Sons., Inc, 1957).

[25]See Jessie Bernard, "The Theory of Games of Strategy as a Modern Sociology of Conflict," in The American Journal of Sociology, Vol. LIX, No. 5, March 1954.

[26]"Main Features and Trends in Petroleum and Mining Agreements," op. cit., p. 6.

[27]Fadhil J-Al-Chalabi, OPEC and the International Oil Industry: A Changing Structure (Oxford University Press, 1980).

[28]Although several factors and force of circumstances were responsible in the change of bargaining power and position of main actors in the global oil industry, the creation of state-owned oil companies was instrumental in strengthening producer-government position. For details, see Kamal Hussain's Law and Policy in Petroleum Development-Changing Relations between Transnationals and Governments (London: Francis Printer, 1979).

[29]"Main Features and Trends in Petroleum Mining Agreements," op. cit., p. 6.

[30]See for example, Raymond Vernon's Sovereignty-at-Bay arguments in Nye and Keohane, eds., Transnational Relations and World Politics (Cambridge: Harvard University Press, 1971); see also Richard J. Barnet and Ronald E. Mueller, Global Reach: The Power of the Multinational Corporations (New York: Simon and Schuster, 1974).

[31]The events of 1973 were traumatic to designated countries and the international economic system in general. Although Nigeria benefitted enormously from the "quadrupling" of oil prices, she was not part of the Arab oil embargo against several western industrial nations.

[32]Complete state ownership of petroleum operations within a state's jurisdiction necessitated "nationalizations" of certain petroleum operations due to strategic considerations as for example in Nigeria, Saudi Arabia, or simply as a punitive measure as in Libya and Algeria. In all, nationalizations are consistent with the "trends of the 1960s continued in the 1970s" reflecting in large part the growing strength of OPEC and producer-governments in general.

[33]For details, see "Alternative Arrangements for Petroleum Development," op.cit., p. 9.

[34]Recently however, the U.S. government officials and pronouncements agree that confrontation strategy may be useful and productive in dealing with OPEC after the earlier emphasis on cooperation failed. But it is reasonable to assume that on oil matters, a two-track negotiating strategy has been adopted by U.S.

oil companies backed by the government. In this case, "double think" philosophy was carried to its logical end. For more on "confrontation organization" see Oil Negotiations, OPEC and the Stability of Supply, an outcome of Hearings before the Subcommittee on Foreign Economic Policy, of the Committee on Foreign Affairs, United States House of Representatives, Ninety-Third Congress, First Session, held from April 10-September 18, 1973, p. 272. (Published and distributed by the U.S. Government Printing Office, Washington, D.C., 1973).

[35]Ibid., p. 283.

[36]Understanding the limits of the bargaining powers and position of international oil companies came too late to Western government's officials. If they did earlier, the repercussions were largely ignored: the formation of OPEC, the events of 1973, etc., were interpreted after the fact! For more on this, see Multinational Oil Companies and OPEC: Implications for U.S. Policy. This is the outcome of Hearings conducted before the Subcommittee on Energy of the Joint Economic Committee, Congress of the United States, Ninety-fourth Congress, Second Session, June 2, 3 and 8, 1976. Printed for the use of the Joint Economic Committee by the U.S. Government Printing Office, Washington, 1977. See particularly p. 157.

[37]Ibid., p. 158.

[38]Peter R. Odell, Oil and World Power, new fully revised and expanded 6th edition. Published by Penguin Books, Ltd., Harmondsworth, Middlesex, England. First published 1970; sixth edition 1981, See p. 114.

[39]For details, see Oil Negotiations, OPEC, and the Stability of Supply, op. cit. Entire hearing and especially those in Appendix VIII (p. 272, 281-282).

[40]Ibid., p. 282.

[41]Ibid.

[42]Oil company/producer-government cooperation is still a fact in the 1980s. The question is: To what extent?; and whether cooperation is strategic or not. The fact is that presently both actors in the international oil system need each other; neither can do without the other unless alternative arrangements are worked out. See Odell, op. cit., p. 230 for more information.

[43]Shell/D'Archy Exploration Parties, a consortium owned equally by Royal Dutch Shell and British Petroleum, has grown enormously in both operations and logistics and today it is known as Royal Dutch Shell/British Petroleum Development Company of Nigeria Ltd. Presently Shell-BP (now African Petroleum) has the largest share of production figures in Nigeria.

[44]The Shell-BP Company, Our Oil Industry (London: Britannic House, 1977).

[45]See Reconstruction and Development in Nigeria: Proceedings of a National Conference. Edited by A.A. Ayida and H.M.A. Onitri. Published for the Nigerian Institute of Social and Economic Research (Ibadan: Oxford University Press, 1971).

[46]Ibid.

[47]For more information on this, see Scott R. Pearson, Petroleum and the Nigerian Economy (Stanford, Ca.: Stanford University Press, 1970), p. 13.

[48]Petroleum Legislation, Supplement 33, op. cit.

[49]Ibid.

[50]Ibid., Supplement 5, p. 39.

[51]Ibid., p. 41.

[52]Although the bargaining positions and strenqths of major international oil companies have been weakened due to previously explained reasons, one should not quickly discount their influence and residual strengths. One area of strength is the "close corporate relations existing between them" and the logic of joint ownership which ensures on occasions concerted action to further their interests. For more details, see The International Petroleum Cartel (Reprint). Staff Report to the Federal Trade Commission, submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22, 1952, Reprinted April 22, 1975, see especially p. 29.

[53]Pearson, op. cit., p. 19.

[54]Christopher Tugendhat, Oil: The Biggest Business (London: Eyre and Spottswoode, Ltd., 1968), p. 206.

[55]Curry and Rothchild, op. cit., p. 174.

[56]From "Mining, Fuel and Power," Quarterly Economic Review of Nigeria, Annual Supplement, 3rd Quarter, 1978, p. 11.

[57]Indeed, calls for a "restraint" in crude oil production have been made, however these remain a rhetorical proposition. Government policy is based on pumping as much crude oil as possible for financing her huge development plans. The call for a restraint could only be heeded to when the governments purse is comfortable enough to meet increasing demands on it. See Curry and Rothchild, op. cit., p. 180, for more information.

[58]See the Report by Suzanne Cronje entitled, "Nigeria will control Shell-BP by 1982" in African Development, August 1973, p. 11.

[59]"Nigeria's Nationalization of BP's Interest May Cause Rise in Spot Petroleum Prices," Wall Street Journal, August 2, 1979, p. 5.

[60]There was, subsequent to this agreement, a blanket government demand for 55 percent and then 60 percent participation, see Petroleum Legislation, Supplement 5, op. cit., p. 40.

[61]Petroleum Legislation, Supplement 14, op. cit.

[62]Detailed information may be found in Petroleum Decree 1969. Supplement to Official Gazette No. 62, Vol. 56, 27th November 1969, Lagos, Nigeria. I would like also to point out that the Commissioner of Petroleum or (this position) was so powerful that even the then Head of State, General Olusegun Obasanjo, in 1977 assumed this post.

[63]"Main Features and Trends in Petroleum and Mining Agreements," op. cit., p. 20.

[64]See Petroleum Legislation, Supplement 33, op. cit., p. 56.

[65]For example, this model appropriates essential elements of more detailed constructions developed by Bonis Contini in "Time in Bargaining Negotiations," in The American Economic Review (Evanston, Ill), Vol. LVIII, No. 3, June 1969; also by Robert L. Curry, Jr. and L.L. Wade, "A Model for Socio-Political Bargaining," in The American Journal of Economics and Sociology (New York), Vol XXX, No. 4, October 1971, and as suggested in their book, A Theory of Political Exchange (Englewood Cliffs: Prentice-Hall, 1968).

[66]It is important to point out that Nigeria's export crops - Cocoa, timber, rubber, coffee, peanuts, cotton and palm - produce remained the "driving force of the economy" until superseded by a dramatic spurt in oil revenues during the 1970s. For more on this, see Dupe Olatumbosum, "Nigerian War - An Economic Blessing?" in Nigerian Opinion (Ibadan), Vol. 1, Nos. 1-2, January-February 1970, p. 9.

[67]For detailed explanation, see OPEC Resolution and Press Releases, op. cit., p. 182.

[68]Ibid.

[69]Oil Negotiations, OPEC and the Stability of Supply, op. cit., p. 94.

[70]Multinational Oil Corporations and U.S. Foreign Policy: Report to the Committee on Foreign Relations, United States Senate, by the Subcommittee on Multinational Corporations, January 2, 1975.

[71]For more on this, see James M. Griffin and David J. Teece, eds., OPEC Behaviour and World Oil Prices "Introduction" (London: George Allen & Unwin, Ltd., 1982).

[72]Multinational Oil Corporations and U.S. Foreign Policy, op. cit.

[73]See Fereidun Fesharaki and David T. Isaak, eds., OPEC, the Gulf, and the World Petroleum Market: A Study in Government Policy and Downstream Operations (Boulder, Co.: Westview Press, 1983), p. 236.

[74]Griffin, op. cit., p. 94.

[75]John McDonald, op. cit., p. 108.

[76]See Ward Edwards, "The Theory of Decision-Making" in Psychological Bulletin, Vol. 51, No. 4, 1954, p. 406.

[77]David Mitrany, the British Political Scientist, was concerned with the process by which political communities became integrated. He championed the "functional" approach to integration in which actors merge to form "unions" according to specific functions and aims.

[78]I refer to Karl Deutsch and Andrew Mack in their "Communication" studies and use one major indicator to communication strategy - "volume of transaction" as a measurement of "integration" in OPEC's decision-making machinery.

[79]For more on this, see Oil Negotiations, OPEC and the Stability of Supply, op. cit., p. 95.

[80]See "Great Decision," 1980, p. 8. Published by American Foreign Policy Association, New York.

[81]The strategies and struggles to "contain" OPEC goes on. The plans to do so take several forms: diplomatic, economic, internal subversion, and self-imposed demand-restraint. See Multinational Oil Companies and OPEC: Implications for U.S. Policy, op. cit., p. 326.

[82] Odell, op. cit., p. 242.

[83]"The Humbling of OPEC," Time, February 7, 1983, p. 43.

[84]Shehu Shagari, "My Vision of Nigeria: Selected Speeches" Eds. Aminu Tijjani and David Williams. First published 1981 in Great Britain by Frank Cass and Co., Ltd., London. See p. 176.

[85] The oil companies point out that "between 1975 and 1981, the official selling price of crude oil had increased by 300 percent from $11.92 to $36.50 per barrel" while company "profit-margin" has remained unchanged. The government has however reviewed company's position and 100 percent profit margin was granted. Reported by Joe Nwokedi of the Concord Group, "Companies Abandon New Oil Field," and "Bonanza for Oil Companies," in the Nigerian National Concord Newspaper, Vol. 3, No. 731 and No. 732, Friday, July 2, and Saturday July 3, 1982.

[86] From a special report: OPEC and Nigeria, 1982, in the National Concord Newspaper of Tuesday, December 14, 1982. Organized by ORICOM (Nigeria) Ltd. with editorial services by ECONOTRACK and made possible by the participation of British Caledonian Airways, IBWA and Mobil Producing Nigeria.

[87] See the theoretical formulations of Robert O. Keohane and Joseph S. Nye, Power and Interdependence: World Politics in Transition (Boston: Little, Brown and Company, Inc., 1977), p. 13.

[88] Ibid., p. 15.

[89] This article discusses the concept of commitment and its application to the theory of games of strategy. For full treatment, see Thornton B. Roby, "Commitment," Behavioural Science, 1960, Vol. 5, pp. 253-264.

[90] OPEC Resolutions and Press Releases, 1960-1980, op.cit., p. 113.

[91] See Jessie Bernard, op. cit., p. 412.

[92] Ibid., p. 417.

[93] Ibid.

[94] Milton Friedman and L.J. Savage, "The Utility Analysis of Choice Involving Risk," The Journal of Political Economy, Vol. LVI, No. 4, August 1948.

[95] Maximization of crude oil "value" includes its use to defend a perceived national interest and, of course, underpricing the commodity to capture markets at the expense of the nations allies - OPEC members. See Shagari, op. cit., p. 92.

[96] There are examples of games without "complete information" of course. In this situation, decision-making is marred by the presence of uncertain variables. Final decision-making are usually made on "hunch" and reflect, in most cases, the lack of information on the decision-maker. On games with complete information, see Jessie Bernard, op. cit., p. 419.

[97] ORICOM Special Report on Nigeria and OPEC, op. cit, p. 7.

[98] See John McDonald, op. cit., p. 109.

[99] Shagari, op. cit., p. 156.

[100] ORICOM Special Report, p. 17.

[101] Barrow's Petroleum Legislation, Supplement 33, op. cit., p. 43.

[102] Strategic Intelligence production in the international oil industry is of vital importance to individual actors in the oil system. Unfortunately, on crucial periods of its history, actors have either failed to gather decisive intelligence information or simply chose to neglect it. On both counts, it has proved fatal. On strategic intelligence production, see Washington Platt, Strategic Intelligence Production: Basic Principles.(New York: Praeger Publishers, Inc., 1957)., p. 8.

[103] Quoted in John Harsanyi, "Approaches to the Bargaining Problem Before and After the Theory of Games: A Critical Discussion of Zenthens, Hicks', and Nash's Theories," p. 145.

[104] Strong groups exert strong influences on members toward conformity. In OPEC,some members, notably Saudi Arabia, do occasionally exert pressure over other members. However, the effectiveness of influence-peddling on members is questionable. For example, strong pressures on "renegade" Nigeria did not stop her from unilaterally reducing the price of her crude by $5.50 to $30.00 per barrel. Neither did it stop other members notably Iran and Venezuela from cheating on "production quotas." For more on group pressure, see Dorwin Cartwright and Ronald Lippitt, "Group Dynamics," International Journal of Group Psychotherapy, 1957, Vol. 7, pp. 86-102.

[105] Report to Congress, op. cit., p.ii.

[106] Oil Negotiations, OPEC and the Stability of Supply, op. cit., p. 281.

[107] This assertion attests to the sovereign power of the state. No matter how small or weak a state is, it is still theoretically more powerful than the biggest corporations. In this sense, it is the multinational corporation who is "at bay" and not the nation-state. Ibid., p. 282.

[108] Ibid.

[109]See A. Documentary History of the Petroleum Reserve Corporation (1943-1944). Prepared for use of Subcommittee on Multinational Corporations of the Committee on Foreign Relations. United States Senate, May 8, 1974, p. 27. Printed by the U.S. Government Printing Office, Washington, 1974.

[110]Ibid., p. 61.

[111]Nye and Keohane, op. cit., characterize this situation as "complex-interdependence," and as Frankel observes, complex interdependence is a "condition" of the existence of actors in the international system. For more information, see Joseph Frankel, International Relations in a Changing World, New edition (Oxford: Oxford University Press, 1979), p. 95.

[112]Odell, op. cit., p. 190.

[113]For a detailed analysis, see Multinational Oil Companies and OPEC: Implications for U.S. Policy, op. cit., p. 109-172.

[114]Success depends to a considerable extent on commitments by the governments on this approach and on factors external to the decision-making environment of each system. As a matter of fact, success has been recorded in several nations, especially those of the so-called third world. On this issue, see Ibid., p. 35.

[115]Report to Congress, op. cit., p. 77.

[116]The U.S. government has relied mostly on subtle, covert diplomacy in oil negotiations with OPEC. It has been a policy of the government to back international oil companies acting on her interests in international oil negotiations. However, on some occasions demanding it, U.S. government have been aggressive in oil matters. For Secretary Connally's remarks, see Oil Negotiation OPEC and Stability of Supply, op. cit., p. 159.

[117]From Multinational Oil Companies and OPEC: Implications for U.S. Policy, op. cit., p. 36.

[118]Ibid., p. 163.

[119]Ibid., p. 280.

[120]Ibid., p. 281.

[121]See Statement of Geoffrey Chandler, Director, Shell International Petroleum, Ltd., in The Multinationals: The View from Europe, Munich, 1975. Report on the Seventh Meeting of Members of Congress and of the European Parliament, April 1975. Printed for the use of the Committee on International Relations, September 1975, p. 81. U.S. Government Printing Office, Washington, 1975.

122 Dr. Kissinger defines "deterent power" as the "ability to prevent certain threats or actions from being carried out by posing an equivalent or greater threat;

2) Offensive power is the ability of a political unit to impose its will on another and;
3) Defensive power is the ability of a state to avoid coercion by another.

The presence of any mixture of these characteristics of "modern power" is essential, in my opinion, in negotiations in the international oil system and in fact may prove decisive in negotiation outcome provided the approach to negotiation be government-to-government. On the definitions and "nature of modern power," see Henry A. Kissinger, eds., Problems of National Security: A Book of Readings (New York: Frederick A. Praeger Publishers, 1965). See the Editor's introduction.

CHAPTER VI

NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC)

The existence of Nigerian National Petroleum Corporation (henceforth NNPC) enables the Nigerian government to play a direct role in the petroleum industry. Its establishment was based on a complex set of economic and political considerations and factors, which is of crucial and immense importance to national security and interest. In essence, NNPC serves as a strategic instrument of national policy.

Petroleum Act 1969 vested in the State of Nigeria the entire ownership and control of all oil and gas upon any land in Nigeria, under its territorial waters and continental shelf.[1] In early 1972, the government announced that henceforth no concessions would be given under the terms of Petroleum Decree 51, but that petroleum "mining leases" obtained must be through the state-owned corporation in the form of service contracts.

This requirement in effect means that:

> " . . . all right to oil and gas in place within all areas over which Nigeria has ownership and control, excepting those areas comprised in existing grants of petroleum rights, but including all areas subsequently surrendered, relinquished or forfeited by holders of petroleum rights, were reserved by the Government for the Nigerian National Oil Corporation. One effect of the reservation is that 6,267,220 hectares of Nigeria's on-shore and off-shore sedimentary basin areas are under oil mining leases operated by foreign owned oil companies while the remaining areas became vested in the NNPC."[2]

NNPC is first and foremost an instrument of government policy in the petroleum oil industry, both at home and abroad. By Decree 18 of 27 April 1971, Nigerian National Oil Corporation [(NNOC) now NNPC][3] was established. It was empowered to prospect for, mine and market oil, and engage in all other activities associated with the petroleum industry. The corporation was also empowered to

> ". . . purchase or otherwise acquire or take over all of any of the assets, businesses, properties, privileges, contracts, rights, obligations and liabilities of any business engaged in by the corporation."[4]

These powers are indeed politically potent and are devised to reflect the importance attached to the goals of this corporation by the state and the satisfaction of the state's divergent needs.

The establishment of national oil companies "flows from the doctrine of state ownership" and sovereignty over its natural resources and have "played a central role in the expansion of the state's control over the conduct and management of petroleum operations."[5] For instance, since the 1970s, the government of Nigeria has engaged in a policy of direct negotiations with the oil companies operating within her borders and territorial waters, and a direct participation in the operations and activities of the petroleum industry to protect its interests. The government attempts to do this firstly by "laying down sets of rules" and requirements to "regulate petroleum operations on its soil" and secondly by establishing NNPC to act as an instrument of national petroleum policy, both at home and abroad. The National Petroleum Corporation has served the State of Nigeria in OPEC proceedings since her inception in July 1971, and as of June 1979, all thirteen OPEC countries had established their

national oil companies.[6]

The main impetus to the establishment of national oil companies during the 1950s and the 1960s was the growing maturity in the evolving petroleum policies of the producing countries.[7] In Nigeria, this "impetus" came in the early 1970s when she joined the Organization of Petroleum Exporting Countries (OPEC), and when the government began yielding to the highly nationalistic pressures to establish what I referred to earlier as elements of independence, created by NNPC. Moreover, the early 1970s ushered in an era when the government embarked on a series of national policies aimed at gradually transforming the nation's economic and political positions. Because of the "vital role" played by the oil sector in this transformation and because of the fact that oil sales provide almost 90 percent of the nation's foreign exchange earnings, and about 83 percent of the gross domestic product (GDP), the government therefore relied precariously on this sector and on the state owned oil corporation in charge of it as a crucial instrument in the execution of domestic as well as foreign policies. In fact, on occasion, this corporation has played a decisive role in policies because in the long run the government depends largely on it for oil revenues. In effect, NNPC may be considered as purse holder and earner of the last resort.

As a long term policy of the Federal Government of Nigeria, the state-owned oil company may be viewed as an instrument of gradual and eventual displacement of the role of international oil companies in the downstream as well as upstream petroleum operations in the country. NNPC is definitely being groomed for a replacement role

and hence enormous responsibility, ambitions and goals have been thrust upon her. In this respect, "the major aim of the Government's oil policy is the eventual and complete national control of all aspects of the oil industry"[8] previously run by the international oil companies. The strategy was control based on ownership and the need to use the industry as a vehicle for the "rapid economic development of the country; however, its success depends to a considerable extent on how effective transformation machinery is. In other words, how prepared is the nation to tackle the enormous challenges posed by the intricate operations of the oil industry? The answer is that presently, she is, through the NNPC, very much ill-prepared. Although given the "enormous progress" made so far by the corporation, it may not be long before she reaches a stage of competency and maturity.

So far, NNPC has performed a supporting role for major oil companies operating within the country. Although the government, through various participation agreements, has acquired majority shares (60%) in the major foreign producing companies in the country, its performance ratio has been indeed very insignificant compared to those of the companies. Several "seismic" missions have been undertaken by the NNPC for the "search and discovery of new reserves" in all parts of the River Niger Delta Region and some parts of the Anambra River Basin and in the Chad Basin, known as "Bornu Trough" without much encouraging news and developments. In fact, the NNPC operates only one producing oil field on its own at present and that is the Izombe Oil Field situated near the Oguta Lake in Anambra State. She is, however, engaged through participation with major oil compa-

nies in joint venture arrangements on several major oil production sites.

As an instrument of government policy, therefore, the main effort of NNPC "has been successfully directed at obtaining a larger share of the oil revenues . . . the activities of the Corporation are thus essentially commercial and administrative. They do not yet displace the functions of the multinational oil firms or their specialist foreign subcontractors to any significant extent (Tom Forrest, 1977).[9] The government and senior officials of the corporation are faced with the awesome task of building the corporation to a level commensurate with its mandate. Presently this is not happening and may not happen in the near future. One major obstacle is technology and the know-how to operate it. Transfer of technology has proceeded very slowly; management and technical know-how is still in its elementary stage and manpower requirements are all but fulfilled. The second obstacle is political and paradoxically so. The National Oil Corporation has been kept weak; "selected foreign interests had been served," and the alliance between the state and Shell-British Petroleum (the highest oil producer in the country) has worked to strengthen Shell-BP at the expense of the National Oil Corporation. Gowon's regime acquiesced to the demands of the multinational oil companies strategically calculated to weaken the state corporation. Consequently, for a period, the nation did not have a coherent, consistent oil policy designed to give NNPC a decisive and commanding role. The policies of the oil companies prevailed. The role of NNPC consequently was relegated to one of joint venture as junior partner

with major foreign oil-producing multinationals.

Participation With Oil Multinationals-(Joint Ventures)

Actors for the most part engage in "joint venture" because of the presence of common objectives and the view or promise that each will benefit from such an arrangement. This type of arrangement is the "most efficient form of extending technical aid to developing countries" where the need exists for the transfer of technology and technical know-how. In the oil industry and especially in developing nations, where the oil technology patents belong largely to oil multinationals, joint ventures present themselves as the logical alternative to either buying patents (which is highly expensive and controversial), or gradually developing one (which in most cases is slow and inefficient). A typical reason, however, for joint venture "marriage" is the "sharing of risks" and of course advantages and profits which the arrangement makes possible. Joint ventures substantially reduce, by the amount of the partner's contributions to the venture, the political and economic risks that are the principal obstacles to direct foreign investment.[10]

In the international oil industry, the "usual joint venture is an arrangement" in which state owned oil companies (acting on behalf of the state), and the foreign oil company "share equity in a joint operation to explore for, develop and/or produce petroleum deposits."[11] For those countries who have not built up competent and efficient organizations for monitoring oil operations, joint venture establishes the importance of having an organization within the

industry, in a position to provide the government with useful and reliable information gathered through experience in the field. Furthermore, these governments wish to protect the strategic interests of the nation which obviously is not served when major international oil companies are left alone in the conduct of petroleum matters and activities.

Joint venture enterprise in the oil industry has offered the government of Nigeria the necessary opportunity for acquiring (through arrangements with oil companies) the technology needed to run her oil operations. Petroleum Act 1969 requires that oil companies operating within the country ensure that within ten years from the grant of a lease:

i) the number of Nigerian citizens employed in connection with the lease in managerial, professional and supervisory grades shall reach at least 75% of the total number of persons employed in these grades;

ii) at least 60% of employees in any such grade shall be Nigerian citizens; and

iii) all employees in lower grades shall be Nigerian citizens.[12]

Acquisition of petroleum technology, "related to the goal of skilled manpower" is being vigorously pursued by the government oil planners to reduce the nation's vulnerability on foreign oil technology. To this end, excessive reliance on the merchants of oil technology--the international oil companies--is avoided wherever doing so is possible and feasible. Technical assistance programs, instead, have been

vigorously sought. For example, an agreement was concluded by NNPC with the government of the U.S.S.R. and Rumania to supply the state-owned corporation with some technical specialists, to be phased out within a specified period of time. In addition to this, the government commissioned consultants from Great Britain--COMERINT--to survey, project by project, the manpower needs of those aspects of the Development Plan which deal with oil. The consultants recommended the training of 7,000-7,300 Nigerians in different sub-sectors of the oil industry within the 1977/1982 period. In pursuance of these needs, government negotiators in the oil industry require from oil companies operating within the country the commitment to train and staff qualified Nigerians in responsible positions. This requirement forms a crucial part of several agreements on joint ventures reached with major oil companies. The success ratio of this requirement is mixed, depending on the company involved. In the case of Shell-British Petroleum (now African Petroleum Nigeria Ltd.), the success ratio is somewhat high. Though the company is increasing in personnel, most expatriate management positions are now gradually filled by qualified Nigerians. This policy is in accord with recent government indigenization decrees. As an indication of Shell-BP's success ratio in the indigenization exercise, at the end of 1975, the company had 3,400 employees (200 expatriates, 1,050 Nigerian management staff and 2,150 junior staff). In fact expatriate staff have declined from 429 at the end of 1968 to about 200 at the end of 1975. This figure is expected to reduce to about 100 by 1985. During the period of 1968 to 1975, Nigerian management staff increased from 100 to over

1,000. This figure is likely to increase in the coming years. This is so because the aim of most joint ventures (as seen by government planners), is the gradual but eventual displacement of foreign staff by qualified indigenous personnel.

Joint ventures provide avenues for participation for a nation interested in certain strategic economic activities within her territory or outside of it, and previously controlled and managed by transnational corporations. Realizing the strategic importance of petroleum production, the government of Nigeria has insisted only recently on joint ventures with major oil companies operating within the country.

> "As of August 1, 1979, NNPC holds an undivided 80% interest in the joint venture operations conducted by Shell Development Company of Nigeria Limited, and as of July 1, 1979, NNPC holds 60% interest in the joint venture operations conducted by each of Mobil Producing Nigeria, Gulf Company of Nigeria Limited, Elf Nigeria Limited, Nigerian Agip Oil Company/Limited/Phillips Petroleum, Texaco/Chevron and Pan Ocean Oil Corporation. NNPC participation in the petroleum operations of these companies is as a consequence of Government or NNPC acquisition of interest in the concessions and assets of the oil producing companies between 1972 and 1979."[13]

Participation, of course, is consistent with OPEC Resolution 90 of July 1968, calling for participation by a member producer-nation in the operations of her oil industry. Participation has meant different things to the various member-nations of OPEC. The Djakarta Agreement[14] of 1965 provides that each member is free to spell out the nature of participation and how this may be carried out without any binding strings from OPEC, although a minimum percentage is required.

In Nigeria, participation in the nation's industry is recognized as necessary and essential. The process of participation has been one of gradual transformation depending on specific needs and strategies laid down by the government and executed by the NNPC. In general terms, NNPC was charged with the task of undertaking all activities of the oil industry but in practice, the operations of the corporation were restricted to oil and gas exploration. NNPC (then NNOC) had no statutory duty to regulate or even supervise the operations of the oil industry in Nigeria. Regulation requires trained and skilled government staff to be effective. Nigeria had only a handful of these, mostly engaged in NNPC operations and trying to regulate or even control the oil companies this period was deemed virtually impossible and ineffective. However, efforts were stepped up to train indigenous manpower through overseas scholarships and through institutional arrangements with the oil companies within the country. The aim of these programs is to reinforce government control over petroleum operations by participating directly in the management of petroleum activities. Moreover, a direct role in management enhances the ability of the government to control the operations of the oil companies by obtaining detailed and useful information and knowledge of the international petroleum industry.

Recent practice in Nigeria with regards to participation has taken the form of control and ownership of petroleum resources, with the oil companies acting as service contractors or production-sharing partners. For example, in 1979 the state-owned oil corporation, acting on behalf of the government, announced that all open

areas for petroleum production would henceforth be "opened" for service contracts and invited bids for oil company exploration. Terms were not specified indicating the innovative nature of this new arrangement and the willingness of the government to sit down and negotiate with oil companies on details. However, these contracts continue to have Decree 51 as a basic statute, and offer the government up to 51% (later scaled to 60%) participation in new grants and contain "substantial new requirements" for bonus, buy-back arrangements, tax incentives, etc. It is necessary to point out that an important component of recent participation practice is just not only one of control, but also one of regulation. Government Petroleum Decree 1977 established a "Petroleum Inspectorate" charged with regulating the activities and operations of the oil industry. The Inspectorate invariably confers more power on the NNPC in petroleum matters, which previously was not the case.

Petroleum Decree 1969: Strengths and Weaknesses

A Major strength of this decree is that the "entire ownership and control of all oil and gas in place within any land in Nigeria," under its territorial waters and continental shelf is vested in the State of Nigeria.

The essence of Petroleum Decree 1969 was based on the need felt by the then military government of Yakubu Gowon for a rapid transformation of the government position on petroleum matters within the country and abroad. Its strength and success depended to a large extent on repealing some of the previously scattered petroleum legislation which are regulatory and not fiscal. Fiscal provisions

in Nigeria are covered by the Petroleum Profits Tax Act, as amended, and by provisions in individual concession agreements.[15]

Published with revised regulations on 27 November 1969 as Decree No. 51, Nigeria's Petroleum Decree1969 ushered in the era of her participation in the oil industry. Decree 51 provided that "special terms and conditions"--including government participation--may be "imposed on a prospecting license or mining lease" if considered to be "in the public interest." This decree provides the ruling military government with a very potent instrument of dealing with the transnational oil companies, who, following the Nigerian-Biafrian Civil War, were confused as to which government to pay taxes and oil royalties. As a consequence of Decree No. 51, the position of the Federal Government of Nigeria was strengthened and the conflict of interest was settled in her favour. Indeed, it might be argued that a major reason why Decree No. 51 was enacted by the Federal Government was to make it clear to the oil companies that petroleum resources within the country belong to the Federal Government of Nigeria and not to the Government of Biafra headed by Emeka Odumegwu Ojukwu. Consequently, oil revenues should be paid to the Federal Government. Moreover, the need for oil revenues to finance the civil war became more acute, and government policy-makers and planners were forced to devise means through government legislation of making international oil companies operating within the country responsive to federal government demands. In addition, it was thought that with the enactment of Decree No. 51, the Government of Biafra would eventually give up her claims to the oil wells within her territory. Seen from

this perspective, Decree No. 51 was a smart legal move by the government of the Federal Republic of Nigeria to wrest oil concessions and hence oil revenues from the Biafran government while simultaneously cultivating legitimacy and justification in the eyes of the oil companies.

Petroleum Decree 1969, Decree No. 51, positioned the government for the future role which she envisions to play in the domestic and international oil industry. Decree No. 51 was indeed a harbinger or forerunner of events to come. It gave endorsement and conferred legitimacy to subsequent government "sovereign acts" in her oil industry made possible by the doctrine of sovereignty over natural resources. Although ownership does not automatically confer the means to control, it made possible the exercise in gradual transformation practiced by the government in oil negotiations.[16] It also made possible the creation of the state-owned oil corporation (NNPC) as the sole government representative (and hence an instrument of government policy) in the oil industry. As a result of the Decree, no new oil prospecting license since 1972 has been granted to privately-owned oil companies. In effect, it meant that all pending applications since that date have been "cancelled." However, the NNPC is authorized by the government to negotiate contracts with foreign as well as local oil companies for any part of the "assigned area." In all, Petroleum Decree 1969 has had tremendous effects on the Nigerian oil industry because it is the only document of its kind before Nigerian National Petroleum Corporation Decree of 1977, which sought to coherently and clearly articulate the wishes and policies of the

government on petroleum matters. Although it represents a strong document of its kind, Petroleum Decree 1969 nevertheless has some noteworthy weaknesses.

A major weakness of Petroleum Decree 1969 could be that although it vested the entire ownership and control of all petroleum in the state, it did not clearly establish the means of control as did its later version--the Nigerian National Petroleum Decree 1977. There was no institutional instrument or arrangement whereby the regulations made by the "commissioner" of petroleum resources governing petroleum operations may be translated into an effective policy. The implication of this failure was that oil companies were given the opportunity to engage in numerous activities which in the first place should be regulated and controlled. Sound exploratory practices, including the conservation of petroleum resources, were necessary and possible; the prevention of pollution of waterways; the keeping of accurate records and statistics were not properly carried out, or carefully checked and upheld.

Inasmuch as the commissioner represents the government in its negotiations with oil companies, the powers conferred on him by Decree 51 were vast and excessive. In a country where the ruling and political class finds it exceedingly difficult to articulate policies, the grant of excessive power to a bureaucrat and subsequent reliance therefrom, is politically unwise and, in fact, dangerous. It could have been a deliberate move on the part of the Military Government Council to strengthen the position of the commissioner in the negotiation process, however, it unwittingly undermines the powers of the

Military Council which was charged with and responsible for formulating policy. The commissioner, under any circumstances, should not decide which oil company will operate in the country and under what conditions, but Petroleum Decree 1969 confers on him these powers. In the words of the Decree, the Commissioner shall not give his consent to an assignment unless he is satisfied that -

> (a) "the proposed assignee is of good reputation, or is a member of a group of Companies of good reputation, or is owned by a Company or Companies of good reputation."[17]

The commissioner also "may revoke any oil prospecting license or oil mining lease if the licensee or lessee becomes controlled directly or indirectly by a citizen or subject of, or a company incorporated in, any country which is -

> (a) a country other than the licensee's or lessee's country of origin, and
>
> (b) a country the laws of which do not permit citizens of Nigeria or Nigerian companies to acquire, hold and operate petroleum concessions on conditions which in the opinion of the Commissioner are reasonably comparable with the conditions upon which such concessions are granted to subjects of that country."[18]

These powers in effect mean the granting of large discretionary powers, and the power to conduct international relations, and judgment thereof, which of course should be the domain of the ruling Military Council. Arguments may be made that the Military government

decides on matters of broad concern and leaves the execution of substantive choices to the commissioner as a matter of discretionary politics. It should nonetheless be made known that discretion is not limited to substantial choices but extends to procedures, methods, forms, timing, degrees of emphasis and on the whole to questions of national interest and national security. National interest and security suffers terribly when one man is made to decide on issues directly impinging on the instruments of national survival. Excess powers, needless to say, breed corruption and the ills associated with it. In this case, power seemed absolute because there was no clearly defined institutional check on it by the Military government. This particular institutional weakness, including others mentioned earlier, occasioned a careful revision of the Decree and a subsequent enactment of perhaps a far stronger 1977 NNPC Decree.

Petroleum Decree 1977: A Stronger Invocation

Decree No. 33 of 1 April 1977 promulgated by the Federal Military Government created the Nigerian National Petroleum Corporation (NNPC).[19] Decree No. 33 was a more powerful government enactment in that it sought not only to coherently articulate government policy on petroleum matters, but also to consolidate firmly the gains made since the 1969 Decree, by eliminating several institutional weaknesses of the later decree as described above.

The establishment of the Nigerian National Petroleum Corporation (NNPC) offered the government an instrument for policy enactment and implementation which the 1969 Decree clearly lacked. Concurrently, the state-owned oil corporation became a vehicle by which the govern-

ment sought to break into the oil industry and her subsequent control of petroleum operations. The government decided through Decree 33 that its presence in the national and international oil industry is urgently needed if she is to ensure the national interest and security so precariously dependent on petroleum activities. This was done firstly by laying down rules to regulate and control petroleum operations, and secondly, by creating a state-owned oil corporation to act as an instrument of national petroleum policy. In this sense, Petroleum Decree 1977 acted as an instrument of government transformation from a position of inferior partnership to one of controlling interest. Petroleum Decree 1969 was unable to achieve this goal because it lacked institutional arrangements whereby government presence is felt, i.e., the Decree did not create a body or organ which sought to project government demands to other actors in the oil industry. Certainly, it did not attempt to control or even regulate petroleum operations within the country. Petroleum Decree 1977 seeks to carry out these requirements as institutional necessity.

The establishment of a department to be known as the Petroleum Inspectorate (an integral part of the corporation) acts as a "regulatory agency." This is a non-commercial branch of the NNPC and is responsible for issuing permits and licenses for all activities connected with petroleum exploration, exploitation, refining, storage, marketing, transportation and the distribution of petroleum and petroleum products. In addition, the Petroleum Inspectorate "enforces the laws governing oil and gas operations, initiates regulations relating to such operations and supervises the operations of companies

engaged in any one or more activities of the oil and gas industry in Nigeria."[20] Although the Inspectorate "shall not exercise any commercial functions in respect of any activities of the Government of the Federation relating to the petroleum industry," it is vested with the authority to "confine itself to the enforcement of regulatory measures relating to the general control of the petroleum sector."[21] The enforcement of regulatory measures requires that the Inspectorate be an "independent department" within the Nigerian National Petroleum Corporation. An independent status means the minimization of conflict among the various departments within the corporation, which is indeed endemic in any organization that large.

As a testimony of its awesome powers, the corporation (NNPC) shall

> " . . . have powers to do anything which in its opinion is calculated to facilitate the carrying out of its duties under this Decree including, without limiting the generality of the following, the power -
> (a) to hold, manage and alienate movable and immovable property;
> (b) to purchase or otherwise acquire or take over all or any of the assets, businesses, properties, privileges, contracts, rights, obligations and liabilities of any other company, firm or person in furtherance of any business engaged in by the Corporation."[22]

Such powers are presumably granted in furtherance of the administrative tasks of the corporation which is elephantine and which threatens to swallow and make a mockery of the administrative organization of the corporation.

Administrative Organization of the NNPC

The creation of the state-owned oil corporation "marked a remarkable change in the administrative structure of the public sector of the oil industry" by merging the several organs formerly respon-

sible for the various state petroleum affairs. As a consolidate organization, the NNPC, among other things, is according to "Article 21 (1) and (2) of the decree, the dissolution of both the Nigerian National Oil Company (NNOC), formed by the Decree No. 18 of 1971, and the Federal Ministry of Petroleum Resources," and their merger to form the new organization, the NNPC. The belief by the government that a coherent, unified control of petroleum activities will result, including a better understanding and cooperation among member staff, prompted the unification of the former NNOC and the Ministry of Petroleum Resources to form the present Nigerian National Petroleum Corporation (NNPC). The formation of this corporation meant the more efficient and effective use of scarce, skilled indigenous manpower and the improved coordination and unification of petroleum policy. Unlike the NNOC which reported directly to the Ministry of Petroleum Resources, NNPC reports to the government directly, reflecting the more powerful position of the corporation.

Administrative organization of the NNPC is indeed complex, reflecting to a large extent, the numerous and often diversified tasks it is charged with. There are two broad divisions of the NNPC: (1) the commercial division, and (2) the Petroleum Inspectorate division. The commercial division is charged with carrying out the operational and commercial activities of the NNPC, including purchasing and marketing petroleum, its products and by-products. Petroleum Inspectorate division is essentially a regulatory, "enforcement and supervisory agency of the Government" in matters of oil and gas operations. For the sake of functional clarity, and the "avoid-

ance of doubt, the Inspectorate shall not exercise any commercial functions in respect of any activities of the Government of the Federation relating to the petroleum industry."[23] There is also a Petroleum Conservation Department responsible to the chairman of the corporation. The reason for creating this department is not entirely clear. Conservation measures apparently fall within the purvey of Petroleum Inspectorate and it is only logical to incorporate petroleum conservation department into the inspectorate.

Supposedly, for purposes of clarity and functional differentiation, NNPC has been classified into functional categories or levels: (1) the Planning Level; (2) the Service Level, and (3) the Operational Level. The Planning "level" organizes, coordinates, unifies and controls petroleum activities and operations. The Service "level" is responsible essentially for providing "management" with corporate services. This level includes the Treasury and Accounting Departments, management administration offices, Office of Legal Affairs, and so on. The operational "level" is involved with the nitty-gritty, or details of field petroleum operations. These levels of the corporation are answerable through their sector chiefs to the chairman of the corporation in an intricate network of sometimes overlapping functional classification. A casual look at the organizational chart of NNPC portrays an elaborate, well-mapped out corporate framework through which organizational tasks and duties are executed. A closer analysis reveals an overburdened, badly arranged institutional framework, poorly adapted to the execution of essential and even the most primary tasks. Although the "organizational working plan" carefully laid

down "offices" and "departments" needed for executing the corporation's tasks, some of these offices and departments have not been staffed or filled, and those that are, are inadequately done. The inevitable result is inefficiency, ineffectiveness and organizational dysfunction, because the smooth flow of activities so elaborately described by the organizational flow chart is indeed unoperational.

The Petroleum Act of 1977 provides for the NNPC a Board of Directors, consisting of the Chairman, appointed by the President of the Federation, and the following members, including:

(1) the Permanent Secretary Federal Ministry of Finance

(2) the Permanent Secretary Federal Ministry of Economic Development

(3) the Managing Director of the NNPC, and

(4) three other members to be appointed by the President.

Appointment is made, also by the corporation, of a secretary, who is not a member of the Board.

The administrative structure of the NNPC is unwieldy, inefficient, and on the whole ineffective. A reorganization is indeed necessary to save the corporation from complete chaos and bureaucratic breakdown. And although there is a general agreement on the overhal, there is not at the moment a stated policy on how this will be done. President Alhaji Shehu Shagari, on the occasion of the opening of NNPC's third refinery in Kaduna on 25 October 1980, declared:

> "From all observations it has been clear that a major reorganization of the NNPC is not only desirable but also inevitable. Its present structure is so unwieldy as to render effective management virtually impossible."

Following the allegation that the sum of 2.8 billion naira "oil money" was missing from the coffers of the NNPC, the President of the nation ordered a public inquiry. A tribunal was set up for that purpose and in the course of the inquiry[24] exposed the bureaucratically disappointing structure of the NNPC. The tribunal recommended, among other things, a fundamental reorganization of the NNPC.

This recommendation and others arising from the inefficiencies and ineffectiveness of the corporation, prompted the passage of a bill by the Senate on 27 November 1980. This bill provides for the formation of five wholly-owned subsidiaries of the NNPC so that the responsibilities for exploration and exploitation, refining, and pipeline transportation, gas, petrochemicals, marine transportation and marketing activities of the NNPC will be apportioned among five subsidiaries.

The creation of subsidiaries would mean less of a burden to the overburdened, bureaucratically unitized NNPC. It would also mean functional division among the five subsidiaries and the concurrent separation of powers. In the former arrangement, enormous powers were conferred on the chairman, prompting a Report by the tribunal criticizing the "single entity structure of NNPC and the inevitable concentration of responsibility" and power in the chief executive of the NNPC. In addition to decentralizing functions and powers, a reorganization would ensure a proper focus on objectives and goals and the most appropriate means of attaining them. It would ensure also that corporate programs and activities do not overlap and that scarce manpower resources are not wastefully applied to duplicative programs.

Ultimately, the success of this reorganization will depend considerably on how NNPC carries out its duties. It was argued earlier that the state-owned oil corporation is saddled with enormous tasks and responsibilities which the corporation in its present structure and condition cannot undertake. Administrative tasks must be commensurate with corporation abilities. And in the case of NNPC, the tasks, to be fulfilled as required by the government, is well beyond the capacities and orientation of the corporation.

Organizational power struggle between the various State organs responsible for petroleum matters made it virtually impossible for effective and comprehensive coordination of petroleum policy. Evidence of serious and protracted power struggle emerged when by the early 1970s, the NNPC backed up by a cadre of professional technocrats was locked in a fight against other players in the State oil machinery for the implementation of the State's new policy of economic nationalism. The cast of players included the powerful Ministry of Finance under Abdul Atta, who consistenly advocated a strong state role in the oil industry, the Ministry of Mines and Power which was passive and remained in the background of events--its main function was the regulation of foreign oil companies, although on several occasions, it displayed resentment on encroachments made by the Ministry of Finance into what was thought as its "sphere of interest." Other players of lesser importance included the Ministries of Economic Development, Trade and Industries.

The field of play was ill-defined and rules of game hardly established. Concerning oil policy, the interests of the Federal

Government were handled by different ministries whose conception of oil policy assumed bureaucratic imperatives. Thus the different ministries acted in accordance with what seemed appropriate to them, and not according to coordinated, consistent and comprehensive guidelines established by the Federal Government. Today, competition has largely made ways for coordination and accommodation of the interests of various minitries with the NNPC perhaps as the *primus inter-pares* in the nation's oil industry.

Administrative Tasks: An Elephantine Problem?

A closer analysis of the tasks of NNPC indicates that it is faced with an elephantine problem in attempting to execute at least some of these tasks. The corporation is created on the assumption that it should be a fully integrated corporate actor, engaging in all aspects of the petroleum industry. Its "general duties" include the following:

(a) exploring and prospecting for, working, winning or otherwise acquiring, possessing and disposing of petroleum;

(b) refining, treating, processing and generally engaging in the handling of petroleum for the manufacture and production of petroleum products and its derivatives;

(c) purchasing and marketing petroleum, its products and by-products;

(d) providing and operating pipelines, tanker-ships or other facilities for the carriage or conveyance of

crude oil, natural gas and their products and derivatives, water and any other liquids or other commodities related to the corporation's operation;

(e) constructing, equipping and maintaining tank farms and other facilities for the handling and treatment of petroleum and its products and derivatives;

(f) carrying out research in connection with petroleum or anything derived from it and promoting activities for the purpose of turning to account the results of such research;

(g) doing anything required for the purpose of giving effect to agreements entered into by the Federal Military Government with a view to securing participation by the Government or the corporation in activities connected with petroleum;

(h) generally engaging in activities that would enhance the petroleum industry in the overall interest of Nigeria; and

(i) undertake such other activities as are necessary or expedient for giving full effect to the provisions of this decree.[26]

Some of the duties of the corporation are explicit and clear, but some are simply ambiguous and reflect the ambitious tasks prepared by the government for NNPC. By implication, it could be argued that direct state participation in the oil industry was based not only on economic and strategic reasons, but also on political and social considerations as well. There was a widespread public outcry for govern-

ment participation in the nation's oil industry based on a concrete role to be played by the state-owned oil corporation. In the process, competing and diversified demands were made on the oil corporation.. A thorough analysis of these tasks and the 1977 Petroleum Decree mandate that accompanies it, indicate that the responsibilities and powers of NNPC are enormous, quite different in scope and content from its predecessor--the NNOC.

This giant leap in government policies indicates that the government has, and intends to retain, complete ownership and control of the nation's oil industry. In pursuance of the policy of complete ownership and control, the government has demanded from the NNPC that it work towards an

(1) increase in the Nigerian participation in the development of oil or petroleum resources. This decision must be seen in the context of the worldwide evolution of government involvement in oil. It does not, for any reason, mean the readiness of the government to manage singly her petroleum operations;

(2) acquiring from various means a better knowledge of the oil industry, necessary for performing the different tasks as needed. Knowledge also included strategic intelligence production, sophisticated enough to act as guidelines for Government action. Information provided by the NNPC will serve as a measure against which the Government could judge private oil companies' performance;

(3) The NNPC is required to serve as a useful instrument for the Government in international energy matters and international institutions, such as the OPEC;

(4) increased efforts and emphasis on Research and Development, including the utilization of Nigerian personnel and services, and the training thereof of adequate and skilled indigenous manpower to manage the nation's oil industry;

(5) The creation of NNPC does not represent a step toward the nationalization of the oil industry; rather it represents Government's presence in the industry and fosters national pride and satisfaction, reduces vulnerability--a result of dependent development and on the whole secures the nation's interests.

Although it is clear that these goals are worth achieving, it is equally clear that the NNPC is terribly ill-equipped to achieve them. The responsibilities thrust upon the corporation are enormous, only the creation of independent subsidiaries as is the case with Brazilian Oil Corporation,[27] and a more focused system or areas of responsibility will bring order and efficiency to a largely chaotic and disarrayed organization. The growing importance of NNPC in the national and international oil industry provides added impetus for an effective reorganization based on diversification of functions and responsibility. Perhaps in pursuance of this goal, prior provision as contained in the Nigerian National Petroleum Corporation Act 1977, was furnished for any future creation of subsidiaries. Provision for

subsidiaries were made on the assumption that "a single entity" such as the NNPC will with time be very unwieldy, uncontrollable and inefficient. The assumption was essentially right. Today, the state-owned oil corporation is a crawling, highly inefficient, overgrown bureaucratic structure, incapable of implementing some of its essential mandates.

The government, on several occasions, stated objectives which it would see the NNPC achieve. One of these objectives is the complete functional integration of the oil corporation within the activities of the oil industry. Integration will include engaging in downstream as well as upstream operations in the oil and gas industry. Direct participation by the state-owned oil corporation in oil and gas exploration activities constitutes a fundamental mandate from the government and is consistent with policies already formulated under the Nigerian National Petroleum Corporation Act (1977). NNPC has made an "encouraging start" in the field of oil exploration, although, as stated earlier in this chapter, achievements have been minimal and insignificant. However, "exploration success ratio" has been placed at an encouraging 67% range.[28] The bulk of exploration and exploitation work, however, remains in the hands of major oil producing companies in the form of service-contracts and production-sharing arrangements.

The need for integration also has been largely predicated on the government's policy of self-reliance and self-sufficiency in those areas of petroleum production which are of strategic importance to the nation. The aim of this policy is to minimize dependency, first

on the major oil companies and second, on foreign imports. Self-sufficiency is defined as having sufficient domestic production to meet domestic demand. Complementary to this, is the ambition of the Nigerian government's industrial policy of "exporting more and more processed products rather than mere raw materials. To this end the NNPC will increasingly displace the export of crude petroleum with the export of petroleum and petrochemical products."[29] My argument on this policy initiative or pronouncement dwells on the issue of whether the NNPC is capable and ready to carry these mammoth tasks. In the main, my arguments have been that the state-owned corporation lacks the institutional capabilities needed for an effective and efficient execution of stated objectives. Although subsidiaries have been created for this purpose, evidence shows that objectives remain unfulfilled. New subsidiaries are needed, tasked with attainable goals, personnel and institutional capabilities, with NNPC as the "holding company."

Downstream operations carried out by NNPC show a serious dependency on foreign imported materials as well as technical personnel. Although downstream operations such as crude oil refining, pipeline transportation, marketing of petroleum and its allied products, etc., are indeed engaged in, they suffer terribly from occasional shortages of needed construction and management materials and most importantly, on skilled manpower. Some of these downstream operations projects never got off the ground because of these shortages; those that did, had a high content level of foreign participation. For example, NNPC owns 60% in National Oil Company of Nigeria Limited

Petroleum Legislation

NIGERIA - Map Of Petroleum Concessions (Entire), At 1 January 1979

(formerly Shell-Marketing Company), 100% of the equity shares in African Petroleum (formerly British Petroleum Marketing Company) and Unipetrol (formerly Esso). The acquisition of these shares, although adequately compensated, was a political move, short of strict standards of indigenous performance in the enterprise. The government was forced to acquire these shares pursuant to her policy of economic indigenization and "internal self-sufficiency," and of course her desire to reduce and when possible to eliminate entirely dependency on foreign petroleum products. So far, this policy seems to be effective and working; however, success must be measured in terms of independence from foreign participation and input, and also on performance measured with the passage of time.

This will be so because a major drawback in the implementation of these projects apparently is the lack of, or rather the inconsistency of, the flow of finance capital. Government's precarious dependency on her oil revenues seems troublesome, since revenues are tied to oil sales and the state of global economy. Recent difficulties encountered by the government towards executing some projects reflect these facts. The construction of the petrochemical complex, for example, slated for the 1980 Development Plan period, was particularly affected. Some of these programs have either been revised, cut back, or simply dropped. But presently, the NNPC has a "monopoly" on oil refining and the distribution of petroleum products. Although monopoly promotes inefficiency and waste, the government has made a policy of protecting the NNPC from competition. Acute shortages of refined petroleum and petroleum products are, from time to time,

experienced in the country due to inefficiencies and monopolistic practices promoted by the entrenched monopoly position of the state-owned oil corporation. Shortages still haunt the Nigerian consumer even though the NNPC "owns and operates three refineries at the present time" and has also built a "comprehensive network of pipelines and 19 storage depots strategically located around the country," but only eight of these depots are currently operational.

The government is expending tremendous efforts toward finding solutions to the problems that face its oil company, especially in the field of downstream operations. The importance of this sector of the oil industry is constantly being emphasized by the government. Addressing the occasion on the opening of the NNPC Refinery at Kaduna on 25 October 1980, the President, Shehu Shagari, declared that:

> "No doubt the Kaduna Refinery . . . is a milestone in our purposeful march, as a nation toward self-reliance and self-suffiency. There can be no valid defence if Nigeria, which today ranks number six in the line of world's crude oil producers, fails to satisfy her domestic demand for petroleum products . . ."

In order that shortages "remain an experience of the past" the government has commissioned other refineries, including the newly constructed Warri refinery, and has also declared a "policy of permitting independent businessmen to construct and operate petroleum stations, with the hope of combatting the shortage by making available even to the remotest part of the country, petroleum and petroleum products.

It is fervently hoped that NNPC operations will provide a "springboard" for other development projects in Nigeria. The President, speaking on the role of the state-owned corporation in national

development and industrialization referred to this hope when he said:

> "It is my belief that the next ten years will be a busy period for the oil industry in this country. Our march toward industrialization will continue and the oil sector will play a major role. It is therefore imperative that our National Petroleum Corporation becomes fully geared to participate fully and effectively."

The extent to which NNPC fully participates efficiently and effectively in the oil industry remains to be seen.

NOTES

[1]See Petroleum Decree 1969, Decree No. 51, Sections 1 and 2. A supplement to Official Gazette No. 62, Vol. 56, 27 November 1969.

[2]This is an unpublished paper entitled "National Oil Companies: Quo Vadis?" presented to the International Bar Association Seminar, by Martin Olisa, Barrister and Solicitor, Nigerian National Oil Corporation, Lagos, Nigeria, April 26-May 2, 1981.

[3]The merger of NNOC and the Ministry of Petroleum gave NNPC numerous powers, and far-reaching responsibilities were thrust upon the state-owned oil corporation by the government. The lack of focus and specificity on responsibility, objectives and goals as demanded by the government apparently threaten the efficient and effective execution of NNPC's tasks. For more information on this, see Nigerian National Petroleum Corporation Decree 1977, Lagos, Niger, 1977.

[4]Ibid.

[5]"Main Features and Trends in Petroleum and Mining Agreements," a Technical Paper, published by the United Nations Centre on Transnational Corporations, New York, 1982, p. 65.

[6]Ibid., p. 63.

[7]Ibid.

[8] This policy includes both upstream and downstream petroleum operations and was emphasized on by the Government in order to reduce excessive foreign dependence and eventually toward "self-reliance" and self-sufficiency.

[9]Tom Forrest argues that the present functions of the Nigerian National Oil Corporation are largely "administrative and commercial." In essence his observation seems correct. However, it overlooks the rapid progress and success made so far by NNPC, especially in downstream petroleum operations. On Mr. Forrest's arguments, see "Notes on the Political Economy of State Intervention in Nigeria," University of Sussex, Institute of Development Study Bulletin, 9:1, 1977.

[10]See "Joint Ventures with Foreign Partners: International Survey of Business Opinion and Experience," a survey by the Conference Board, Karen Kraus Bivens; Enid Baird Lovell.

[11]Recent practice of joint venture arrangements in the international oil industry have mostly taken the innovative forms of production-sharing contracts and service contracts. See "Alternative Arrangements for Petroleum Development: A Guide for Government Policy-

Makers and Negotiators." A study conducted by the United Nations Centre on Transnational Corporations, New York, 1982, p. 48.

[12] Petroleum Decree Act 1969, Schedule 1, paragraph 37.

[13] Olisa, op. cit., p. 7.

[14] The present political rift and chaos within the OPEC may be a direct result of this agreement.

[15] See Barrow's Petroleum Legislation, Country and Revision Dates. Supplement 1, p. 17, and Supplement 33, pp. 40-41.

[16] Barrow, op. cit., Supplement 1, p. 15.

[17] Petroleum Decree 1969, op. cit., p. A265.

[18] Ibid., p. A266.

[19] Nigeria - Nigerian National Petroleum Corporation (NNPC). An unpublished NNPC document. Lagos, Nigeria, 1977.

[20] Olisa, op. cit., p. 3.

[21] See Petroleum Decree, 1977, op. cit., p. A15.

[22] Ibid., p. A5.

[23] This is one area where government objectives were clearly specified and where the functions of an arm of the National Oil Company was clearly stated and focused. For more on this, see Nigerian National Petroleum Corporation Decree 1977, p. A7.

[24] The Tribunal of Enquiry was set up following the allegation by a Nigerian newspaper that the "sum of 2.8 billion Naira was missing" from the accounts of the NNPC." In its report published on 26 June 1980, the Tribunal concluded that "no proceeds of sale" during the period under investigation, were missing."

[25] My interview with Mr. Martin Olisa, Solicitor and Barrister, Nigerian National Petroleum Corporation, Lagos, Nigeria.

[26] NNPC Decree 1977, op. cit. p. A4.

[27] Brazil has a long history of new developments, new arrangements and experiments in her national oil industry. Brazil's state-owned oil company, Petrobras, represents a good example of the diverse and interlocking roles played by national oil companies. Braspetro (Petrobras Internacional) has participated in exploration ventures in several countries which include Colombia, Iraq, Iran, Libya, Algeria, and Angola. Petrobras Quimica (Petroquisa) is responsible for the

petrochemical sector while Petrobras Comercio Internacional (Interbras) was set up in 1976 to develop export markets (Main Features and Trends in Petroleum and Mining Agreements, op. cit., p. 67.)

[28] Olisa, op. cit., p. 6.

[29] This has not happened yet, although it is possible to do so in the future, assuming that domestic demands are met first.

Part III

CHAPTER VII

THE TRANSNATIONALIZATION OF NIGERIAN SOCIETY

In this chapter, I examine the phenomenon of transnationalism and its impact on developmental issues and processes, especially on the "developing" nations, with a particular reference to Nigeria. I also explore and examine the different approaches to economic growth and development--"world system/dependency" approach (orthodox Marxist theories and neo-Marxist views)--in favour or against certain development strategies and issues.

I argue that transnationalism represents an epoch of new global imperialism where direct colonial exploitation, domination and subordination are largely absent; the modus operandi of contemporary imperialism is subtle and disguise and does not involve the impairment of national sovereignty to any serious degree. I also argue that imperialism through the transnationalization process, constitutes a "system of privilege" involving exploitation, inequality and dependency. A system of privilege is created, cultivated, nurtured and protected by the alliance between foreign capital and domestic elites and in some cases, in concert with the state apparatus.

Finally, I examine the logic of state intervention in Nigeria's economy and argue that crucial public policy issues are analyzed and resolved by the state acting as the site of class interaction. This is also true when analyzing certain "prominent features" of the Nigerian

state. The logic of state intervention in the economy has the advantage of relating state institutions, and policies to civil society and, on a larger scale, to the outside world. This logic can then be examined not simply in instrumental, universal terms like growth, welfare and efficiency, or in terms of a single class, but as the resolution of certain economic and social forces (Tom Forrest, 1977; Immanuel Wallerstein, 1975; Richard L. Sklar, 1979).[1]

In most developing nations, the state is seen as the main agent of societal development, including economic progress. Most often, scholarly analysis on development issues and planning overlook the crucial role played by non-state actors (whether internal or external to it) in the system; conflict of interests based on class and class interaction are not recognized, and when they do, their role is institutionally obscured by the ubiquitous presence of state machinery. Moreover, the state acting to control domestic economic and political processes often ignores the international component of economic development which usually operates in alliance with domestic transnational forces.

Transnational relations is characterized by contending perspectives on the part of scholars as well as practitioners (Nye and Keohane, 1976; Samuel Huntington, 1973; James Rosenau, 1980; Barnett and Mueller, 1974; Kissinger, 1975, etc.). Differing perspectives reflect the diverse use of transnational phenomenon by actors in explaining new global issues and events. There is not much to grumble about these perspectives except the broad-based nature of their treatment.

However, in this chapter, I am concerned with transnationalism as it affects international political economy of development. More specifically, emphasis will be laid on the issues of dependence and dependency and what Peter Evans has aptly labelled dependent development[2] and how they affect peripheral capitalism and accumulation, social formation and transformations.

Dependent development is said to characterize those newly industrializing peripheral countries (NICs) who are emerging from "classical dependence" to dependent industrial development on the more advanced "centre" nations for those goods and services needed for economic development. A number of the larger and richer peripheral nations no longer stand at the edge of the international division of labour, exporting primary products to the centre and receiving manufactured goods in return. They belong instead to a distinct category, which Wallerstein has called the "semi-periphery" (Peter Evans, 1979). Mansour Farhang calls them "subimperialists."[3] Nigeria, as well as a handful of other rapidly industrializing "third world" nations, belongs to this distinct group.

Dependent development cannot be understood properly unless the global machinery and network of imperialism is first analyzed and understood. It has been argued that neither the work of orthodox Marxist theoreticians nor the non-Marxist views, which define imperialism as a relationship of domination/subordination between actors, provide an adequate model for describing the transnational realities of contemporary imperialist relations. It has also been argued that transnational relations created a system of privilege which undermines

peripheral development and instead fosters its underdevelopment due to interactions based on class structure and interests, and, of course, on the structural relations among nations based on imperialism.

Mansour Farhang writes that "what is clear in the present situation of international relations is the growing confluence of interests" between elites in the center, that is industrialized world, and the "ruling elites of the class-ridden societies in the underdeveloped world."[4] Mansour goes further to state that

> The coalition of elites across national boundaries perceive economic development in the poor nations as a necessity not only in terms of market expansion for Western products, but also in the hope of enlarging the small middle class as a way of legitimizing the rule of the privileged few. This kind of economic development has nothing to do with justice or equity because the distribution of accumulated wealth takes place in the context of the existing class structure.[5]

This observation is precisely correct in the context of those developing capitalist nations where state intervention in the economy has ostensibly been carried out for the purposes of redistributing the national wealth to the grassroot citizens. Efforts directed toward these ends have been partially successful and on most occasions have suffered defeat in a system of class-ridden and class-conscious interactions. Nigeria, for example, represents such a system. Efforts geared toward indigenizing the economy and spreading out the economic benefits to the less fortunate have been minimally successful due in part to the portent and formidable class alliance of international capital and the local elites. The role of the state, which has been seen as one of control and "correction," seemed incapable of breaking the alliance which thwarted its policies; instead the state

bureaucracy machinery on several occasions had joined the alliance as a balancing actor. Discussion of this triple alliance will be made in the latter part of this chapter, but now, it is necessary to resurrect the argumentative Marxist interpretations of economic imperialism. Doing this is necessary in order to justify the future discussion on dependent development and how imperialism creates class structures and class relations resulting in economic exploitation and domination.

The literature concerned with imperialism and related phenomenon is immense and most of the competent writers are of the Marxist school of thought. These writings are opposed to earlier theories of economic imperialism, for example, the works of J. A. Hobson (Imperialism, 1900, 1902), and disagree among themselves on certain issues, however they maintain agreement on fundamental thoughts about economic imperialism.

Marxist analysis and interpretations of economic imperialism (based on the pioneering works of Marx and Lenin) center on the development of the forces of production and production relations within the system of capitalism. Imperialism is seen as an inherent part of capitalism, forming a specific stage in capitalist development (Kemp in Owen and Sutcliffe, 1972, pp. 17-22, and Sutcliffe, Ibid., p. 172). Imperialism involves domination, exploitation, dependence, inequality and subordination. Domination is primarily economic, but may overlap into the political and social structure, of "backward" by "advanced" nations, based on the relative levels of development between the areas, specifically in productive forces and production relations (Bronfenbrenner, 1972; J. O'Connor, 1971; R. Zevin, 1972; Tikhomirov,

1981). Contemporary imperialism is based on the "exercise and extension" of control by economic means and mechanisms rather than by direct formal political control, otherwise called colonialism. Although some developments may occur in the dominated areas (or the periphery), it will be a dependent rather than independent development. This type of dependent development characterizes, to a large extent, the newly industrializing nations whose developmental projects are fed extensively from the outside. Advanced capitalism works to ensure that dependent development is preserved and, if possible, perpetrated in order to sustain and guarantee the very survival of capitalism. "Neo-colonialism" is the term often applied to this process (Nkrumah, 1965; O'Connor, 1971; Barratt Brown, 1974).

A genuine development of the political economy of underdevelopment suffers from a lack of "responsibility" on whom to blame, partly because of the nature of neo-colonialistic arrangements which underlie and legitimates global political and economic relations. This arrangement is unlike colonialism where, as Kwame Nkrumah argues, is subject to "public accountability." The new phenomenon of neo-colonialism lacked this inner constraint of accountability, making it the most irresponsible form of imperialism. However, neo-colonialism ushered in a stage which foresaw the disappearance of the most open, direct form of dependence.

The features of contemporary imperialism which commands general agreement among Marxist scholars are:

(a) The development of a monopolistic market structure within capitalism;

(b) unequal development between nations;

(c) the need for the advanced capitalist nations to continually expand and control markets, raw material sources and investment outlets;

(d) growing international rivalry between capitalist nations stemming from their support for home-based multinational corporations;

(e) a fear among capitalists that socialism will restrict the area for capitalist expansion.[6] (A.Hodgart, 1977).

Around these features, Sutcliffe presents three points around which Marxists debate economic imperialism:

I. Developments within and between capitalist nations;

II. The interaction between advanced and backward nations within the world's capitalist system; and

III. Developments within the "backward" nations, particularly class relations and the mode of production.[7]

The impact of transnationalization on a nation's economy can best be understood in terms of external dependence on the development process for factors of production and exchange mechanisms, as well as technological and management expertise, and the formation of external and domestic alliance structure which cements the interests of actors. This is made possible by imperialistic links between elite interests in the advanced "centre" countries and local elite in the periphery nations, and from the point of view of the developing countries' future development, this link is crucial and increasingly

important. It is then imperative that a thorough analysis be made of internal development mechanism, taking into careful consideration social conflict and social formation based on class structure and how the interests of class alliances shape the politics and economics of national development. Tamas Szentes writes that

> . . . it is self-evident that the movement of the world economy and of international politics will continue to exert a great influence on the internal life and external relations of the developing countries, but the direction and intensity of this influence will depend to a decisive measure on the progress of the internal changes, the results of the transformation of the inherited structure.[8]

In Nigeria, the inherited structure from British colonialism was based on an economy characterized by classic dependency. External trade relations and the internal economic structure reveal that Nigeria is primarily an agricultural country despite the inroad to industrialization, assisted heavily by the petroleum sector. The consequence of this assisted development is that the economy is "dis-articulated," is skewed without any meaningful linkages between the various sectors of the economy. In essence, there are two economies existing side by side: agricultural and the petroleum sectors. These exist virtually without much structural relation prompting the labelling of it by the World Bank as "economic dualism." The petroleum sector remains essentially an "enclave" industry with only marginal links with the rest of the economy (Nigeria: Economic Memorandum, June 1976; Document of the World Bank).

Because Nigeria is essentially an agricultural country, patterns of global exchange of goods and services have historically placed Nigeria among those nations which exported a large portion of

their agricultural products in exchange for manufactured goods from industrially advanced "metropole" nations. The colonial state encouraged and regulated the trade in agricultural products and on this basis, the state supported foreign capital accumulation in commerce, finance and metropolitan industry. The colonial state, moreover, had a monopoly over economic activity and processes of state capital accumulation. Private indigenous capital accumulation was, in fact, minimal, and even discouraged, and capital formation suffered as a result. Marketing Boards were set up by the colonial state to appropriate "peasant surplus" which were eventually transferred to the colonial state. Sir Percival Griffiths wrote in 1955 that this "means that the Development Board which operates Marketing Board surplus funds in Nigeria, is in fact the only potential African investor." Griffiths went on to show how control over the network of capital enabled metropolitan capital to monopolize large-scale commercial activity. However, the rise of nationalism and the consequent shifts of power within the Nigerian state after 1952 increased nationalist demands for a share in the distributive trade.[9] This weakened the position of British commercial capital, and opened up opportunities for local entrepreneurs and hence competition. Local entrepreneurs, lacking finance capital and management technology, were unable to compete effectively with foreign capital.

Trade was dominated by subsidiaries of multinational companies based in the metropolitan countries. Industrialization and the manufacture of goods were virtually non-existent and needed manufactured goods were routinely imported from the metropole. Therefore, "the

pattern of foreign investments which resulted underscored investments in the extractive and distributive trade against manufacturing industries."[10]

As Nigeria gained independence from Great Britain in 1960, there was an immediate emphasis on economic industrialization geared toward the rapid transformation of the nation's economy from one of classical dependence to dependent development.

The push for an industrial economy in Nigeria, as elsewhere in West Africa, was a direct consequence of the nationalist agitation during the 1950s. Although the growth rate of the manufacturing sector has been impressive, it could be argued that since independence the manufacturing sector remains highly underdeveloped relative to the overall size of the national economy, and in comparison with other countries at a similar stage of development.[11]

The Nigerian state needed to hasten the industrialization process and has provided finance, generous tax concessions and incentives in the early stages of industrialization. In addition, relief from import duty for capital goods and raw materials have been granted by the government. Considerations of market strategy, various types of state subsidy and tariff escalation due to balance of payment difficulties in the early 1960s, all encouraged the expansion of foreign capital from its commercial base into manufacture and prompted the flow of new investments abroad (Tom Forrest, 1977). Despite direct state intervention to build an industrial base for economic activity and growth, "there is a pervasive sense of disappointment among many officials, academics, and informed journalists at the little that

has been achieved."[12]

Lack of industrial progress and results can be explained partly on the basis of dependent development and what James A. Caporaso describes as "asymmetric international relations."[13] The external sector of the economy mostly shaped and dominated by the multinational companies has had a tremendous and "central influence" on the domestic economy. And as Peter Evans argues, given the forms on industrialization, there is no way of avoiding the multinationals (Peter Evans, 1979) as agents of dependent development.

Dependent development is a special instance of dependency, characterized by the association or alliance of international and local capital. The state also joins the alliance . . . the resulting triple alliance is a fundamental factor in the emergence of dependent development (Peter Evans, 1979, p. 32). Dependent development also involves "capital accumulation at the local level accompanied by increasing differentiation of the economy" based on varying degrees of effective industrialization and supported by foreign input. This type of dependent development usually involves "dependency" on the part of developing countries for factors of production from the more developed countries.

Since developing nations depend to a considerable degree on the imports from the more advanced nations for development, this dependency[14] usually shapes strategic behaviors of all actors involved, and invariably, affects considerably the processes of development. Dependency by its very nature means "asymmetrical international relations" resulting from global structural arrangements and promoting

international division of labor. Thus with this arrangement, the underdeveloped nations function on the one hand as a source of raw materials and on the other as "limited" markets for manufactured goods from the industrialized countries. The resulting outcome is that developing world's commodity are undersold and manufactured goods from the industrialized world overpriced in the process which Emmanuel Aghirri has termed "unequal exchange."[15] Unequal exchange is made possible by the international division of labor rooted in dominance, dependence and imperialism. Galtung[16] sees this "vertical division of labor" and the structural distortions therefrom as essentially one of dominance and economic exploitation made possible, of course, by "penetration" and "fragmentation" which are essentially political means of perpetrating dependent and exploitative economic relationship (Galtung, 1973). Exploitation, therefore, works to drain the minimal resources needed badly by developing nations for development. And despite the drain created and nurtured by the process of unequal exchange, "development" as perceived by Third World nations usually and unfortunately is based on dependent relationships with industrialized nations, because dependent development essentially means structural integration with the outside world.

Considering the nature of global economic systems, structural relations invariably and inevitably lead to "symmetries" and asymmetries among national economies precipitating dependence. Moreover, structural relations create structural linkages based on sectoral and class interests. J.A. Caporaso argues that this dependence orientation explains and seeks to

> . . . explore the process of integration of the periphery into the international capitalist system and to access the developmental implications of this peripheral capitalism. This approach proceeds from a structuralist paradigm, which focuses on class structure in the peripheral country, the alliance between this class structure and international capital, and the role of the state in shaping and managing the national, foreign, and class forces that propel development within countries.[17]

Continuing with "dependentista" analysis of Third World economic development, Caporaso echoes dependency assessment which

> . . . involve an evaluation of the ways in which the organization of capitalism at the global level "conditions," "shapes" and "constrains" the domestic economic production structures and domestic political processes and the ways in which changes in the organization of capital define and redefine the possibilities of domestic production and development.[18]

The politics of transformation in Nigeria envisage stages of gradual and occasionally drastic progression in the economic development and growth of the national economy. It was thought by policymakers and the ruling political class that the stage has arrived when the economy should be propelled from its historical position of classic dependence to one of dependent development based on rapid industrialization. In this case the principal agent of development is the multinational corporation in concert with domestic economic forces conditioned by state presence and intervention, and conditioned also by structural linkages to the international economy.

Throughout the analysis of Nigeria's dependent development, imperialism will provide a framework for investigation into the nation's link to worldwide system of capital accumulation and the concrete relations which this entails in terms of social formation and disintegration, class alliance and its solidification and the role of

the state. The role of the state may not be seen in terms of representing the interests of a single class, but as the resolution of certain economic and social forces. Although state intervention in the economy ostensibly was designed to correct the structural imbalances between the domestic economy and its international branch, and to ensure domestic control of economic activity, it is highly debatable whether this policy was successful or not. The measurement of success or failure seems, at the moment, premature and unwarranted. However, one thing is certain--structural relation of the domestic economy to international finance works to undermine the policy measure of controlling the domestic structure. I submit that imperialism is an offshoot of an internationalized economy and of dependent development which influence internal politics in order to further their own interests at the expense of the good of the society. Hobson (1900, 1902), provides a precedent for this argument, which also has roots in Marx's classification of politics as part of the "super structure" which is influenced by the economic substructure. I argue also that the cost of this imperialist policy, in general, is borne by the working class in Nigeria, exploited and dominated by the network of the alliance of commercial bourgeoisie, foreign capital and curiously enough, the state apparatus. Sutcliffe's last point (see pp. 245-246 of this study) dwelling on particularly class relations and the mode of production is very pertinent.

Manifesting itself most clearly immediately after Nigeria's civil war, the alliance between indigenous commercial bourgeoisie and foreign capital, created on its wake a new distinct elite--the

nouveau-riche, who owe their vast wealth and power to the "oil boom" and to links to foreign capital and interests.

The Alliance: Commercial Bourgeoisie, The State and Foreign Capital

In an effort to speed up industrialization and transform the economy, Nigerians became aware that this could realistically be achieved only through dependent development. Although Nigeria's economic nationalism "does not imply restriction of international trade, but the progressive elimination of foreign dominance in the national economy," it became increasingly clear that the multinationals are the main characters in an economy based on dependent development. It also dawned on most government officials, and the "ruling class" that multinationals can at the same time be a machinery for development and agents of imperialism. Government policy-makers were therefore faced with a dilemma--a dilemma of choice which involves careful analysis of cost-benefit ratio, and one which demands diplomatic tact in negotiations with multinational companies. Policy measures were arrived at, analyzed and choices were made which to a large degree reflect private and class interests. Analyzing dependent development in Nigeria must therefore, first recognize agreements concluded which take interests of class alliances into consideration, and second, which see the role of the state principally as resolving the dialectics of this class interaction and alliance for the good of all. Shortly, it will be explained why state intervention in the national economy taking consideration of class alliances and foreign

interests could eventually prove to be a dismal failure.

The politics of transformation postulates that the alliance between the state, foreign capital and local commercial enterprise is perhaps the only realistic approach to economic and political development in Nigeria. To what degree of dependence on foreign factors of production and their involvement in developing the economy is exactly not known, but it is usually taken that political considerations will eventually be decisive in such a calculation.

Although Nigeria is a country "groping its way out of classic dependence," the country fits the essential characteristics of a nation marching uneasily toward the path of dependent development made possible by the deliberate guiding arm of the state. Moreover, the social structural basis of dependent development--the alliance of the multinationals, local commercial bourgeoisie and the state are present in the Nigerian development scenario. The presence of these allied actors is a necessary condition for dependent capitalist development. The exact nature of this alliance remains to be clearly defined and the actors identified. What is known about this alliance is that relationship between them is not confrontational. Instead, as Tom Biersteker (1982) observed, this relationship "appears to be essentially harmonious."[19] Harmony has been carefully sought and cultivated by government policy-makers in order to achieve its goals--rapid industrialization albeit on the basis of dependent development. Secondly, it was inevitable that harmony is sought considering the lack of realistic alternatives available and the primitive, unencouraging level of existing industrialization in the

national economy.

Surprisingly enough, elite class solidarity within the national economic structure has worked to promote and then cement the harmony which the triple alliance seemed to enjoy. In Nigeria, tribal allegiance has traditionally precluded the possibility that competing economic groups of different tribal background would identify their common interest and form tribo-economic bond to defend it. This process certainly represents the dawn of a new era which promises the disintegration of tribal allegiance and bonds and the emergence of class structure and social formation based largely on the recognition of class interest. Historically, local accumulation of capital and the means of production were based mostly on tribal lines. The Ibo man strictly identified with his fellow tribesman on matters of accumulation and had cautious faith in the interaction; so did the Yoruba man to his fellow tribesman and the Hausa man to one of his kind. Today, class alliance based on class interest and the need to protect these, have brought diverse but obviously united entrepreneurs together. However, this process of social formation has not and perhaps will not eradicate hostile feelings and antagonism between the diverse elites. What promises unity and class solidarity is the implicit recognition by this group that their interest is at stake. Moreover, the state through its several policies of indigenization of the economy opened up opportunities for tribal cooperation based on class identification and class interest.

Although social formation based on class interest tends to dampen and obscure tribal allegiance, the existence of "class" and

elite structure was seen by many as a nationally divisive upshot of dependent development. Immanuel Wallerstein argues that this has, in the African context, been handled by "firmly denying its existence, or at least minimizing its significance;" however, it remains a "divisive concept."[20] It remains indeed a divisive concept in Nigeria where the success or failure of recent government indigenization schemes depend to a considerable extent on the role played by local commercial elites and their foreign counterparts. This is so because class, on the whole, is defined in terms of relationship to the means of production and in Nigeria's political economy, class has assumed an important level of recognition arising as it were from class-consciousness and the institutional necessity to identify with foreign counterparts. Whatever the forms of class consciousness in the alliance, it is argued that both are expressions of class interests.

"Given this condition," argues Richard Sklar,[21] "it is widely believed that privileged groups and those who conduct the business of government in non-industrial countries, are knowingly or not, local agents of foreign domination." The expression of class interests inevitably leads to exploitation and domination of lower classes by local elites for the benefit of the alliance. However, this process does not readily manifest itself within the state. In general, as Immanuel Wallerstein noted,

> In peripheral areas of the world-economy, however, the primary contradiction is not between two groups within a State each trying to gain control of that state structure, or to bend it. The primary contradiction is between the interests organized and located in the core countries

and their local allies on the one hand, and the majority of the population on the other.[22]

It is a contention of this study, however, that in addition to the contradiction between interests based in the "core countries" and those in the periphery over "anti-imperialist nationalist struggles," there is another primary contradiction in Nigeria's political economy--one observable in Wallerstein's words, over the ambiguous and ambivalent role of the state structure, control of which is sought by different groups within the nation. I argued earlier that class formation in Nigeria has been cemented due to the presence, recognition and therefore protection of class interests. However, this "class analysis" does not portray the essential contradictory nature of the alliance arrangement. This arrangement was shaky from its inception. Although the local elites managed to drown their ethnic and occupational differences, the struggle for control of state machinery rages on. The state is essentially seen as a powerful institution with the right over the allocation of national resources and therefore, whoever controls the state apparatus controls access to resources. The result of this struggle will ultimately decide the actual composition and formation of class alliances equipped to deal with foreign forces of production. Resolution of this struggle also would inevitably determine the eventual outcome of recent indigenization exercises in the country.

Indigenization Decrees: A New Economic Order for Nigeria

The agitation for the indigenization or "Nigerianization" of the national economy has a long history and dates back to the late fifties before the achievement of independence. It is not surprising

then that the gradual transfer to Nigerians of "control" over the economy has always been a major goal of government policy since independence. It is a policy conceived of the conviction that a veritable new economic order should be introduced in the nation's economy, including also activities external to it. In other words, the extensive classic dependence which historically characterized and defined economic activity within the national economy should be brought to a halt, or at least minimized. The attainment of political independence offered a congenial platform on which to sound this intention. Before then, capital accumulation was mostly undertaken by the colonial state and its agents which included a sizeable number of large, mostly commercial multinational corporations such as the United African Company (UAC), John Holts,Patterson Zocharis (PZ) and A. G. Leventis. These companies largely were engaged in commerce; buying raw materials from local production and in turn sold manufactured goods from the metropole. No visible attempt was made on their part for the domestic manufacture of goods; industrialization enterprises were shunned and never became part of policy. The policy of non-industrialization was largely due to the lack of adequate infrastructure necessary to support large-scale industry and perhaps most importantly, due to policy decided by headquarters in the metropole. Therefore, commerce became the main occupation of these companies and in the process of commercial exchange, preempted local capital accumulation and hence local control of the economy.

Indigenous capital accumulation which took place during this period was done by the marketing boards which was agent to the colonial

state and itself impeded capital formation and accumulation by transferring surplus funds to Colonial State's treasury.

It was not long before proposals for increasing Nigerianization of the economy was demanded by local elite groups. Pressures were piled on the colonial government by the "ruling class" and in 1956, a national committee to promote indigenization of business enterprises was formed.[23] A first noticeable effect on the national economy as a result of the creation of this committee was to "dilute" the commercial dominance of the multinational companies, and simultaneously increase and support the role of indigenous entrepreneurs. Encouragement of local entrepreneurship took the form of "generous tax concessions" for "pioneer industries" and loan capital from the government. In addition, the government saw to it that Nigerians were allocated equity shares in the activities of the multinational companies. Tom Biersteker writes that

> The 1958 Tax Relief Act required transnational corporation seeking "pioneer" company status to both increase Nigerian ownership and personnel, and to use Nigerian materials in production. However, it was not until after independence that significant legislation was passed. After being supported in principle in both the first national developmental plan and in a 1961 House of Representatives resolution, provisions for increasing Nigerianization were codified into Law in the 1963 Immigration Laws.[24]

Maintaining the policy to take control over the national economy does not, however, imply aversion to foreign participation. The state has generally supported the influx of foreign capital. Although indigenous control of the national economy occupied the minds of Nigerian politicians immediately after independence, care has always been taken to balance this need with the invitation of foreign

agents of development. The nature of this arrangement was essentially contradictory and with the constant inflow of foreign capital throughout the 1960s, the contradiction between these two policies became increasingly evident.

The pressures for indigenization of the economy won out being a product of the policy of transformation embraced by the ruling class and elite, and put into concrete formulation by the high-level government bureaucrats. Phillip C. Asiodu, former Permanent Secretary in the Ministry of Mines and Power, suggested that "it was in the period between 1968 and 1971 that the widest consultations were undertaken, leading to the promulgation of the Enterprise Promotion Decree of 1972."[25] This statement from one of the few "super permsecs" around then, confirms the view that Nigeria seriously embarked on the politics of transformation immediately before and after the civil war.

Indigenizing the economy represents one phase of this great transformation. Political transformation (parliamentary to presidential system of government) represents another phase. However, between these two, indigenizing the economy had perhaps the greatest impact on the developing process and in turn, had a tremendous influence on the political processes. International political and economic developments, military rule spanning the course of some thirteen years, a more powerful and articulate bureaucracy, oil surpluses and the "bitter experiences of the civil war" occasioned a period of national revival and transformation. These new developments "provided the context for efforts to restrict the sphere of foreign capital and secure a more self-reliant pattern of development (Tom Forrest, 1977).

Restriction of the sphere of foreign capital took the form of successive indigenization decrees of 1972 and 1977, designed to fight and weaken excessive reliance on foreign means of production while simultaneously strengthening the position of local capital formation and accumulation. The ultimate aim of these policies is, of course, the eventual indigenous control of the national economy which in itself does not remove the haunting spectre of dependent development. The relationship between indigenization policies and dependent development is clearly one that needs careful investigation and analysis. It is the contention of this study that the success or failure of Nigerianization exercises depend to a considerable extent on the links of domestic economy to foreign forces of production.

Before this is substantiated, a look at the Nigerian Enterprises Promotion Decrees of 1972 (revised in 1977) will prove useful. (See Appendix 1) These decrees are the products of increased public pressure on the Military government for indigenization of the national economy. The evidence was that during the civil war, the federal Military government became increasingly distrustful of foreign capital and especially the multinational corporations operating within the country. Indigenization decrees represent a national quest for indigenous control of the economy, a national desire to introduce a new economic order in the nation's economy and above all, to reduce dependence on external forces of production and distribution. Dependent development is seen as a product of decades of colonial exploitation and economic linkage to the metropole. It is also seen

as a source of the nation's economic vulnerability and sensitivity. but one whose importance will diminish with the gradual transformation of the nation's economy. Dependent development, according to government planners, represents a stage through which the nation's economy must inevitably pass, subsequently ushering in periods of dependent-led growth. Economic nationalism became a "sustaining force" first under General Gowon and reaching a high pitch under the brief leadership of General Murtula Muhammed.

A general distrust of foreign capital (contradictory to official policies) basically precipitated indigenization exercises which on several occasions bordered on xenophobic reaction against foreign presence. Biersteker postulates the central objectives of the 1972 decree reflected the dual sources of support for indigenization from government and local business community. "The central objective of the Federal Military Government," he writes, "was to obtain Nigerian control over the economy in general, and over strategic enterprises, in particular." Control is necessary in the words of Former Head of State General Yakubu Gowon for "consolidating our political independence." Paul Collins maintains that the decree was meant to give Nigerians greater involvement in economic and commercial affairs.[26] In mid-1972, the Federal Commissioner for Trade said the goal of indigenization was to "make the country's economy truly Nigerian,"[27] and later the University of Ibadan Professor E.O. Akeredolu-Ale suggested that indigenization was inspired by a desire to reduce Nigeria's external dependence.

If there is any lesson to be learned from these indigenization exercises, it is that the nation's external dependence is on the rise--a factor of dependent development and, of course, of the alliance between local elite groups, foreign capital and state machinery. Indigenization of the economy has not to any appreciable extent raised the level of industrialization needed to drag the nation from classic dependence. Peter Evans argues that Nigeria barely deserves to be considered part of the semi-periphery. Except for the oil industry, which is an enclave industry, Nigeria is primarily an agricultural country.[28] The minimal level of industrialization taking place supports the contention that without the multinationals and dependent development, the country would not presently experience and achieve this level of industrialization. This is unlike Mexico or Brazil which boast of residual technical and industrial capability before the advent of dependent development.

Some investment in manufacturing is designed to preserve Nigeria as a market and the evolution of the role of the state, the shape and nature of alliance with multinationals and the rapidly emerging position of local capital apparently are moving toward a tripartite elite structure which will have a decisive voice on Nigeria's dependent development and on how successful indigenization programs will be. This triple alliance works to undermine the spirit of indigenization and where possible perpetuates dependent development because it is in the interest of the alliance to do so.

Although the Military government under General Obasanjo was more strongly committed to an ideology of economic nationalism than

the previous government under Gowon, and although it made the revised 1977 decree more explicit and clear in terms of declared objectives, the structure of domestic political economy has proven to be ill-equipped and unsuited to the tasks which face it. Analysis of the structure indicates the fact that the state lacked autonomy, and distinctions between the private and public interest seem completely ignored because politicians, bureaucrats, and businessmen play one and sometimes complementary roles. Ambiguous roles confusingly played by domestic actors tended to obscure the real nature and objectives of the indigenization scheme by forming convenient alliances with foreign capital which the decree in the first place was meant to check and control. The inevitable consequence of this role conflict was the introduction of considerable ambiguity to current indigenization programs. The first ambiguity derives on the one hand from radical economic nationalist interpretations of policy objectives, stressing reduced dependence, increased self-reliance and an end to foreign domination and exploitation. On the other hand, there have been more compromising interpretations seeking to strike a balance between foreign investment in certain sectors and encouraging joint ventures in others (Collins, 1973). Despite official clarifications by the Nigerian Head of State in his 1979/80 Budget Speech, ambiguities still persist. The Head of State made it clear that indigenization exercises should be given a more political interpretation; that indigenization was not just a matter of transferring shares and the earning of dividends, but one of control, that is, getting Nigerians to determine their own economic future.

The extent to which this objective has been adhered remains to be seen. The ambiguities inherent in the interpretation of indigenization schemes and what they are supposed to achieve only served to further exacerbate an already intractable and confused program. Although indigenization programs were designed to reduce foreign dependence on the importation of intermediary goods, and foster control and self-reliance within the domestic economy, the economy continues to be heavily dependent on foreign means of production conferring as it were enormous control over the economy by foreign capital, cemented and supported by the local bourgeoisie class. A typical comment on dependent goes like this:

> All our power plants, military hardware and ammunition, transport machinery, railway equipment, iron and steel products, electrical and electronic goods, and many consumer goods are . . . imported.[29]

Government planners admit that the industrial sector is indeed dominated by "low technology enterprises" and argue that this imbalance is only a "temporary and preliminary" stage. But this argument was deemed tenuous by many and was not very convincing. For example, the iron and steel complex which has been on the drawing board for over fifteen years (major complexes are now completed) and the other major industrial projects, including petro-chemical plants, remain stagnant because of the "weakness of the intermediate industrial sector". which ought to feed these projects. The results are either a temporary shutdown or a radical reassessment of these projects. In either case, inefficiency and ineffectiveness to project execution usually is the outcome and costs have been known to be

enormous and damaging.

The crucial question remains on how prepared the level of industrialization now operable in Nigeria will support the need for self-reliance and dependent development. The answer is simple. The level of industrialization in Nigeria is not adequate to support calls for rapid industrialization and indigenization of the economy without a corresponding input and support from foreign agents of development. Foreign agents of development most notably the multinational corporations, however, see Nigeria's industrial inadequacies and the failure of import-substitution as an opportunity to buy out import-substitution industries, transforming them into subsidiaries which can uniquely cater to global sub-contracting strategies of the multinational corporations. See, for example, Professor Biersteker's table classification. (Displacement of indigenous Production, Distortion or Development? 1978) Efforts such as these on the part of multinational corporations' work to sustain dependent development and arguably to "neutralize" indigenization process. Presently, the nation is groping its way out of classical dependence and the minimal industrialization in the economy seems to serve foreign interest and not the interests of the economy as a whole. There is indeed not much industrial manufacturing going on in the country, prompting many observers to note that:

> . . . the crucial question is how much industrialization and how much manufacturing is actually taking place in the country? Are we mistaking the cranes and caterpillars and the bulldozers or the ever-increasing number of foreign cars blocking our roads as industrialization?[30]

"The basic reason for the failure of the strategy of industrialization in Nigeria," argues Richard Joseph, "has been the inability of the embryonic capitalist class to play its historical role of initiative, capital formation and increased production.[31] While this observation is basically and marginally true, it overlooks the historical deprivation of local elites from the mechanism of capital formation and accumulation in Nigeria. The fact is that local capitalist elites were never given the "historical" opportunity to accumulate capital by the Colonial State. Deprivation foreclosed any changes of local capital accumulation and formation and forced local elites into a strategy of dependency on the Colonial State for capital.

It is this historical deprivation of capital formation and accumulation imposed by the colonial state on local entrepreneurs that recent indigenization policies seek to correct. It took the country almost two decades to seek a more equitable, justifiable policy to redress the structural imbalances inherited from the colonial superstructure. This, including other factors mentioned earlier, form the core basis for Nigeria's politics of transformation.

On the balance, indigenization decrees wisely accommodated the interests of local as well as foreign capital. It has strengthened the "transnational component" of the local bourgeoisie whose attitudes toward capital accumulation, according to several studies, has undermined and deterred the rapid industrialization of the economy. The findings of these studies apparently were unanimous:

Displacement of Indigenous Production
Distortion or Development? (1978)

Thomas J. Biersteker

Multinational Corporations

1. Buy out import-substitution industries and transform them into subsidiaries.
   a. Export finished goods.
   b. Establish sales organization.
   c. Buy off local manufacturers.
   d. Establish a subsidiary.
2. Drive indigenous competitors out of business due to their competitive advantages:
   a. Economics of scale, finance, marketing.
   b. Vertical integration.
   c. Capital intensity of production.
   d. Attractive wage scales.

First-order Consequence

Displacement of indigenous Production (displacement of both enterprise and entrepreneurs)

Reduction of economic capabilities:
a. Benefits increasingly abroad, worsening balance of payments position.
b. Displacing entrepreneurs harms the quality of local factors or production as well as the possibility of self-sustained development.

Reduction of political capabilities: Displacing entrepreneurs eliminates a strong group on behalf of reforming institutions and neutralizing powerful groups opposed to development efforts.

Second-order consequence

Increase in the propensity for conflict and hegemonial dominance maintenance:
a. Displacement is a highly visible and much-resented process.
b. Displacement increases dependency on the multinational corporation and reduces autonomy in decision making.

"Nigerian businessmen are all interested in quick returns, and hence their reluctance to invest in industry as contrasted with trade. It has been shown also that "many of the traditional values associated with an emergent capitalist class," for example thrift, austerity, the need for savings and investment, are "absent among Nigerian contigent: in place of austerity and painstaking dedication to building an enterprise, one finds extravagant consumption."[31]

These findings indicate that Nigeria lacks the necessary aptitude for an industrial existence. And indeed this argument may be controversially extended to other Third World countries, which is inherently illogical since a handful of Third World nations--notably those referred to as the "semi-periphery" and "subimperialists" or the newly industrializing countries (NICs) have achieved a remarkable industrial progress. The obvious question then is: why has Nigeria lagged behind other NICS?, and why has she disproved the "stagnationalist" thesis; and finally, why is her economy booming despite the low level of industrialization? The answers to these questions are difficult but the knot may be untangled by examining the nature and structural relationship between the triple alliance--the role of the state machinery, foreign capital and local elites, a task which was attempted in the earlier paragraphs.

In the final analysis, the logic of transnational relationship will ultimately determine Nigeria's economic progress and the means chosen to attain these goals. Despite indigenization, the multinational companies still retain a significant control over their operations with the local bourgeoisie engaging or offering a supportive

role. For instance, a government panel reports that only one-third of about 950 foreign-owned businesses that were supposed to become fully Nigerian complied with the law. Cases of "phony" takeovers were reported by the panel. These were mostly engineered by the foreign owners, most of them Indians, Syrians or Lebanese, in collaboration with some greedy, unpatriotic and misguided Nigerians. Local elites have, in the words of Biersteker been "penetrated" and the results have quite effectively neutralized the state's objectives. Biersteker concludes that the indigenization exercise has failed its objectives because transnational corporations "are not yielding managerial control."[32]

It is certainly too early to judge whether indigenization decrees are a success or a failure. Anything to the contrary is surely engaging in premature prognosis because the true nature of the triple alliance as they have emerged in Nigeria is not well known. Any empirical deduction or casual speculation is doomed to failure and inconclusive. We do know, however, that the nexus between the state bureaucratic machinery, local middleman and foreign capital is intimate and reciprocal and characterized by the "interchange of roles" among actors which see class interest as the cementing bond in the relationship.

Although it has been argued that a "redistribution" of the national wealth remains one major force driving the wheels of indigenization program, the truth remains that a preponderant proportion of the Nigerian populace remains desolately poor. But for the wealthier middle and upper class, indigenization meant access, granted

and supported by the government, to easy wealth.

Nigerianization Not Nationalization: A Means to "Bourgeoisie" Wealth

Nigerianization of the national economy created a new cadre of wealthy "Lagos millionaires" who owe their easy riches to the paternalistic disposition of the federal military government and, of course, to the easy flow of cheap money made largely possible by the sale of the nation's ample oil reserves.

Thus Nigerianization became a major theme of a political ruling class which sought to increase its wealth through commerce, links with foreign capital and the progressive exploitation of the urban and peasant population. The political class represents the "fusion of elites" which form a critical component in the Nigerianization struggle and which has, through this process, coalesced into an identifiable entity. This critical component of dominant-class formation was, in fact, necessary for the comprehensive articulation of the premises on which indigenization exercises came eventually to rest. Indeed, without the fusion or the formation of this dominant class--a group made up of diverse spectrum of elites which included wealthy businessmen, senior and high level politicians, prominent and powerful traditional rulers, the politics of transformation represented concretely by several programs including indigenization, would not have taken off. As the process unfolded, elites became the main beneficiaries, and a remarkable outgrowth of this class formation became evident--the consolidation of a vision of the ruling political class, supported by previously antagonistic, competing interests. In this case, dominant-class formation became a consequence of the exercise of

power by those who control the various political and economic organizations.

Paradoxically, the losers in the indigenization game were largely the poor, lower classes of the society who were left out of the exercise because they either do not possess the ability to be participants, or simply their rights as citizens were usurped by the more powerful, dominant class. For example, access to the banks which provided low interest loans to many thousands of middle-class Nigerians, were virtually closed to the poor who were considered largely a credit risk. Bank credit mostly depended on personal contacts and prestige and the middle class were at an advantageous position. Through the purchase of shares made only possible by the decrees, they procured a guaranteed income and substantial finance assets with negligible risks and efforts. Although efforts were made by the Capital Issues Commission to keep the prices of shares on offer as low as possible--in order to maximize the number of Nigerians able to participate--those who participated gained substantially because stock prices quickly moved to a higher level after the exercise.[33] Thus indigenization of the economy meant very little to those who cannot participate and, as Sayre P. Schatz remarks, ". . . indigenization provided a windfall for a sprinkling of fortunate Nigerians."[34]

It is only logical to argue that eventually the poor masses of Nigeria will pay for the benefits and costs of indigenization--an exercise which mostly eluded them. As Nigeria travels through the path of dependent capitalist development, a price will be paid, and benefits enjoyed. But progress will be achieved at the risk of inequality

which may in fact be a product of increasing exploitation at an earlier stage in dependent development. The key factor in defining the level of inequality will, therefore, be the level of dependence. (Vengroff, 1977)[35]

So far, I have argued that the unanticipated casualty of indigenization exercises are the poor, lower strata of the Nigerian society. Certainly, this outcome was never envisioned by the government whose intention and goals remain those of indigenous control of the economy. "The immediate consequences of indigenization exercises," writes Richard Joseph, "are discernible" and visible.

> For the multinational companies it has meant their domestication and legitimization within Nigerian society. The holdings of their local shareholders have given these companies greater security in their operations without the concomitant danger of lessened control over their operations, or challenge to the earnings of their preference shareholders abroad. For the state it has meant the temporary satisfaction of the yearnings for economic sovereignty, but without in actual practice conferring on it much more of an influence over these companies that it can exercise via the available fiscal instruments or direct government participation. (Teriba, 1975; Joseph, 1978).[36]

Coddling the multinational companies by the state machinery and local capitalist interests meant that foreign capital was secure or at least shielded from threats of nationalization. It meant also an advance signal to foreign capital to further penetrate the economy through a network of "middlemen" and through the forging of alliances based on interests. It meant exploitation, subordination, dependent development, and feverish capitalism. It meant, in the final run, that the government's policies have been as Biersteker apparently put it, "neutralized." Neutralization, however, in my opinion, does not cap-

ture the fundamental dynamism of the indigenization process. Neutralization implies ineffectiveness and if anything, exercises have been on the whole effective. Arguments could be raised, however, on the long run effect on the dependent nature of the economy and on whether Nigeria won the battle in the short run, but slated to lose the war in the long run. The issue at stake is whether government's policy of control of economy and redistribution of benefits has actually been realized through the process of indigenization. This is a highly difficult and controversial question. It has not been at all made clear whether the government intended indigenization as a means of reasserting economic control and sovereignty over her economy, or whether it is meant as a means of distributive justice. Professor G. O. Mwankwo takes the later position by arguing that:

> It is difficult to see how indigenization can achieve government's objectives of egalitarianism. The opportunities go mostly to "those who have arrived" - the established indigenous businessmen who are being courted by foreigners who want to team up with them in order to comply with the requirements of the Decree and senior public servants and other executives who have the necessary "contacts."[37]

The former position probably is defended by the local capitalist elites who use the state to further their interests, but who also form tight bonds with foreign capital. As suggested earlier, the nature of this alliance is yet not known. Is the relationship dialectical? antagonistic? mutual cooperation? The answer to these questions is not easy. Further research has to be done based on the evolving structure of this alliance. But at the moment, in the history of this triple alliance, it is necessary to state that re-

lationship between the actors has been one of mutual cooperation based, of course, on the coalescence of interest. Furthermore, it is necessary also to state that the several roles played by the actors have not been properly defined and have not, from experience, been solidified and established. However, there is growing concern that this alliance may not, in the long run, render productive benefit to the nation.

NOTES

[1]Although the logic of state intervention in the national economy has been billed as the "resolution of certain economic and social forces," it is evident in the case of Nigeria that "resolution" favoured certain particular class interests. In fact, resolution of economic and social forces should be seen not in terms of a dialectical process, but rather one where a deliberate state policy was promulgated into a force of law.

[2]Dependent development is said to characterize those "larger" and technically more advanced countries of the Third World, who, having graduated from "classic dependence" are en route to a more diversified, industrialized development. A "central premise" and also a "necessary condition" for this type of dependent development is the alliance between the state, multinational companies and local industrial bourgeoisie. Peter Evans argues that Nigeria "barely deserves to be considered part of the 'semi-periphery'." But evidence indicates the country displays the necessary ingredients and credentials for a dependent development. For more details, see a case study done on Brazil by Peter Evans entitled: Dependent Development - The Alliance of Multinationals, State and Local Capital in Brazil. Princeton University Press, Princeton, New Jersey, 1979.

[3]See Mansour Farhang. "Imperialism: A Transnational System of Privilege" in Transnationalism in World Politics and Business. Edited by Forest L. Grieves. New York: Pergamon Press, 1979.

[4]The exact nature of the roles played by the various actors in the Nigerian context is not fully known. Additional research is required, however, one thing is clear--cooperation exists between these actors to the detriment of the poor, who are exploited.

[5]Mansour Farhang, op. cit., p. 160.

[6]Taken from Alan Hodgart, The Economics of European Imperialism. (New York: W.W. Norton and Company, Inc., 1977), p. 55.

[7]For more details, see R. Owen and R. Sutcliffe, (eds.), Studies in the Theory of Imperialism. (London: Longmans, 1972).

[8]Tamas Szentes, The Political Economy of Underdevelopment. (Budapest: Akademiai Kiado, 1971), p. 163.

[9]See Sir Percival Griffiths, "Investing in West Africa," Financial Times, June 7, 1955; see also C. C. Wrigley, "The Development of State Capitalism in the Late Colonial and Post-Colonial Nigeria," ASAUK, Liverpool, 1974.

[10]See a contribution by W. Okefie Uzoaga entitled "The Multinational Corporation in the Nigerian Economy," in A Multinational Look at the Transnational Corporation, ed. Michael T. Skully. (Sydney: Dryden Press, 1978).

[11]Third National Development Plan, 1975-1980 (Lagos, 1975), Vol. 1, p. 147. Manufacturing accounted for 5.64 percent of G.D.P. in 1960 and a mere 8 percent in 1975.

[12]See Richard Joseph, "Affluence and Underdevelopment: The Nigerian Experience," in The Journal of Modern African Studies, Vol. 16, no. 2 (1978), pp. 221-239.

[13]See James A. Caporaso, "Introduction to the Special Issue of International Organization on Dependence and Dependency in the Global System," International Organization, Vol. 32, No. 1 (Winter 1978).

[14]Ibid.

[15]For more details on this issue, see A. Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade. (New York: Monthly Review Press, 1972).

[16]Johan Galtung, The European Community: A Superpower in the Making. (London: George Allen and Unwin, 1973).

[17]Caporaso, op. cit., p. 2.

[18]Ibid., p. 3.

[19]This is yet an unpublished work of Tom J. Biersteker of the Department of Political Science, Yale University, titled "Indigenization and the Nigerian Bourgeoisie: Dependent Development in an African Context." March, 1982.

[20]Immanuel Wallerstein, "Class and Class Conflict in Africa," Monthly Review, February 1975, pp. 34-41.

[21]Richard L. Sklar, "The Nature of Class Domination in Africa," The Journal of Modern African Studies, Vol. 17, No. 3 (1979), pp. 531-552.

[22]Wallerstein, op. cit., p. 41.

[23]Ankie Hoogvelt, "Indigenization and Foreign Capital: Industrialization in Nigeria," Review of African Political Economy, No. 14, 1979.

[24]Biersteker, op. cit., p. 11.

[25]This quote is taken from Biersteker, Ibid., p. 12. The

period between 1968 and 1971 represents a crucial one for the Federal Military Government policy of gradual political and economic transformation of the Nigerian State. The Civil War, which was then coming to an end became a catalyst toward this goal.

[26] Paul Collins, "The Policy of Indigenization: An Overall View," Quarterly Journal of Administration, January, 1975.

[27] Quoted from West Africa, 23 June 1972.

[28] Peter Evans, op. cit.

[29] See the report of a speech by Professor G. O. Ezekwe of the Projects Development Agency, Enugu, in The Daily Times, 8 March 1977.

[30] Quoted from The Sunday Times (Lagos), 24 April 1977.

[31] E. O. Akeredolu-Ale, "Some Thoughts on the Indigenization Process and the Quality of Nigerian Capitalism," in Nigeria's Indigenization Policy. Proceedings of the Nigerian Economic Society Symposium, 1974 (Ibadan, 1975), p. 101.

[32] Biersteker, op. cit., p. 19.

[33] Richard Joseph, op. cit., p. 229.

[34] Sayre P. Schatz, Nigerian Capitalism. (Berkeley: University of California Press, 1977), p. 60.

[35] For more details, see Richard Vengroff, "Dependency, Development and Inequality in Black Africa," African Studies Review, No. 20 (September 1977), pp. 17-26.

[36] See G. O. Nwankwo, "Indigenization or the Debunking of the Economy?" Nigeria Survey, New African, June 1977, p. 527.

CHAPTER VIII

THE WANING OF CULTURE

> The Future of the West is not a limitless tending upwards and onwards for all time towards our present ideals, but a single phenomenon of history, strictly limited and defined as to form and duration, which covers a few centuries and can be viewed and, in essentials, calculated from available precedents . . . This high plane of contemplation once attained, the rest is easy.
>
> Oswald Spengler, "Decline of the West"

The above passage was taken to buttress the argument that Nigerian society need not systematically and wholesomely tread the path of western civilization and "development." The notion and view that the nation should, has been celebrated among highly informed circles and among those who are less informed. The issue is not whether the country should "develop;" rather the issue is the nature of development, including its advantages and disadvantages to the society. Furthermore, questions of development strategy has suffered from the myopic treatment it receives from policy-makers, who on most occasions have excluded the possibilities of alternative arrangements or strategies, based largely on their vision of historical forms which tend toward the aberration of concrete experience of a situation, and of historical possibilities which is a degenerate reflection of the latter.

In this chapter, I shall dwell not on development issues, but on its impact on Nigerian culture[1] by the western "development"

approach which the country adopts at great costs to its people and to the resources of the nation in general. However, attempt will be made at making a distinction between what is called "modernization" and development because these two concepts or terms have been misused and partly understood largely by those who make frequent use of them. In addition, I analyze the pervasive trend and impact of American cultural values on the Nigerian society--a process I term "from Nigerianization to Americanization" and argue that the desire to mimic Americans on the things they do and why they are done, only contribute seriously to the degeneration, progressive decadence and decay of the indigenous Nigerian way of life. This argument is not offered, of course, as a refutation of the inevitable impact of historical progress on the society, rather, it seeks to expose the folly of mimicing an alien civilization whose historical experiences are concretely different from ours, and whose material foundations for progress and "civilization" are inherently asymmetric and superior to ours.

Althouth the two systems profess the same ideological and "philosophic intentions," there are tremendous underlying doctrinal and resource differences. The difference is not to be found in the logic of doctrinaire formulation, but between doctrines "which live their day and those which never live at all" or which live on a more appropriate scale and magnitude. In each case, a sense of logical proportion dictates policy and judgment and the necessity for choice.

A deviation from the imperative necessity for choice in formulating and guiding a society's cultural values and "freedom" results

in risking and mortgaging that society's future and subjecting it to the perils of destruction and decadence for which history has ample examples.

There is no doubt that a society progressively and systematically loses capacity for cultural discipline and self-guidance when it allows itself to become the victim of what Hans Morgenthau calls "cultural imperialism."[2] By this, I mean the transnationalization of broad cultural values held by identifiable societal actors across national boundaries based on the "persuasiveness of a superior culture" whose promises, dynamism and institutional arrangements may be unhealthy for all and fatal for many members of the society, yet extravagantly beneficial to only a few. I mean also the structural and cultural relation of a segment of the society's few elites whose privilege and wealth derive from the dependent nature and the external linkages of the domestic economy. In either case, "independence" is compromised and society can be victim to external and internal interest group manipulations.

Hardly more than two decades ago when nationalists proclaimed Nigeria an independent nation, the nation's confidence in her ability to remain so has fallen to a low ebb. Despite the rapid economic and social "development" in the decades following independence, it dawned on Nigerian society that the cost of this progress was a subtle form of dependence on external forces which is more sinister, systematically exploitative and manipulative than formal colonialism which despite its ills, displayed some form of responsibility. The new form of imperialism dampens nationalist urge for agitation and self-conscious-

ness because "penetrated" elements of the society--the elites have been effectively and thoroughly coopted and assimilated into the values of this supposedly "superior" culture. These national elites in turn expend enormous efforts at propagating this newly embraced culture down vertically to the society's grassroots with a pretense of bringing the good life closer to them, but inwardly, the "truth" has been that elites consciously and forcefully seek legitimacy and justification of this new culture based on their ability to convince grassroot society that the new culture is superior to the traditional way of life. Initial reaction to this new ideology has been indeed comforting to the elites who see in their cultural crusade a means of protecting their chosen way of life with a concomitant appeasement of the grassroot society through stratified inequality.

The emergence of the new culture has planted a deadly disease in the social fabric of the nation and has drastically eroded confidence in large segments of the Nigerian society to mold and control their lifestyle in a manner commensurate with the prevailing situation within the society. Although it may be argued that several "societies" exist within the framework of Nigerian nationalism, it is equally arguable, on the affirmative, that the pervasive impact of this new culture has permeated the very foundations of these societies. The argument is not that cultural diffusion and what emerges is not beneficial or detrimental to the growth of a dynamic culture; the argument is that the process of diffusion carries with it hidden, anathemic tendencies and elements which work to undermine and distort the very bond which conveniently cement a society. In other words,

the new culture tends to break traditional values and strive to impose historical forms of alien civilization without a concomitant rationality. The first order breeds cultural anarchy and disintegration, the second distortions and mere illusory hopes. Both order exemplify the lack of confidence in a nation's ability to shape its future, and lead to its eventual demise.

The demise of Nigeria's "First Republic," military rule, sudden burst of unexpected oil wealth, all contributed to the disintegration of the shaky social structure which cemented the newly independent Nigeria decades ago. The nation has lost both the capacity and the will to confront mounting difficulties which threaten to overwhelm her. The same crisis of confidence grips the capitalist system of which Nigeria is a member. In one sense, the political crisis of Nigeria's capitalism therefore, reflects a general crisis of western culture, which it mimics, and which reveals itself in a pervasive despair and inability of understanding the course of its modern history or of subjecting it to rational direction.

From Nigerianization to Americanization

It is currently fashionable among many Nigerians and especially among informed "elite" circles to compare Nigeria to the United States, and to hold up the United States system as the appropriate model for national development. This analogy is inherently faulty and may be dangerous to the aspirations, expectations and fulfillment of whatever hopes the people of Nigeria hold. Analogy of this sort fails not only to take into careful consideration the differences in historical experiences and development, but also the material and

technological asymmetries and capabilities inherent in the two nations. Comparisons of this sort inevitably would be unhealthy for all and fatal to many, once it ceased to be a mere theory and was adopted as a practical scheme of life by the group of personalities effectively molding the future.[3]

Such indeed is my opinion, for Nigeria does not in any way represent a "microcosm" of the American experience. The fact is that Nigeria is in its embryonic stage of development and does not in any appreciable manner or extent display the uniquely "extensive possibilities" characteristic of the American system. Extensive possibilities may be characterized on the one hand by the constraints placed on a nation's development by the logic of the limits to growth and hence of limited hopes, and on the other hand by the wondrous possibilities in material produced made possible only through human ingenuity and technological innovations and breakthroughs.

Nigeria, in this period of development, is not characterized by extensive possibility, but may in the future, with the attendant problems of maintaining her civilization. Such has been the case of civilizations which she blindly emulates. The evils and false hopes of growth and civilization by comparison must be debunked and denounced by the older and younger generation as well. A well-founded civilization must be able to draw from the stock of indigenous philosophical foundations and material resources which should serve the "expression of its own and only its own time." Any strategy deviating from this general principle breeds extravagance and mortgages the welfare of future generations, concurrently encouraging

expansive civilization. Expansive civilization means imperialism and imperialism is "civilization adulterated," and in this "phenomenal form the destiny of the West is now irrevocably set."

In this stage of Nigeria's growth, emulating Western civilization will inevitably force her into expansive civilization which is highly incompatible with her political and ideological philosophy, and the role she has cautionsly but delicately carved out to play in Africa. The younger generation hopefully would denounce any strategy aimed at expansive imperialistic growth, no matter how compelling and attractive. They must formulate ideas and cultivate values which negate expansive civilization and which will form the foundations for a civilization inwardly sustaining. By adopting this strategy, the youth may not lose much but have tremendous advantages over shaping their future and that of the nation. The conviction that the world abounds with unlimited resources and hence unlimited possibilities and hopes should be discouraged. The convictions of the unlimited possibilities open to man in his environment are fundamentally of Western origin and should not be taken seriously in those other areas of the globe where possibilities are limited and where hope is factor of limited possibilities.

However, the doctrine of limited possibilities may suffer at the hands of a people who systematically are burying the most precious and aesthetic elements of their cultural heritage. A closer study and scrutiny of the system indicates that Nigerian capitalism has evolved a new political ideology--the ethics of consumption and

ostentation which absolves individuals of moral responsibility and treats them as benefactors of historical progress. This new ideology based on staunch faith in capitalism, and supposedly internally rewarding, has revived dependence on external forces under the guise of transnationalization.

The Nigerian man has fallen victim to cultural diffusion which has its primary origin in the United States. An appreciable segment of the population has, through transnationalization, been converted from the economic man based on traditional value and precedents to the psychological man--"the final product of bourgeoisie individualism." In the process, he graduates into the narcissistic man in a narcissistic society, eager to satisfy his inner psychological demands through pseudo-economic acquisitions. Christopher Lasch, referring to the American society which the Nigerian man so emulates, writes

> . . . he is acquisitive in the sense that his cravings have no limits, he does not accumulate goods and provisions against the future, in the manner of the acquisitive individualist of the nineteenth century political economy, but demands immediate gratification and lives in a state of restless, perpetually unsatisfied desire.[4]

And so is the Nigerian man responding to the sudden infusion of oil wealth in the national economy, accumulates wealth not as a hedge against an uncertain, predatory future, but as a means of satisfying the psychological demands made by a narcissistic society. He is constantly reminded of the painful outcome of failure, of poverty, and the prestige and recognition that comes with the accumulation of wealth. He is constantly forced to display such wealth with the assumption that it promotes ones standing in the community despite the

possibility that such wealth may be ill-gotten. The narcissistic society, of which Nigeria is a good example, does not ask probing questions on the origin of wealth; what matters above all, is its presence and the power that goes with it.

Lasch describes such society as one

> . . . that gives increasing prominence and encouragement to narcissistic traits--cultural devaluation of the past reflects not only the poverty of the prevailing ideologies, which has lost their grip on reality and abandoned the attempt to master it, but the poverty of the narcissist's inner life.[5]

This observation is, of course, true of the Nigerian man who has repeatedly rejected the very foundations on which his cultural values are based for an alien culture essentially externally cultivated. In the process, he underestimates the value of his worth and elevates those of other cultures. The Nigerian man has enormous confidence in things external to him, he grossly distrusts his fellow Nigerian and downplays his abilities for meaningful internally generated progress, he loves foreign-made goods because "foreign is better" and extolls the virtues of "americanization." In this path of pseudo-consciousness, the Nigerian man is doomed to failure and destruction. He resents the past and equates progress with the future. As Lasch correctly observes,

> Having trivialized the past by equating it with outmoded styles of consumption, discarded fashions and attitudes, people today resent anyone who draws on the past in serious discussions of contemporary conditions or attempts to use the past as a standard by which to judge the present.[6]

The Nigerian man believes that the future belongs to those who most seriously and arduously follow the American footsteps. Far from

realizing the fundamental historical differences, and far from judging critically the utility of such a possibility and peril it offers, policy-makers consciously force Nigeria's future through the path of arrested development which, when spatially and sporadically achieved, was at great human, economic and political cost to the nation. The immediate concern is to steer the country away from traditional, stagnating values into one of "modernization" and development. With varying degrees of interpretation, modernization and development represent the basic premise for the drive of national redemption, which, as I have earlier indicated, constitutes a major ingredient for the politics of transformation. On several occasions, this great transformation has floundered through misinterpretations, through equating development and modernization and on the whole, through the misplacement of priorities.

Rapid industrialization and "modernization" are the two elements of rationalization advanced by those policy-makers who would wish Nigeria catapulted into a modern day America. Caught in the "industrial dilemma" of having to rely extensively on external dependence on the importation of intermediary goods to feed her industries, and having to produce them expensively domestically when this is possible, efforts at concretely formulating useful strategies for the growth and development of other sectoral economic activities are either underutilized or simply neglected. The inevitable result is the sectoral suboptimization of several linkages in the economy. For example, agriculture which is the "mainstay of the economy" was virtually ignored in preference to rapid industrialization. "Per-

formance of the export crops" says the World Bank, "was particularly disappointing."[7] It was particularly disappointing in the sense that apart from the oil revenues which account for roughly 90 percent of Nigeria's foreign exchange, the export of crops remains the only means through which the nation can obtain hard currency. Moreover, Nigeria which once was able to feed her ever-increasing population now depends on large consignments of food importation to satisfy her needs. As Richard Joseph observes, the country which was once the world's largest producer of palm oil and groundnuts must now import these commodities to satisfy its domestic needs.[8]

Clearly the issue or problem facing Nigeria today is one of balancing her ambitious "accelerated industrial development" with the demands of other sectoral economic activity without jeopardizing the health of other equally pressing and essential economic activities. In the final analysis, one important question stands out--are Nigerians not unwisely arresting and accelerating their development? Is it not prudent to carefully stagger development plans and strategy, and avoid the perils and the unnecessary effects of dependent development? A clearly defined government policy and objectives would not only visualize a continued and expanding role for foreign enterprise as a complement to domestic capital, but would also ensure that the productive resources of the economy are largely exploited for the economy's advantages.

Quite apart from the clarification of government policy and objectives toward the "complementary role" of foreign capital in the process of industrialization, the need arises for policy-makers to

delineate and differentiate between the processes of industrialization and modernization--two key development concepts never before fully analyzed and understood. The myth of American life based on modernization and fuelled by extensive industrialization must not be allowed to infuse transcendent meaning into the lives of men. Neither should it offer messianic illusion to a people whose historical experience and material base seem highly constraining. Peter L. Berger warns that "people hovering on the edge of despair are always open to messianic myths" based on industrialization and modernization which in themselves are objects of exploitation and oppression and can deprive the individual of the security which, however harsh they may have been, traditional institution provided for him.

In other words, there is a price to be paid by societies aspiring to modernity and industry, and "this new freedom is purchased at a high price, and again "with varying degrees of brutality, physical violence and exploitation, continue today as stark realities in some parts of the Third World now undergoing 'the great transformation'."[9] It is indeed arguable that the desire for rapid transformation may exacerbate and not reduce inequality,exploitation and dependent development among nations in the international system. Advanced industrial nations have in fact engaged in cultural imperialism because it "softens up the enemy," and prepares the way for economic penetration. Secondly, by extolling the virtues of their "superior culture" aimed at conquering the minds of men, advanced industrial nations capture and entrap the less developed nations in a vicious circle of dependent development.. If that is the case, it is necessary to ask whether

arrested dependent development is indeed the most appropriate route to development. A nation could with the aid of foreign capital industrialize rapidly as Brazil did some two decades ago and find itself saddled with mounting foreign debts which will eventually make a mockery of development. Nigeria cannot afford the luxury and penalty of this approach. In the final analysis, what matters is the rate of industrialization pursued by a society and how this process affects and impacts on other sectoral economic activity and, of course, how industrialization justifies the need for modernization. It would be argued then that industrialization and modernization are associated processes which tend to overlap,[10] and that the promises of modernization may be fulfilled depending on rapid industrialization which may be altogether impossible or extremely difficult, given the lack of capital, resources, and the required attitudes and skills in the society. Foreign capital, especially the multinational corporation, usually fills this vacuum for purposes of trade and of course profit. Transnationalization of the culture, of which the multinationals are main agents, not only seeks to transform the social culture of Nigerians, but also has given the traditional pattern of political discourse and activity a whole new interpretation.

Politics as Spectacle

The demise of what Nigerians call the First Republic (1960-1966) and the emergence of the "Second Republic" (1979-1983) ushered in an era of degradation and degeneration of the traditional form of politics which fundamentally stresses nationalism and independence. Today's politics and the manner in which it is conducted emphasizes

transnationalism and dependence.

The First Republic strove to cultivate the development of politics seen as a condition of other, more substantive types of development.[11] This remarkable effort failed due to several systemic reasons. In fact, the country contained several elements of contradiction which eventually sowed the seeds for the weakening and distruction of the First Republic. The first of these contradictions revealed itself in the division of Nigeria into three regions reflecting the strongholds of each of the largest ethnic groups--the Hausa in the North, the Igbo in the East and the Yoruba in the West--while the Colonial government preached one Nigeria. Divisions such as these intensified tribal loyalty and competition. Ekwueme Okoli writes

> . . . sectional interest including regional particularism tends to grow in intensity, not because of any absolute import attributed to the tie itself, but because of the existence of competing loyalties of the same general order without the moderating influence of the superordinate loyalty to an all-embracing national entity. In Nigeria, the centre never had a chance to develop this superordinate loyalty. From 1947 to 1960, while the regions were growing in power and influence, no action was taken to create a central power base independent of the regions. This situation arose at this time because the centre was tightly controlled by the British Colonial Authority. Its power and legitimacy depended on the authority of the imperial government.[12]

The Westminster or parliamentary form of government which the British imposed on Nigeria was never meant to work out harmoniously; it was as Carl J. Friedrich suggested a mere "gadget" and "ensemble" which never sought to take into serious consideration the multitribal and ethnic diversities which bedevil the nation. He writes

> . . . the hope that one can employ it [federalism] merely as a gadget, a mechanism for resolving group antagonism and conflict, as in Nigeria and elsewhere, is doomed at the outset.[13]

Echoing this observation, Sam Ikoku argues that

> . . . not long after the granting of independence, the international contradictions of the political system bequeathed by the British began to work themselves out. The burning issues were self-determination for the ethnic minorities, the unusual federal structure, etc.[14]

Therefore, systemic organization of institutional political structures which the British left behind was contradictory in toto, and was never established to provide meaningful approach to solving the nation's problems in terms of the development of politics.

Concomitant with the contradictory politics of British colonial legacy was a more sinister, tribally based political development--the emergence, within the larger tribes, of the cult of personality, the messianic myth cultivated by prominent nationalist leaders (who nonetheless have strong tribal backing and followers) and celebrated passionately by the tribes. The inevitable result was the substitution of tribal politics for national politics and the consequent degradation of national politics. As tribal leaders seek support and legitimacy mostly in their various regions, politics degenerates into a spectacle where personalities and how they perform displace the necessity to debate on the issues. In the rush to shed his tribal garb, the politician announces with characteristic confidence that he is "detribalized" while inwardly maintaining tribal sympathies. Detribalization therefore becomes the vehicle for propagating his political ambition, and thus

> . . . the myth of detribalization had great appeal to the new African himself when the hour of nationalist self-assertion came. His right to the mantle of leadership was reinforced by the hypothesis that he was shorn of ethnic reflexes, easily able to speak the inarticulate desires of all the peoples of the territory.[15]

The major reasons for the failure of the development of politics in the First Republic has been made clear. The military regimes of the late General Aguiyi Ironsi and later of General Gowon sought to "correct" the "excesses" of the civilian regime. One major advantage of this interim military rule was that Nigeria bought time out to reexamine and reassess its political history and ultimately its future and destiny. The military regime and the "revolution" cleared the national conscience of the political aberration which has over the years tended to cloud the judgment of Nigerian politicians. The extent of this clarification and purge is not clear. However, it was the "beginnings of a national revolution"--a revolution of the conscience, hopes, aspirations and visions of the politicians and people of Nigeria. In his "presidential address" to the Nigerian Economic Society in 1973 entitled "The Nigerian Revolution, 1966-1976," Mr. A. A. Ayida contends that the military regime ushered in the "beginnings of a national revolution" but that the revolution was without a "vanguard" comprising of a "body of highly dedicated men and women with a clearly defined national purpose and a sense of mission."[16]

The revolution which Mr. Ayida eloquently talks of contains a prognostic allusion of the need for the development of politics. The lack of a clear necessity for the development of the political

thought and processes in Nigeria as well as other African countries has confused the placement of emphasis, in most cases, on either the politics of development and the development of politics. It is my contention that developing the latter would remove the severe constraints and conflict which presently characterize much of the African political history.

Herbert J. Spiro writes

> . . . it may be a peculiarity of Black Africa that most of its leaders generally place stronger emphasis upon political than upon economic development and that many of them have professed a belief in and a commitment to the primacy of politics.[17]

This attitude toward the primacy of politics by Black African leaders is an anachronism of history. Today, the emphasis is placed unwisely on the politics of development which negates the wisdom of its earlier member Kwame Nkrumah. The late Nkrumah has preached, "Seek ye first the political kingdom: and all else shall be added unto thee." Does Nkrumah mean increased political participation and social mobilization, or "the generation of a greater volume of issues for politics" and the conscientious treatment of these issues in a clearly defined and constituted political forum? But what does Nkrumah really mean? "The forging and popularizing of new goals," or rather, stagnating in old political myths and processes? Herbert J. Spiro asks, which is a better index of political development

> . . . the stability and consensus of indifference and stagnation, or the fluidity and discussions of ferment and of the recognition of new possibilities for political action? Each of these finds its advocates as an index of political development.[18]

As a response to the needs of political development, the Nigerian people have elected to undergo the process of the politics of transformation, one that takes into careful considerations the lessons and experiences of the defunct First Republic. The First Republic was a political failure and in 1979, Nigeria adopted the American system of Presidential government instead. This choice was made with "characteristic pragmatism;"[19] however, it promises to correct, as the First Republic did not, the political "excesses" which threw the country into chaos and instability. Despite the shortcomings of the Presidential system of government--a system which on the whole remains largely incomprehensible to a large segment of Nigerian politicians and populace, it should be made clear that this system of government offers Nigeria a chance for peace, stability and cooperation among the various otherwise conflicting ethnic interests. The creation of states was a timely advantage to this system of government and served to break up regional identification and loyalty which contributed largely to the demise of the First Republic since it was assumed that the "language of conflict had been cast predominantly in regional terms." Thus the abolition of the four regions in 1966 and the creation of states instead is probably irreversible.[20]

Although the creation of states and the subsequent adoption of the Presidential system of government represents a remarkable achievement in the development of Nigerian politics, it created, as did the First Republic, a disturbing spectre--the theaterization of politics. The Presidential system of government seems to give rise

among Nigerian politicians to the overwhelming desire to sell themselves rather than address the pressing national issues for which the country is looking forward. Politics became a spectacle--an extravagant public display of ill-gotten wealth--and voters were somehow convinced that the candidate with the largest display of wealth is the "right" candidate. In the process, politics inevitably degenerates into a spectacle and politicians adopt pseudo-self-awareness because the political game is transformed and the stakes much higher. The rhetoric of nation-building and nationhood gives way to that of acquisition of wealth and politicians become distinguished not on the basis of official performance, but rather on their ability to manipulate public opinion and thus win their confidence.

The quality of the political process and the productivity of politics declines reflecting the inability of the voters to identify and present pressing issues, including susceptibility to the narcissistic wishes of the politicians. The enslavement of the electorate has led to several outbursts from concerned citizens. Writing on the two decades Nigeria "spent as goalless, aimless" nation, the editors of Radiance Magazine accuses the nation of drift, complacency and decay. It also accuses its leaders of doing "incalculable damage" to the nation because "everyone, the executives, the businessmen, the intellectuals, the 'religious' men, each wants to make a fortune for himself from his responsibility to the nation."[21] Moral decay in the nation's political and social institutions reflects an inner, decadent force endemic within the Nigerian people which has roots in the culture of narcissism. Christopher Lasch charges that a

narcissistic society "worships celebrity . . . and substitutes spectacle for the older forms of theater which encouraged identification and emulation" as an extension of one's self.[22] Nigerian politicians unwisely exploit this feature of the Nigerian character and treat it as a means to achieving ambitions by incorporating it within their strategic calculations. Lasch argues

> . . . when politicians and administrators have no other aim than to sell their leadership to the public, they deprive themselves of intelligible standards by which to define the goals of specific policies or to evaluate success or failure.[23]

So it is with Nigerian politicians who in the main lack the necessary and adequate intellectual capabilities to grasp effectively and master the intricacies of the new system which they so sheepishly emulate. Credibility, as a result, is thus measured in terms of prestige and the uncanny ability to convince the voters of the candidate's worth and sincerity.

The conduct of politics as spectacle, as a feverish game for mass consumption, necessarily distracts politicians from real issues and in place of selfless service to the nation, breeds corruption.

Corruption

Political drama in Nigeria will not be complete unless corruption is assigned a place; this place is by design and by accident conspicuous. Corruption is not a peculiar phenomenon attributable only to Nigeria. Developed as well as developing nations suffer from this national malaise. However, I am concerned with corruption as it is in Nigeria, its pervasive, corrosive impact on the social fabric and how this social evil threatens the development of politics, the

politics of development and the productivity of politics.

Much has been written and voiced against corruption in the Nigerian press, but never on their impact in terms of three key concepts listed above.

I discussed earlier the development of politics in the First Republic and why it failed and the subsequent emergence of the Second Republic. The Second Republic is precariously based on a fragile foundation in that systemic and institutional arrangements, although based on the twin doctrines of "checks and balances" and "separation of powers," do not augur well with the Nigerian version of the Presidential system. Dr. Onwumere notes that "American political parties are weak in terms of controlling

> the affairs of congressmen unlike Nigerian parties which tend to strongly control the political behaviour of their legislators.[24]

There is a strong tendency among Nigerian political scientists as well as several other branches of academia to describe Nigerian parties as corrupt and striving to protect the interests of the parties at the expense of the interests of the nation. There is also the critical appraisal that Nigerian political parties are not fully matured in the dynamics of the newly adopted political system and hence are apt to engage in conflicting relationships with each other. These observations are basically true and do not promote a sincere atmosphere for political discourse and interaction. When they do, it is not a confirmation of political maturity, but the fulfillment of the dictates of a system to which the parties and electorate have individually pledged allegiance. Thus essentially politics is seen

not as the management of allocation of resources or the productivity of politics, but as a struggle for political hegemony and dominance of the State which largely represents the instrument with which economic and political largesse is wastefully distributed to party faithfuls. The State and its machinery, therefore, functions more as a reluctant agent of wealth distribution and not as its development or creation.

Conceptualization is further complicated by the fact that parties are the embodiment of several interest groups and not their competitors such as is the case with American political parties.[25] The party in power in Nigeria,[26] systematically doles out the spoils of victory to its members commensurate with the efforts made towards victory and the amount contributed. Thus contracts are awarded not on proven capability to execute, but simply on the basis of party membership. Monopoly of this means of resource allocation systemically excludes other rival parties and breeds inefficiency and corruption. It also introduces factionalism within the "ruling" party because struggle for contract awards are usually the case; awards of contract has never been settled peacefully and the loser can threaten to break away from the party. Politicians who might otherwise make good statesmen and legislators are lured into the "wrong" party simply because of promises and anticipation of lucrative contracts. Therefore, issues of national interest and concern are ignored or suspended for the pursuit of sectional and personal gains. Political behavior such as these make bad politics and bad politicians, and invariably is detrimental to the body politic and the

development of politics.

There is also the moral dimension to irreverent political behavior on the part of Nigerian party system. Political parties are presumably organized in order to gain control of the government and use the machinery of this great institution for serving the needs of the people. In Nigeria, the perversion of this simple principle is widespread among the competing political parties. Parties do not only struggle to gain control of government, they also do so to control the means of economic production which is, in most cases, a prelude to dividing the spoils of government among party bulwarks. Practices such as these are anathemic to democratic principle and democratic order. It should be noted, as William C. Havard did, that the existence of parties in a democratic society is more than a useful contrivance, it is a *sine qua non* of democratic order. In fact, this should be so because political parties are institutions through which the promise of the democratic ideal can be fulfilled.[27] The existence of political parties in themselves do not, to any appreciable extent, elevate democratic ideals to the realm of grassroot practicality. This observation is indeed pertinent to the Nigerian experience and works to ensure the entrenchment of monolithic interest group party-politics. Nigerian political parties are characterized by remarkable asymmetry in strength, vision, and capability and asymmetry contributes to skewed performance in political processes rendering as it were enormous advantages to the more powerful party. Although as it is presently, no political party has demonstrated the capacity to control both Houses of the National Assembly. So far, I

have resisted identifying each party by name and the role each is constrained to play in Nigerian politics. Cautious prudence dictates this posture and this will remain so in the rest of the analysis.

Asymmetry in functional capabilities conferring undemocratic advantages to a single party is unfair, dangerous and anathemic to democratic principles and ideals. It may lead to the emergence of authoritarian structures and tendencies, which will not augur well to the visions which Nigerian citizens all share. This tendency toward authoritarianism and totalitarianism is gradually creeping its way into Nigerian politics and will not long manifest itself clearly. The need for checks and balances in the political system clearly exists. This is, of course, necessary to keep in constant check any excessive ambition toward dominance or control by any one party. The question is: How can this be done? I propose a two-party system[28] with roughly equal electoral strength which would provide voters with "real" alternatives in polling booths, and which promises to remove the monopoly of a single "party function" by a single political party which on the whole does not satisfy the demand for effective choice and alternative. The advantages and the effectiveness of a two-party system over a multi-party system is an arrangement which has gained the backing of several informed and competent Nigerian citizens. The benefits of such an arrangement does not derive from academic exercise. It is a lesson derived from experience.

Under the two-party system, it is easier to reach an accord between two parties--an advantage which has so far eluded Nigerian

political parties. When accords are reached, they do not promise stability and durability because each party is ready even without voters' consent, to withdraw its agreement. Two-party system reduces voters' "choice to a clear-cut either/or proposition, compromises and reconciles a broad range of potentially disruptive groups into a relatively stable consensus." As Havard observers,

> There is no need to belabour the advantages that the majoritarian proclivity of the two-party system has over a multi-party system in the way of focusing responsibility clearly on the majority party and for imposing on the victor the necessity to redeem its campaign pledges, especially those promises which it has not hedged sufficiently in the heat of oratory.[29]

Responsibility and accountability is thus placed on the shoulders of the majority party with the minor party in opposition. This sort of arrangement would clearly assist in the development of politics and the productivity of politics.

The politics of development suffers largely from the lack of adequate and clear identification of actors and the lack of a consistent, coherent articulation of what it is Nigerians are developing and how this development is executed. The political class "as the ruling elite" has demonstrated inability to coherently and consistently formulate policies which are in the nation's interest. Consequently, the civil service or the bureaucracy are thrust with enormous responsibility of first playing a significant role in policy formulation, and second, of executing them. Since the civil service is characterized by the "existence of ethnic group consciousness" which may "frustrate the evolution of national goals" due to conflicting ethnic loyalties and bias, corruption is therefore a characteristic feature of the

politics of development.

Professor Onitri and A. A. Ayida observe that when this process is

> . . . translated into institutional arrangements, the group or groups which control the machinery of government tend to dominate the formulation of national development objectives. Thus, the bureaucratic group drawn from the intellectual and professional class could play a disproportionately significant role in the determination of development objectives particularly where the political class is not articulate.[30]

The resultant conflict between the political ruling class and the bureaucrats, each with interest to further and protect, breeds and entrenches solidaristic and egoistic corruption. Although "governmental corruption or improbity is found in all forms of bureaucracy and all periods of political development,"[31] it is only necessary to point out that the success or failure of the politics of development depends to a considerable extent on the probity of the ruling class and, of course, also on the bureaucracy. It also depends, as Susan Rose-Ackerman points out, on the "elimination of any conflict of interest between law makers and bureaucrats. Since the same individuals perform both tasks, they can act to maximize personal gain."[32]

Conflict of interest is exacerbated by the tendency of the political ruling class to see the issues of national development as primarily one of the intricacies of economic determinism. Hence little or no role is played by them while concurrently abdicating the formulation, articulation and implementation of this role to the bureaucrats. Examples of this abdication of role can be found in

recent state declarations and interventions in the economy such as the 1972 and 1977 indigenization decrees, where the state apparatus was given a decisive role to play in its formulation and implementation. The "neutralization" or "failure" of the program, according to Tom Biersteker, could be traced to the collaborative spirit and arrangements between the bureaucrat on the one hand, local capital and international finance capital on the other.[33]

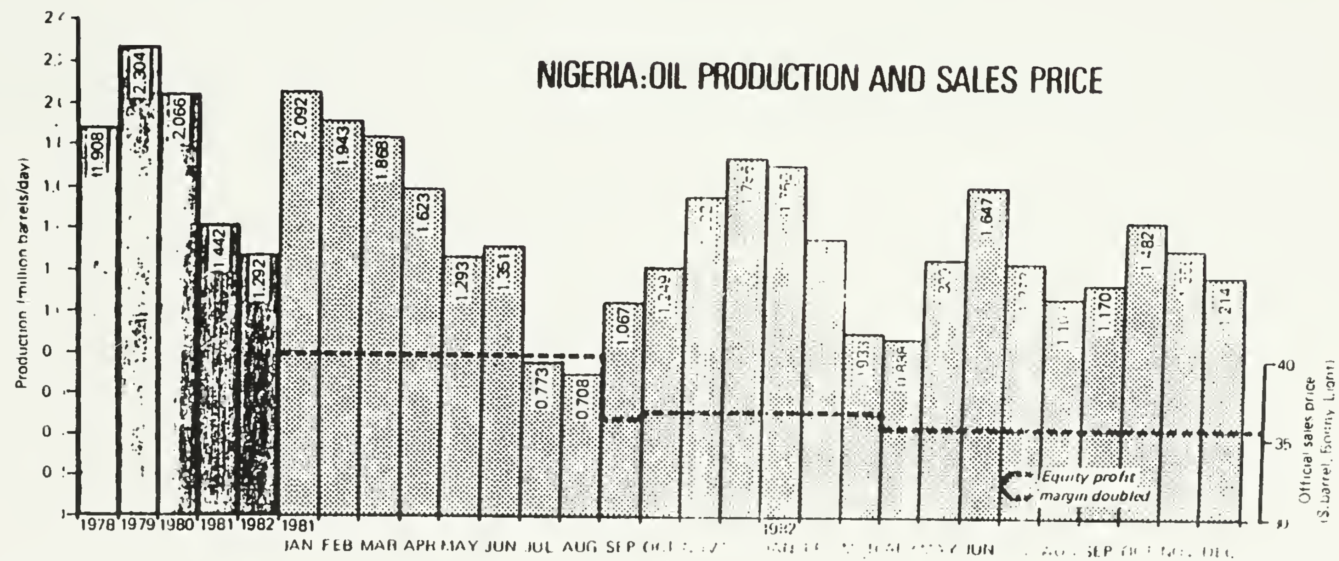
National "development" has solely been equated with economic criteria and "modernity" and has eclipsed other primary criteria such as the development of politics, introducing as a result confusion and disarray of emphasis and priority. Joseph La Palombara points out that

> After the achievement of the overriding political goal of national independence, little if any attention is paid to the problem of political development; almost no systematic articulation takes place regarding the possible characteristics of political "modernity". . . at best a certain amount of lip service is paid the matter of political development; at worst, the whole area is demagogically treated or submerged to the prior needs of goals of effecting economic development.[34]

Under these conditions, bureaucratic corruption emerges and thrives and a series of documentation on bureaucratic corruption in Nigeria abounds.[35] When bureaucrats and the ruling political class who are ostensibly responsible for formulating, articulating and effecting national goals and aspirations are corrupt, the inevitable result is the underproductivity of politics, aided and exacerbated by the desire for ostentation.

The Cult of Ostentation and Stupefaction

"A Cornucopia of easily won oil revenues," writes Peter



Petroleum Economist February 1983

NIGERIA: GOVERNMENT OIL REVENUE

		$ million
1980	(year)	23 405
1981	January	2 214
	February	1 865
	March	1 974
	April	1 627
	May	1 236
	June	1 312
	July	663
	August	585
	September	881
	October	1 122
	November	1 417
	December	1 707
1981	(year)	16 713
1982	January	1 649
	February	1 136
	March	755
	April	664
	May	1 132
	June	1 442
	July	1 070
	August	894
	September	932
	October	1 287
	November	1 116
	December	1 009
1982	(year)	13 086
1983	January	661
	February	328
	March	566
	April	763
	May	1 215
	June	1 065

Revenues from net exports after allowing for domestic consumption estimated at 200 000 b/d in 1980, 220 000 b/d in 1981 and 240 000b/d in 1982 and 1983. Revenues estimated by *Petroleum Economist* on the basis of the prevailing government selling price for Bonny Light 37° API less production cost for NNPC share. Proceeds from companies' shares calculated from the prevailing posted price using the standard royalty and production tax rates for onshore fields of 20% and 85% respectively. 1980 figure calculated from the weighted average government selling price for the year of $35.73/barrel

Kilby, "can also corrode the social fabric."[36] This was indeed the case when "petro-naira" created a new generation of nouveau-riche class whose only claim to wealth is the systematic looting and embezzlement of public treasury. The term nouveau riche is not limited to the new breed of politicians, top civil servants and businessmen, but also to a new generation of middle-class Nigerians including the intellectuals and the professional class, whose aspirations range from "owning properties" to enjoying the "American" way of life by sometimes "being there." When the government promulgated its indigenization decrees, it offered the way to easy and unearned riches by the upper and middle classes. Richard Joseph writes

> . . . for the aspirant propertied class desirous of bigger cars, flashier clothes, more lavish parties and burial celebrations, greater means to satisfy these desires have been transferred to them at the behest of the government.[37]

In most cases, the profit accruing from these businesses is not plowed back into the business as a means of generating and sustaining growth and development. Rather, it is spent on frivolous, lavish and ostentatious consumption. Today, the "great urge of many Nigerians, from manual workers to senior civil servants and university staff," laments Joseph, "is to inject themselves into a trading circuit, whether of cement, lace, or palm oil, and get their 'cut' of the action."[38] Thus, in their bid to achieve quick success and riches, relatively respectable professionals risk atrophising their competence; this often has been the case. Manual workers in a feverish struggle to measure up to the professionals and thus compete effectively, don ill-fitting suits with oversized briefcases,

acquiring in the process the language of business "deals." The bastardization of the business culture was an outgrowth of the oil boom which instilled in the Nigerian citizenry--poor and rich alike--an inordinate ambition for massive acquisition, instant celebration and gratification, and on the whole, conspicuous comsumption.

The struggle for a piece of the action pervades the entire social fabric from the bricklayer to the top civil servant, and from the small businesswoman in the village market to captains of large corporations. Kilby observes that

> . . . the temptation to privatize the new wealth exercises a not insignificant segment of the population. Politicians and civil servants can hope for a modest percentage of the funds they spent.[38]

Although the struggle to "privatize" petro-naira by the various segments of the Nigerian populace has been carried on through sheer hard work and efforts, other means have been actively sought--devious and surreptitious in origin and with the active connivance of politicians and those who control the state machinery.

The role of the politician has been one of the cult hero, a messianic figure whose success depends on his ability to reach out and touch the people; who would in turn pronounce him worthy of their votes. He becomes a celebrity and invariably is forced to lead a double life. Richard Sennett in The Fall of the Public Man (1977), bemoans the dilemma of the public man--the age of civility became the age of charisma, extroversion and false "intimacy." Politicians were judged as personalities and acted accordingly. The traditional vision of the politician--the "cargo ship personality," the agent of

earthly abundance and the precursor of change--once upheld and cherished by voters, now degenerates into theatre and spectacle. The politician's ability to win votes and elections is thus transformed into a factor of charisma, of prestige and of mesmerism. Voters, therefore, are suddenly converted into victims of narcissism. And as Lasch makes clear, "personal magnetism, a quality which supposedly enabled a man to influence and dominate others, became the major key to success." The politician and political process degenerates into a form of spectacle and success, in the eyes of the politician, has to be "ratified by publicity."

The politician, realizing his worth, is tied precariously to how he presents himself and not necessarily the issues to the public. In the attempts to "sell" his candidacy, he indulges in the mastery of "interpersonal relations" and not the conscien ious mastery of the issues. Thus, the "true" politician degenerates into a "confidence man," the "master of impressions." As a matter of solving the problems which face society, the politics of spectacle has very little to contribute and indeed has nothing in common to a prescribed solution. But in Nigerian politics, what really matters and what comes to dominate the aspirations of most voters is to see a candidate in an ostentatious display of wealth and power--qualities which are carefully calculated to manipulate and thus render neutral opposition forces. This process goes to show how increasingly sophisticated Nigerian politics are. The editors of Radiance, a Muslim magazine, lament that "politics has been progressing towards sophistication . . . the perfection of trickery, manipulation of public mind and attitude

to suit certain vested interests."[39]

The vulgarization of Nigerian politics meant the distortions of traditional values of life as manifested in the politics of development; it also meant the accommodation of "vested interests" in the form of alien demands of the diffusion of alien culture into indigenous way of life. The process of cultural diffusion, it should be pointed out, is not per se detrimental or anathemic to the growth of a nation. What seems objectionable, however, is the frivolous, "vulgarized," inimical impact this acculturation will bring. In addition, the necessity for choice of more appropriate cultural attributes and elements which are worth emulating, are institutionally scuttled, and those which present inimical repercussions are condoned and even encouraged by those whose habits find refuge in ostentatious living.

The politics of development conducted under pressure to elevate the standard of living of the masses, saw an advantage in alliance with foreign capital, especially the multinational corporations. The alliance between the state machinery and the multinational corporation forged a policy based on the ethic and culture of consumption and suddenly it was understood that the worker might be useful to the capitalist as a consumer; that he needed to be imbued with a taste for higher things and lustful desires for the good things of life. The multinational corporations have products and a way of life to sell, and saw in the state machinery a demonstrated willingness to act as a partner. Mass production of goods internally (where possible) and the importation of luxury items became a strategy on

which the politics of development eventually came to rest. The consumers were the public--poor and rich alike. In the process, a culture of consumption, not of productivity was born. The masses became students who yearn for enlightenment in the culture of consumption. The virtues of consumption were extolled; if you do not consume, you do not "have" it. This attempt to civilize the masses, says Lasch, has now given rise to a society dominated by appearances --the society of spectacle.

The provision of luxurious materials of life displace the most essential and the television which is a recent transplant to Nigeria and which has gained the attention and confidence of most households, calls attention to these products by way of periodic advertisements. It extolls the advantages of the American way of life and promotes "consumption as a way of life." "When economic necessity yields to the necessity for limitless economic development," writes Guy Debord, "the satisfaction of basic and generally recognized human needs gives way to an uninterrupted fabrication of pseudo-needs."[40] The use of video tapes, a luxurious commodity whose operation is hardly understood by many consumers in Nigeria becomes a status symbol which must be owned by an up-and-coming segment of the population. Thus every progress-oriented person desires to own one, and the market is flooded with cheap and shoddy products designed to fulfill this burning need. Businessmen who make endless trips to "overs" (abroad) come home loaded with pornographic movies and other assorted "goodies" because "it is what the people wanted" and not a means of promoting useful and legitimate commerce. This

measure of value, declares the nation's "Committee on Ethical Revolution," provides all kinds of vices that dull human perception, fills the mind with lustful desires" and breeds "moral decay."

The politics of development has educated the masses into "an unappeasable appetite not only for goods but for new experiences and personal fulfillment" which indeed is frivolous and unnecessary for a healthy polity. It upholds consumption as a way of life and substitutes the traditional values of hard work, thrift and delayed gratification for the ethics of leisure and pleasure. Not only does this new way of life dull the senses into stupefaction, it betrays the promise of good future which the politics of development was supposed to cultivate. This new culture transforms us into connoisseurs of our own decadence by extending aristocratic habits to the masses.

"The apparatus of mass promotion," writes Lasch, "attacks ideologies based on the postponement of gratification;" it allies itself with the desire for lavishness, ostentation and "popularity." The apparatus of mass promotion dictates to one on how his life should be run and in the process turns the victim into a zombie, always ready to serve his master. The mass media, exemplified by all forms of advertising and by the television, instructs you on how to lead the "good life" and never made available the means to this end. The object, not entirely free from the profit motive, "is to divert people's attention from their problems, from the inequities of the ruling class."

As politicians seek more public exposure and as the "privileged class" engage in spending sprees designed for theatrical display and spectacle, a narcissistic trait emerges, reflecting the poverty of the narcissist "inner life," furnishing in the process "proof of that culture's bankruptcy." As a reflection of this bankruptcy, people are driven to acquire wealth by all means; corruption abounds and life is made "cheap." The talk of every city gets its loaded share of sex, money and power; interpersonal relationships degenerate into manipulative games where the end product is sexual conquest. Traditional values which ought to provide a pool where future directives could be drawn is devalued and in some cases rejected, implying deep-seated symptoms of cultural crisis which afflict us. The will and the ability to cling to traditional values in a rapidly "modernizing" world is rare indeed. Only the wise and prudent prevail, and only those who learn from the past survive. Thus the flight from our past would only worsen our cultural drift and predicament. A judicious look into our past is not only necessary, but therapeutic. It seems to me, then, that out of this turmoil and confusion, we might produce a different kind of society, one that is more complicated, more civilized and less dependent.

NOTES

[1] Sociologists, anthropologists and other learned professions speak of "African culture" and of "Nigerian culture" and in the process conceptually lump together very diverse and distinct cultures which share little in common and which have different characteristics and experiences. By Nigerian culture, I mean Nigerian character and throughout this chapter, it should be interpreted as such. Nigerians, whether from the Ibo, Hausa, Yoruba, or Ibibio tribes, etc., have acquired, over the years, a common character, a character formed and molded by the so-called "capitalist development" process.

[2] Cultural imperialism, says Morgenthau, "aims not at the conquest of territory or at the control of economic life, but at the conquest and control of the minds of men" as a means or instrument of perpetrating or attaining policy goals. For details, see Hans J. Morgenthau, Politics Among Nations: The Struggle for Power and Peace, Fifth Edition. (New York: Alfred A. Knopf, 1973).

[3] See Oswald Spengler, The Decline of the West: Form and Actuality, authorized translation with notes by Charles Francis Atkinson, Vol. 1. (New York: Alfred A. Knopf, 1946), p. 40.

[4] I have found it necessary to quote extensively from Mr. Christopher Lasch, whose diagnosis of the American culture offers penetrating and perceptive insight on the cultural crisis and malaise which afflict contemporary Nigerian society. For details on what Lasch calls the "culture of Narcissism," see Christopher Lasch, The Culture of Narcissism: American Life in an Age of Diminishing Expectations. (New York: Warner Books Edition, W.W. Norton & Company, Inc., 1979).

[5] In the attempt to forge cultural links with the Americans, the privileged Nigerian has taken leave of his senses for evaluating cultural experiences of the past and their continued relevance. This "cultural devaluation" of his past reflects the "poverty" of his "inner life." On the American experience, see Lasch, op. cit.

[6] Lasch, op. cit., p. 24.

[7] See "Current Economic Position and Prospects of Nigeria" (in three volumes). Volume II: Recent Economic Development and Prospects, August 5, 1974. Report No. 416a-UNI. This is a document of the International Bank for Reconstruction and Development. International Development Association, Washington, D.C.

[8]Richard Joseph, "Affluence and Underdevelopment: The Nigerian Experience," in the Journal of Modern African Studies, Vol. 16, No. 2(1978), pp. 221-239.

[9]For her aspirations to "modernity" and "progress," Nigeria has paid heavily. Among the price is the continued distortion of the "developmental process," the negligence to the development of politics, and the cultural devaluation of her past. This problem is not peculiar to Nigeria; most Third World nations undergoing this transformation, paid a price in one form or another. For more details on this, see Peter L. Berger, Pyramids of Sacrifice: Political Ethics and Social Change. (New York: Anchor Press, 1976), p. 22.

[10]See, for example, the arguments of John H. Kautsky, in The Political Consequences of Modernization. (New York: John Wiley and Sons, Inc., 1972).

[11]For details, see Herbert J. Spiro, ed., Patterns of African Development: Five Comparisons. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1967).

[12]Ekwueme Okoli, Institutional Structure and Conflict in Nigeria. (New York: University Press of America, 1980), p. 8.

[13]Carl J. Friedrich, "Some Reflections on Constitutionalism for Emergent Political Orders," in Spiro, ed. Patterns of African Development, op. cit., p. 28.

[14]See S. G. Ikoku, "Nigeria Comes of Age" in Africa Now, October, 1981, p. 136.

[15]Issues of Political Development, eds., Charles W. Anderson, Fred R. Von der Mehden, Crawford Young. (Engldwood Cliffs, N.J.: Prentice-Hall, 1967), p. 29.

[16]For details on Mr. Ayida's thoughts, consult Billy Dudley, An Introduction to Nigerian Government and Politics. (Bloomington, In: Indiana University Press, 1982).

[17]Spiro, op. cit.

[18]Ibid.

[19]Jean Herskowits, "Democracy in Nigeria," Foreign Affairs, Winter 1979/80.

[20]For details, see Soldiers and Oil: The Political Transformation of Nigeria, eds. Keith Panter-Brick. (London: Frank Cass Company Ltd.) Studies in Commonwealth Politics and History, No. 5, 1978.

[21]Radiance - "A Muslim magazine for the Contemporary Mind," "Nigeria: Two Decades of Independence." January-March 1982.

[22]Lasch, op. cit., p. 158.

[23]Ibid., p. 146.

[24]"Presidential System in Perspective," Daily Times, Tuesday, November 23, 1982, p. 3.

[25]On this, see for example Hugh A. Bone, American Politics and the Party System, 4th edition. (New York: McGraw-Hill, 1977).

[26]This party presently is the National Party of Nigeria (NPN) led by Shehu Shagari.

[27]William C. Havard, Government and Politics of the United States. (New York: Harper & Row Publishers, 1965).

[28]There are presently several political parties recognized by Federal Electoral Commission (FEDECO). They include: The National Party of Nigeria (NPN); The Nigerian Peoples Party (NPP); The Unity Party of Nigeria (UPN); The Great Nigerian Peoples Party (GNPP); The Peoples Redemption Party (PRP); and Nigerian Advance Party (NAP).

[29]See Havard, op. cit., p. 125.

[30]On this, see A. A. Ayida and H.M.A. Onitri, eds., Reconstruction and Development in Nigeria: Proceedings of a National Conference, published for the Nigerian Institute of Social and Economic Research. (Ibadan: Oxford University Press, 1971).

[31]Ralph Braibanti, "Reflections on Bureaucratic Corruption," Public Administration, Vol. 40, No. 4, 1962, p. 347.

[32]Corruption: A Study in Political Economy. (New York: Academic Press, 1978).

[33]See Tom Biersteker, "Indigenization and the Nigerian Bourgeoisie: Dependent Development in an African Context," 1982. This is an unpublished manuscript.

[34]A detailed treatment may be found in Joseph La Palombara, ed., Bureaucracy and Political Development. (Princeton, N.J.: Princeton University Press, 1963), p. 37.

[35]Corruption is rampant in Nigeria and takes several forms. Instances have been faithfully documented. See, for example, "Oil-Gate," Tribunal Reports, in African Research Bulletin, July 15-August 14, 1980, p. 5612; Alan Cowell, "A Skyscraper Fire in Lagos Causes Pangs of Conscience," New York Times, February 13, 1983; "Corruption: A Risky Pastime," in African Development, February 1976; Ebino Topsy, "Why We Are in This Mess," Sunday Tribune, December 19, 1982; Monday U. Ekpo, "Anatomy of Corruption," National Concord, Monday, June 21, 1982; Innocent E. Ofoka, "Crime and Ethical Revolution," in Nigerian Standard, Thursday, July 1, 1982.

[36]Peter Kilby, "What Oil Wealth Did to Nigeria," New York Times, Wednesday, November 25, 1982.

[37]Richard Joseph, op. cit., p. 230.

[38]Kilby, op. cit.

[39]Radiance, op. cit., p. 21. "Vested interest." Includes those of external actors.

[40]Lasch, op. cit., p. 137.

Part IV

Conclusion

PART FOUR - CONCLUSION

THE POLITICS OF TRANSFORMATION: AN OVERVIEW

The politics of transformation seeks to examine prevailing ideologies by looking into the past "while going beyond mere survival of that past" for the sole purpose of "creation of new forms and modes" and the presentation of new demands based on the satisfaction of the new psychological man of our times. Thus the politics of transformation and its process is both psychological and historical; very much a product of historical change and a matter of"sensibility."

In Nigeria, the historical attempt to control its destiny by coming to grips with those concrete issues which face her and which threatens to overwhelm her, gave life and impetus to the politics of transformation. The need for this type of politics arose partly out of the demands made by academic intellectuals and those who run the machinery of state, to the ruling political class who were unable to coherently and consistently articulate programs and policies on which the future of the nation depends. Furthermore, concrete lessons of experience derived, first, from history, and second from global international relations made it necessary that Nigeria transform her position in the international system with the objective of mastering this new position.

The politics of transformation took several forms and can be understood within the framework of four fundamental systemic changes.

These systemic changes include the indigenization or "Nigerianization" of the national economy; the creation of new politics; one which seeks and hopes to "correct" the political excesses of the First Republic, by transcending the systemic difficulties and attitudes left behind by the British colonial regime; Nigeria's entry into the Organization of Petroleum Exporting Countries (OPEC); and finally, the transnationalization and "modernization" of the society.

It is indeed difficult to measure whether indigenization decrees of 1972 and alter 1977 designed to transfer the control of the economy to indigenous enterprises has been a success or not. A measure of success has been achieved, however, much in the direction of control needs to be achieved. Although many fortunate Nigerians now have a greater share in the growth of the economy, evidence indicates that Enterprise Decrees as a legislative instrument have been flexible, making it much too easy for foreign corporations to circumvent. Of nearly one thousand enterprises affected, only about one third fully complied by the middle of 1978.

Failures to comply fully can be traced to two major points: firstly, there is what could be termed structural failures; while the letter of the decree was in most cases adhered to, its spirit - that of spread of ownership or control of formerly foreign owned businesses - has not been. Ownership has in fact been concentrated among a few capitalists. Secondly, there has been downright evasion and "dishonesty" on the part of foreigners who own businesses. Those foreigners include but are not limited to Lebanese, Syrians and some Arabs.

The report of the Indigenization Panel appointed to investigate misdeeds of the decree found that the main devices used to circumvent its provisions included application for naturalization, "fronting," interpretational problems of classification of enterprises, lack of adequate enforcement procedures and frequent amendments providing for exemptions on "flimsy grounds." It is hoped that the new military government of General Buhari would close certain loopholes inherent in Enterprises Decrees and study closely the new arrangements by multinational corporations designed to keep the country in the path of dependent growth and development.

This new arrangement is known as "international sub-contracting." The term refers to a relationship whereby transnational corporations, in order to supply their markets in advanced capitalist countries, arrange to use Third World firms which they control to produce entire products, components and services. With the failure of import-substitution strategies of industrialization in the country, international sub-contracting has been gaining momentum. Since international sub-contracting tends to produce those luxury goods and consumer durables which only the bourgeoisie can afford, production tends to be sector specific without any direct benefits to backward or forward linkages within the economy. Moreover, such economic activity does not promote the transfer of useful technology or upgrading of labor skills needed for sustained economic growth and development. Thus Nigeria's goal of diversified and self-generating industrialization had been frustrated. Policy to correct these structural ills will depend considerably on careful screening of transnational corporations and their corporate activities, including the national will to lessen

reliance on transnational corporations for national development and industrialization.

It is necessary to recognize however that these corporations can play important parts in the transfer of appropriate or choice technology and skills, or as contractors and suppliers of needed goods and services. Conflict of interest when marked, can be solved by regulating the activities of transnational corporations through screening of foreign investment and the inflow of technology proposals on a case-by-case basis to the use of concerted policy instruments to control and monitor the activities of such corporations. Developing countries in turn should enact explicit legislation taking into consideration the special characteristics of transnational corporations. The process should be one of mutual adjustment.

We believe that the role of such corporations will continue to be of great importance, either as a source of investment and therefore of transfer of technology or services or a combination of these functions. However, we point out that this could be done with greater domestic participation and control and in some cases, a greater degree of selectivity regarding the extent of foreign input. Effective control, however, often continues to rest with foreign partners. Most developing countries would like this situation changed and several policies and legislations are geared towards surrendering control albeit through political means.

The achievement of these goals and objectives seem difficult indeed especially in a nation bedevilled by multiplicity of interest and ethnic groups. Thus, the politics of consensus was

inevitable; the bureaucrats and the civil service providing the necessary legitimacy and the framework on which the programs of transformation may be concretely formulated and executed. The game of consensus was primarily played by the Military government and top level bureaucrats, who, at one point in the history of Nigeria, held the key to Nigeria's demise or survival as a nation. This game was played remarkably well and peaceful and has formed the background on which subsequent games are played.

Although the political basis for transformation was carefully laid out and constructed, it should not be seen as a measure of success on those essential programs and policies which are in general crucial to the success of the need for transformation. It should be said however that some policies have achieved some measure of satisfaction while others have not.

The success or failure of those policies are better analyzed if the state is understood to be the site of class interaction, and if the role of the state is said to be one of major, selective intervention in the nation's economic life. Thus state institutions, and politices, are consciously and deliberately organized to reach out and touch the civil society. The extent to which this is actually so is indeed doubtful as pointed out earlier in this study. However, the logic of state intervention should not (at least in theory) be regarded as the promotion of the interests of a single class; rather it should be seen as a deliberate attempt at resolving certain systemic contradictions including those presented by economic and social forces.

Taken on the merits of each, certain policies and programs which embodies the spirit of transformation, could be judged successful;

for others, it is simply too early to call or determine. However, on the whole, essential policies, given the right attitude and force, stand a chance for tremendous success and achievement. For example, indigenization decrees, which aim at transferring economic control to the indigenes from foreigners, is promising, although several strategies employed by some "penetrated" Nigerians and their foreign counterparts to throw out the spirit if not the letter of these policies are proving to have, according to Tom Biersteker, a "neutralizing" effect. This judgment, in my opinion, is premature. The fact of the matter is that roles played by various institutional actors including those played by foreign interests, in the indigenization process have not crystallized and have not been clearly understood. But it should be said however that local capital in active connivance with the state machinery are aiming to obtain a greater share of the Nigerian economic pie from the multinational corporations who control the major industrial processes in the country.

Concurrently, evidence points to the fact that an active alliance exists between multinational corporations and segments of the nation's bourgeoisie. This alliance is primarily one of convenience enjoyed by both partners. On several occasions, the state apparatus has been involved in this triple alliance, creating, unfortunately, the impression of the existence of a cabalistic arrangement, whose sole purpose is advancing particular interests. In this sort of game, the average Nigerian is the loser. The results of this arrangement on the indigenization decrees is hard, at the moment, to tell or even predict with any degree of accuracy due to the evolving nature of

systemic alliances. However, one thing is certain: Nigerian entrepreneurs (at least most of them) are simply not interested in controlling the economy; most want a quick, significant portion of the fruits of the economy, they seem to be content to playing a secondary role to foreign capital - the exact opposite of what indigenization policies dictate. On the whole, Nigerian businessmen and production forces lack the necessary capital, the technology and managerial expertise to effect the much celebrated industrialization process and regime without the active participation of foreign agents, such as the multinationals. These agents, in my opinion, have a long stay in Nigeria.

The international oil industry is by no means shielded from political demands made by producer-state governments. Demands of political nature will, in my opinion continue to be made on transnational companies until specific goals envisioned by producer governments individually or collectively, as in OPEC, is accomplished.

Much has been written on OPEC; several theories and models have been advanced in attempts to understand the organization's behavior. Political organizations, such as OPEC, defy academic modelling not so much because of its institutional complexities as uncertainties behind its motives, goals and political aspirations. We have concluded that OPEC is a cartel of a different sort, capable of controlling the market but if it is to maintain its privileged market position in the long run, it must either confront Non-OPEC oil producers through placing market barriers, or come to terms with them.

Theories aimed at understanding OPEC behavior within the framework of international industry has not been very promising either. Games theories have been used extensively to understand problems of this sort, but I do not think that game theory is relevant to competitive behavior in the sense that it has been able to solve problems of any consequence in the international oil market. However, game theory is heuristically important in deepening our understanding and its applicability in the affairs of global oil is of some theoretical value.

Within global oil industry, significant and important changes have taken place both in its structure and mode of operation. With the emergence of the Organization of Petroleum Exporting Countries (OPEC), the traditional role played by international oil companies was virtually transformed from one of total control of production and pricing decisions to one of mere offtakers or contractors of oil. Oil companies are in effect stripped of much of their negotiation capabilities. The decline in the companies' control is evidence by the decreasing share of world trade and production they handle. International oil firms in the early 1970s accounted for nearly ninety percent of the non-communist trade in crude worldwide; by the close of the decade, this share of the market slipped to less than fifty percent.

This reduced role of the oil companies in world trade has been as a result of the increased importance of oil producing host governments who now assume an increasingly important role (through their state owned oil companies) in marketing crude, totally

excluding the transnational oil companies. Direct intergovernmental sales reached almost six million barrels per day in 1979. Policies designed to exclude transnational oil companies from certain activities in producing nations have mostly based on political considerations. As such, this study has elaborately stated why a government-to-government negotiation is desirable and inevitable in the global oil industry. We believe that this method will introduce stability, order and mutual satisfaction. It is in fact the sign of the times to come.

Such eventually may be the case in Nigeria's oil industry. Although elements of independence such as the nation's oil corporation (NNPC) are actively groomed to replace the activities of the foreign multinational oil companies, a closer study indicates that NNPC has a long ground to cover in order to achieve these goals. The odds are that the services of the multinationals will still be needed, but not as before, be it in the form of production-sharing contracts or service contracts. Nigeria is not yet matured, as Brazil and Indonesia found out in their cases, that the creation of elements of independence do automatically abolish the crucial role played by multinationals in the international oil industry. However, it is conceivable that the major role presently played by these oil multinationals will in time be downgraded with the emergence of government-to-government approach in international oil negotiations. Nigeria will, undoubtedly, favor this approach which will consolidate her position within OPEC. And as a response to those who have repeatedly called for the withdrawal of the nation from the ranks of OPEC, I say that doing so would mean a deliberate, catastrophic mistake and I argue that

Nigeria should not. A policy designed to achieve withdrawal would only exacerbate the economic problems which today face the nation. It would also attenuate the visions and hopes of those Nigerians who see her greatness tied to the global transnationalization process.

A major economic and cultural crisis and catastrophe awaits Nigeria if she does not systematically and judiciously attenuate the grand visions she entertains of her future and exemplified in her erratic policies of arrested economic development. Development and "modernization" must be commensurate to the capabilities devoted to such goals. Any policy which deviates carelessly from this simple fact, courts dependency and dependence on foreign forces for internal growth and development.

The flight from our past and the systematic degradation of our cultural heritage, made thinkable and worthy by our overwhelming urge and desire to be "Americanized," to fall victim to narcissism, would only strengthen the transnational component of Nigerian capitalism and would inevitably entrench the waning of our culture. This would render us vulnerable to the wishes of external interests. When we understand the problems facing us, the rest is easy, and thus out of this turmoil, we might produce a different kind of society, more complicated, saner, more civilized and less dependent.

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APPENDIX

Indigenization Decrees: Schedule and Distribution of Enterprise Ownership

The Nigerian Enterprises Decree of 1972 and later revised in 1977 was an "imaginative and necessary" legislation designed to ensure that the control of the economy is gruadually transferred to Nigerians while accommodating judiciously the interests of foreign forces of production. These decrees call for a new economic order for Nigeria and a "new deal" for Nigerians.

Enterprises have been classified according to levels of capital and technology intensive characteristics and on this basis, "Nigerianization" exercises were implemented. Schedule I enterprises which comprise low technology, low capital inputs are to be wholly owned by Nigerians. Schedule II comprised mostly of service industries such as banking and light manufacturing should have not less that sixty percent indigenous equity interest: and Schedule III embraces all other enterprises which do not fall within Schedules I and II. Schedule III enterprises are to have forty percent Nigerian ownership or equity (see Diagram).

NEW SCHEDULE I (Enterprises to be wholly owned by Nigerians)

1. Cosmetics and perfumary manufacture.
2. Supermarkets and Departmental Stores having a turnover of less than N2m. per annum.
3. Distribution agencies excluding motor vehicles, machinery and equipment and spare-parts.
4. Estate Agency.
5. Furniture making.
6. Manufacture of suit-cases, brief-cases, hand-bags, purses, wallets, portfolios and shopping bags.
7. Passenger bus services of any kind.
8. Poultry farming.
9. Printing of stationary (when not associated with printing of books).
10. Slaughtering, storage, distribution and processing of meat.
11. Travel agencies.
12. Wholesale distribution (of local manufactures and other locally produced goods).
13. Commercial Transportation (wet and dry cargo and fuel).
14. Film Distribution (including cinema films).
15. Manufacturers' Representatives.
16. Indenting.
17. Commision Agents.

PROPOSED SCHEDULE II

Enterprises which for reasons of public policy should be controlled by Nigerians in equity and management terms. These should be enterprises which, by their nature, are of strategic importance to the economy. In this connection, the Panel recommends that Government sponsored institutions and private Nigerian citizens should have not less than 60% equity interest in the following areas:

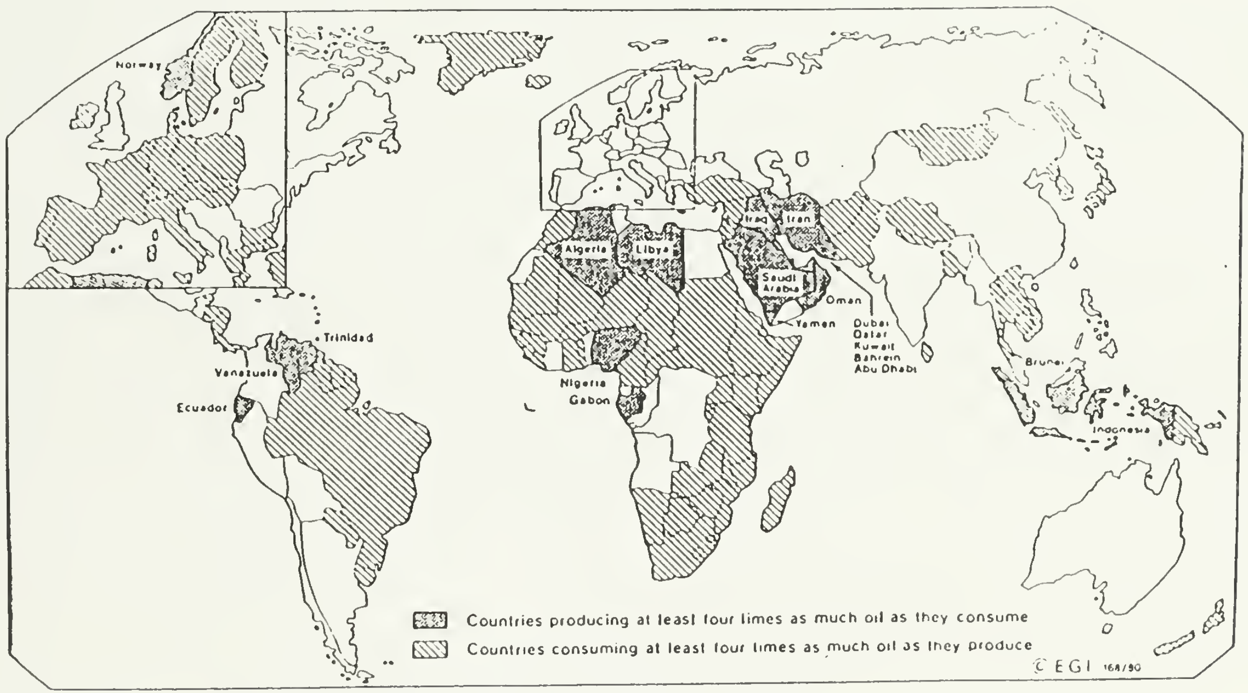
ADDITIONS TO EXISTING SCHEDULE II

1. Supermarkets and Departmental Stores having a turnover of more than N2m. per annum.
2. Banking—Commercial Merchant and Development banking.
3. Insurance—all classes.
4. Mining and Quarrying.
5. Basic Iron and Steel manufacture.
6. Cement manufacture.
7. Petro-Chemical Feed-stock industries.
8. Fertilizer Production.
9. Pulp and Paper mills.
10. Plantation Sugar and Processing.
11. Salt Refinery and Packaging.
12. Construction Industry.
13. Plantation Agriculture for tree crops, grains and other cash crops.
14. Textile Manufacturing industries.
15. Internal Air Transport (Schedule and Charter Services).
16. Oil Milling and Crushing industries.
17. Distribution and Servicing of motor vehicles, machinery and equipment, tractors and spare parts thereof.
18. Lighterage.
19. Wholesale distribution of imported goods.

PROPOSED SCHEDULE III

All other enterprises not coming within Schedules I or II above should have a minimum Nigerian participation of 40%.

The second stage of the indiganisation scheme shall come into affect not later than December 31, 1978. This will give time for the efficient execution of the scheme. The Ministries of Justice and Industries are directed to ensure that all legislation, reorganisation and strengthening of the Nigerian Enterprises Promotion Board and other preparatory work should be completed forthwith.



Map 3. The world's oil exporting and importing countries, 1980

SCHEMATIC REPRESENTATION OF THE INFLUENCES AND PROCESS OF

NEGOTIATION

Antecedent	Concurrent	Consequent
Preconditions	Processes	Outcomes
Goal/Issue Structure	Bargaining Tactics and Strategies	Type of Agreement: Amount of Speed, Symmetry of Concessions
Incentives	Persuasive Debate	Satisfaction with Agreement
Power/Dependency Relations	Coercive Influence Tactics: Threats, Punishments, Commitments	Range of Possible Outcomes and New Alternatives
Colonial Ties	Phases Defined by Concession Exchanges and Trends in Cooperation/Competitiveness	Group Cohesion/Disintegration
	Systemic Stability/Instability	

Antecedent	
Background Factors	Conditions
Cognitive Differences	Open vs. Secret Proceedings
Ideological Differences	Monitoring/Feedback from Constituents
Bargaining Orientation	Number of Parties and Coalitions
Attitudes Between Parties	Third Parties and Mediational Mechanisms
The Negotiator:	Stresses and Tensions
Personality	Situational Complexity
Role	Context and External Events
Incentives (Organizational & Social)	Systemic Stability/Instability
	Vulnerability

Adapted with modification from Luce and Raiffa (1957), Greetzkow (1965) and Druckman (1973)