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EXIS 283 No. of Pages 9

ARTICLE IN PRESS

The Extractive Industries and Society xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

The Extractive Industries and Society

journal homepage: www.elsevier.com/locate/exis

Original article

Contentious nationalization and the embrace of the developmental ideals: Resource nationalism in the 1970s in Ecuador

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ARTICLE INFO

Article history:
Received 5 May 2016
Received in revised form 20 December 2016
Accepted 20 December 2016
Available online xxx

Keywords:
Resource nationalism
Ecuador
Texaco-Gulf
Military dictatorship
Oil

ABSTRACT

Established scholarship on the governance of natural resources focuses on either material or ideational motivations in explaining states' nationalist policies. Based on the case of Ecuador's oil industry in the 1970s, this article shows how material and ideational drivers are often intertwined. In this article, I analyze the 1970s resource nationalist policies advanced in Ecuador. This article argues that increased rent capture was possible in the 1970s as the Ecuadorian state improved its bargaining position vis-á-vis foreign companies, whose investments had been sunk from previous decades of explorations. But also, this nationalist position was articulated with a broader political notion of development and national identity as an oil producer. Despite these motivations, the various legal reforms that increased state control over the industry in the 1970s were always partial and contentious. The article also highlights how these nationalist policies found in the emerging views of the New International Economic Order (NIEO) and the movement of Third World nations a source of inspiration. This explanation of the 1970s Ecuadorian oil history offers a holistic analysis of both the ideational and the material motivations for the military regime's resource nationalism and explains the complexities of exercising control for a small oil producer.

1. Introduction

Resource nationalism is commonly associated with a variety of policy regimes and political objectives (Bremmer and Johnston, 2009; Andreasson, 2015). Policies that range from state full takeover of the resource industry to increased tax and royalty burdens on transnational private corporations encompass resource nationalist measures. Similarly, the uses of resource nationalist practices vary. Some are geared toward enhancing developmentalist spillovers whereas others result from a mere rent-seeking attitude of political elites (see Haslam and Heidrich, 2016; Andreasson, 2015; Wilson, 2015). Generally though, the established scholarship explaining the origins of resource nationalism, highlight the confluence of some material conditions for nationalizations to occur. Based on the work of Raymond Vernon, obsolescing bargaining models (OBM) point to the maturity of the industry, as well as other conditions that favor increased state participation in resource industries vis-á-vis foreign companies (Vernon, 1977; Vivoda, 2009).

There are, however, other motivations that can lead states to pursue policies of resource nationalism. These motivations are ideational in nature. They respond to notions of social purpose in the use of natural resources (Kohl and Farthing, 2012). More broadly, resource nationalism can be the result of how states interpret their role as legitimate authorities of wider national entities (for an understanding of constructivist approaches to international political economy see Abdelal et al., 2015).

Based on the case of Ecuador's oil industry in the 1970s, this article shows how these two drivers of resource nationalism are often intertwined. In the history of Ecuador's linkage with foreign investment, the 1970s emerge as a period of nationalist discourse and policies. This period was dominated by military regimes, led first by Guillermo Rodríguez Lara and, later, by a triumvirate of army Generals. These dictatorships have been regarded as nationalist and progressive. Valdivia and Benavides (2012, p. 71) argue, for example, that in 1971 'a military coup nationalized the industry to allow the state to better capture petroleum rents'. Moreover, it is understood that the purpose of such nationalization was 'to define a consciousness of national sovereignty based on the governance of petroleum' (Perreault and Valdivia, 2010, p. 691).

This article argues that increased rent capture was possible in the 1970s as the Ecuadorian state improved its bargaining position vis-á-vis foreign companies, whose investments had been sunk from previous decades of explorations. But also, this nationalist

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http://dx.doi.org/10.1016/j.exis.2016.12.007

position was articulated with a broader political notion of development and national identity as an oil producer. Simultaneous with the movement of Third World nations, Ecuador sought to pursue an industrialization path based on its natural wealth. Even despite these motivations, the nationalist policies of the Ecuadorian dictatorships were always partial and contentious. Legal battles with the main oil companies, mostly Texaco-Gulf, often incited reactions from political elites and did not follow a complete consensus even within the military. The article contributes to expand on the ideational dimensions of Ecuador's resource nationalism by showcasing the dictatorship's endorsement of the ideas and values of the New International Economic Order (NIEO) that voiced the agenda of Third World nations.

This analysis of Ecuador's nationalism in the 1970s shows how resource nationalism is a complex process of contention for control over the oil industry and rents appropriation. Based on primary research, developed in the spring of 2015, this work is able to uncover some of the ignored features of the 1970s oil history. This article is part of a larger project that studies the evolution of state treatment of foreign investment in the oil sector of Ecuador. I build upon early and more recent political economy analysis of resource nationalism in Ecuador (Martz, 1987; Philip, 1982; Rochlin, 2011). By means of contrasting data from qualitative research—interviews with key protagonists of the military regimes and scholars—and secondary sources, this article widens our understanding of the extent of nationalist policies in the 1970s.

The paper is structured in the following way. First I sketch a typology of the various policies that can be labeled as resource nationalist as well as the different motivations, ideational and material-based, to carry out such policies. Second, the paper explores the history of oil nationalism as it emerged under the military regimes of the 1970s, putting special emphasis on its main policies, and its broader discourse of national development as well as its pursuit of multilateralism under the banner of Third World nations' interests. Forth, the article briefly discusses the changes that democratic governments initiated in the 1980s and 1990s to welcome investments and increase production.

2. Understanding resource nationalism: policies of ownership and control

Resource nationalism can take many forms, different policies, ideas and discourses. In a narrow sense, Stevens (Stevens, 2008, pp. 5–6) argues that '"resource nationalism" is assumed to have two components—limiting the operations of private international oil companies (IOCs) and asserting a greater national control over natural resource development'. In a broader sense, Click and Weiner include the purposes of such actions and define resource nationalism as: 'state control or dominance of natural resources, and the resulting potential to use this power for political and economic purposes'. They go on to argue that 'at the heart of resource nationalism is a government's intervention in its country's natural resource industries to protect or enhance its national patrimony and sovereignty' (Click and Weiner, 2010, p. 783). In a third variant, there is an ideational component, or the *nationalist* sense of the term: 'Resource nationalism finds its roots in the ideology that the natural resources of a country belong to the nation and exist as a national patrimony and consequently should be used for the benefit of the nation as a whole and not be exploited for private gain' (Jaffe, 2012, p. 295).

The types of nationalist policies that states enforce vary and are often all encapsulated as resource nationalism. The degree of control a state can exercise in the resource industry varies on the different policy mechanisms it can deploy. Policies can target the ownership of one specific firm, or the entire resource industry at any level, but it commonly occurs at the upstream of the industry and less so at the downstream level (Wilson, 2015). Ownership over a firm's assets or the entire industry can be mandated through expropriations or confiscation (Berrios et al., 2011). These policies targeting ownership have been usually known as *nationalization*, at least in the Latin American context. Although more frequent in the 1960s and 1970s, these type of policies have become less common in the current phase of globalization (Kretzschmar et al., 2010).

The issue at stake with these measures is the ownership structure of a firm or set of firms in the industry. The resource may well be owned by the state while privately owned firms are allowed to extract it. Nationalization in this case implies the state's take over of the industry. This process is what took place in Mexico after the government of Lázaro Cárdenas nationalized oil in 1938. A similar process was finalized in Venezuela in 1976 through the nationalization led by Carlos Andrés Pérez. Part of the military in Ecuador attempted a full nationalization in the 1970s but did not manage to achieve it. Instead, they nationalized the assets of Gulf Corporation thus normatively controlling the most important extracting consortium in the country.

Management policies that secure state control may be enacted through legal constraints in contracts. In this instance, national oil companies may control most assets in a joint-venture that still has foreign or private partners through a legal mandate that establishes regulatory forms for their operation (Berrios et al., 2011). In this line of policies, there may be mechanisms that deploy industrial policy requirements or local content quotas for certain operations (Wilson, 2015). Together with the previous type of policies, resource nationalism can take the form of increasing burdens on investors to capture higher rents for the purpose of social and economic investment (Berrios et al., 2011). The key policy tool in this case is fiscal policy that targets windfall profits, royalties, and income tax to foreign companies.

2.1. Material and ideational motivations for resource nationalist policies

Looking beyond the different types of resource nationalist policies, debates around the motivations for state's exercise of increased control over foreign companies abound. Diverse bodies of literature point to two distinct kinds of policy motivations—one of material and others of ideational nature.

The material drivers of nationalist policies relate to the possibility of extracting large rents from the business and the sunk costs of investments. The international market price for oil allows extracting companies to earn potentially large rents. This characterizes the nature of the politics behind the oil industry as well as the *bargaining* that takes place in order to determine the division of those rents (Jaffe, 2012; Vivoda, 2009). It is assumed that an early state, most producing states in resource-endowed countries lack the technological and labor capacity to invest in exploration and later on in extraction of the resource. Thus, foreign capital becomes necessary to set the ground of oil exploitation.

The relationship of interdependence and power balance between these actors tends to change over time, as explained in the Obsolescence Bargaining Model (OBM) (Vernon, 1977). Once the initial phase of investments has been made and extraction is in motion, states grow confidence, develop necessary knowledge and over time seek further control over the industry. Martz explains that it is a changing process as the host country's power may weaken as desires for new investments arise, 'yet the long-term trends tend to favor the state, given the presumed learning process which contributes to increased domestic skills, political insight, and inherent self-confidence' (Martz, 1987, p. 21). A highly concentrated industry, such as in Ecuador, typically increases bargaining power of the foreign company whereas an industry with more intense competition benefits the host state's bargaining