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Review

Resource nationalism revisited: A new conceptualization in light of changing actors and strategies in the oil industry

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ABSTRACT

Resource nationalism is a central concept in the contemporary debates on energy policy. Through an extensive review of literature, this paper identifies the emerging questions on resource nationalism in the last two decades and offers a new conceptualization based on emerging trends in the oil sector. The first section focuses on the conceptualization of resource nationalism, offering an alternative definition and arguing for the necessity of a composite measure. The second section analyzes business-state relations in the oil sector and the arguments on determinants of resource nationalism. The last section compares old and new methods of resource nationalism with an emphasis on three main developments identified in the literature: 1) the change in motives that marks a shift from ideological reasons to pragmatism in state policies; 2) the change in methods from nationalization to creeping expropriation; and 3) the change in actor configuration with the increasing dominance of national oil companies vis-à-vis international oil companies.

1. Introduction

After two decades of liberalization in the oil industry in 1980s and 1990s, resource nationalism has once more taken center stage in the contemporary debates on energy policy. The sectoral and global trends up to early 2000s suggested that policies favoring nationalization were highly unlikely to resurge, especially given the total lack of expropriation acts in the 1986–2005 period. This trend, however, was abruptly broken in 2006 with five expropriations in Bolivia, Chad, Ecuador, Russia, and Venezuela. In addition to nationalizations, the historically-high prices in the global oil market also fueled a series of protectionist measures in resource-rich countries, reaching its peak before the 2008 financial crisis.[1]

A large strand of earlier literature is devoted to oil nationalizations and resource control policies. However, the nature of resource nationalism today is different from the 1960s and 1970s in many ways. Although there is renewed scholarly interest in resource nationalism, few studies so far attempted to take count of the accumulated knowledge in different fields encompassing business studies, economics, international relations and political science. Given the lack of a critical review, this paper analyzes the emerging themes and questions in the new era of resource nationalism.

The first section of this article focuses on the definition and conceptualization of resource nationalism. The growing literature on the topic devoted surprisingly little attention to issues of conceptualization, operationalization, and measurement. The main reason behind this caveat is the difficulty of agreeing on a common definition. In order to address this issue, this paper offers a new definition of resource nationalism and proposes to form a composite measure that is based on two principal components: ownership structure and regulatory measures. A unified definition and a composite measure will increase the usefulness of resource nationalism both as a dependent and an outcome variable in empirical studies.

The second section analyzes business-state relations in the oil sector. After a brief historical overview, it discusses the current arguments on the determinants of resource nationalism. Finally, the last section compares the old and new methods of resource nationalism with an emphasis on emerging trends in natural resource policy: the shift from ideological motives to pragmatism in state policies; the change of methods from sweeping nationalization to regulatory control; and the increasing dominance of national oil companies. This discussion shows that the scope and application of resource nationalism has considerably changed since 1970s and a contemporary understanding of the phenomenon requires attention to the new nature of business-state

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[1] Although this article explicitly focuses on the oil sector, the trend was not unique to oil. For instance, in their 2011–2012 report on business risks in mining and minerals, Ernst and Young analysts defined resource nationalism as the number one challenge facing investments in the sector, leaving behind some traditionally important factors such as skills shortage, infrastructure access and price volatility. Ernst & Young, *Business Risks Facing Mining and Metals 2011–2012*, report available at http://www.doing-business.gr/wp-content/uploads/2012/09/Metal_Mining_paper_02Aug11_lowres.pdf, accessed May 3, 2017.

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relations.

2. Conceptualizing and measuring resource nationalism

Although there is a large body of literature studying state-business relations and the determinants of expropriation, relatively little attention is devoted to accurate conceptualization and measurement of resource nationalism. The wide spectrum of definitions range from the control of oil revenues for political aims [1,2], to ownership consolidation in resource sectors [3], to 'consumer country resource nationalism' which describes the aggressive steps taken by importer countries to secure their energy supply [106]. As such, resource nationalism is simultaneously used to describe very different – sometimes even contradictory – motives and policies by governments. This problem is crucial since it limits the usefulness of the concept both as an outcome and an explanatory variable. Indeed, many scholars concur that the lack of a unified definition is a key issue in the studies of resource nationalism [4–7].

Resource nationalism has been acknowledged as an important explanatory variable in the literature starting from the 1970s [8–10], but it was generally dismissed from empirical analyzes due to measurement difficulties. For instance, Jodice [9] admits that nationalism is an important cause of expropriation, but notes that it is "of limited use as an explanatory variable in a formal model because of the difficulties involved in compiling valid and reliable cross-national measures of its scope and intensity" (p. 179). For this reason, most large-N cross-country studies on resource nationalism focus on nationalization and expropriation acts. Although nationalization is one obvious mechanism of resource control, it is by no means the only or the most common one. In fact, direct intervention in the form of nationalization or expropriation in the oil sector is a relatively rare phenomenon. In a comprehensive study of nationalizations in the oil sector [11], the authors list 98 cases from 1960 to 2006 in a total of 42 countries, pointing out that this only corresponds to an average of two events per year. Moreover, Kennedy [12] notes that a vast majority of expropriations were undertaken by only a few governments. Indeed, only 13 governments (31%) in that sample constitute about 61% of all oil nationalizations (60 cases) to date.

More recently, there have been some attempts to operationalize and measure resource nationalism as an independent variable, distinctly from acts of nationalization. In his analysis on the determinants of oil nationalization, Mahdavi [13] relies on OPEC membership as a proxy for "countries with resource nationalistic tendencies" (p. 231). Dupont et al. [14], on the other hand, use party orientation, "assuming that leftist governments are typically more inclined to be economic redistributivists and therefore economic nationalists" (p. 13). Although these proxies capture some aspects of resource nationalism, they do not provide a full catalogue of protectionist strategies used by host countries.

Since scholars advance very different understandings of resource nationalism, it cannot be reliably operationalized as a variable for large-N cross- country analyzes. I argue that the most fruitful way to approach this problem is to construct a composite index accounting for multiple facets of the phenomenon. The literature on resource nationalism provides some theoretical insights about which factors to include in such a measure. However, in order to avoid conceptual confusion, it is crucial to develop a common working definition first. In this paper, I define resource nationalism as "*the* ***complete set of strategies*** *that a host state uses to increase control over its natural resource wealth* ***at the expense of foreign participation and investment***". Based on this definition, oil nationalizations are crucial in a composite index of resource nationalism, but there are two other factors that should be included: ownership structure and regulatory measures.

2.1. Ownership structure

The first aspect to note in the working definition is that host governments exercise resource nationalism at the expense of foreign participation, capital, and investment in the oil sector. Resource nationalism represents a certain ideological conviction or interest calculation on the part of the elite and the public that acquisition of critical national assets by the foreign capital is detrimental to the socioeconomic well-being of the country. However, it is not necessarily a socialist project or a statist endeavor. In fact, it is often supported by the local elites, since the domestic private interests are rarely expropriated [15: 4] and the local elites can also benefit from foreign capital takeovers. Hartshorn [16: 140] notes that in many cases, nationalization of multinational oil companies happened "not because they were privately owned, but because they were foreign". As such, resource nationalism is "characterized by a battle between national interests and foreign influences" [4: 8].

A large body of literature supports this claim. For instance, Domjan and Stone [17] point out that resource nationalism encompasses "the outright exclusion of foreign participation, depriving the nation of the benefits of foreign investment." Similarly, Victor [18: 446] points out that "although the details of every nationalization vary, the story usually centers on local leaders who rallied the public against foreigners who, it was claimed, were not fairly sharing the rents of oil and gas production". Many scholars concur that the struggle between foreign and domestic interests is a key defining factor of resource nationalism ([19–21]; [106]; [22]).

By this logic, the concept can be considered in a spectrum: At the extreme resource nationalist scenario we would expect to see a resource industry completely controlled by domestic capital (public and/or private), whereas on the other extreme all the asset ownership along with extraction and production activities would be run by foreign capital. In reality, no oil-exporting countries fall in either extreme; but rather they are positioned towards one end or the other depending on their energy policies. Since 1970s, oil resources have traditionally been state-owned in many countries. It does not follow, however, that all countries with full state ownership of oil resources have exercised similar oil policies with regards to international oil companies (IOCs).

Starting from this point, resource nationalism can be partially captured by looking at the ownership structure in the oil industry. A few studies to date attempt to operationalize and measure ownership structures in the oil industry. Most notably, Luong and Weintha [23] define ownership structure by the type of actors (be it state, IOCs or domestic firms) that "own the rights to develop the majority of petroleum deposits and hold the majority of shares ($>$ 50%) in the petroleum sector" (p. 5). According to this definition, they identify four types: state ownership with control, state ownership without control, private domestic ownership, and private foreign ownership. Building on their work, Sarbu [24] uses the ratio of the oil production volume by the NOC to the total oil production per country to measure ownership and control structures (p. 87). This line of thinking is also supported by Palacios [25] who argues that industry openness can be captured by the actual share of total production by private companies (p. 11). Using the insights of these authors, one possible strategy is to treat ownership structure as a dummy variable – coding instances of foreign vs. national (public or private) ownership as an indicator. Alternatively, the ratio of oil production volume by foreign IOCs to the total oil production can be formulated as a continuous variable.

2.2. Regulatory measures

The second important distinction that arises from the definition is different types of resource control. As stated before, resource nationalism should be understood as the ***complete set of strategies*** used by the state for controlling natural resource wealth. An important caveat in the literature is the absence of systematic large-N studies about resource