NATURAL RESOURCES JOURNAL

Volume 11
Issue 4 *Fall 1971*

Fall 1971

Mikesell, Foreign Investment in the Petroleum and Mineral Industries. Case Studies of Investor-Host Country Relations

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bring to the reader, . . . the challenge of the 1970's," even though they contain a wealth of general information on natural resources.

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Foreign Investment in the Petroleum and Mineral Industries. Case Studies of Investor-Host Country Relations

By

RAYMOND MIKESELL, *et al.*

Baltimore: Johns Hopkins Press for Resources for the Future, Inc., 1971.

Pp. 459, $15.00.

A substantial portion of the world's deposits of petroleum and minerals are located in the less developed countries (LDC) of the world. These deposits can be of tremendous importance to the economic development of these countries, but at best they create certain problems. LDCs require foreign capital, management, and technical skills to get production underway. Too often the foreign companies were able to exploit the resources in such a way as to maximize their own short term gains without regard to development of the country. In recent decades, however, the LDCs have become much more sophisticated in the matter; even the least developed countries receive technical advice from international agencies or other expert sources. Where there is even a semblance of democracy, politicians quickly seize upon "foreign domination and exploitation" as vote getting techniques. The result has been a sharp reduction in exploitation. But it has brought the LDCs up against the dilemma of how to obtain necessary foreign capital, management skills, and markets and at the same time maximize the gains for the country.

Theoretically it is not difficult to define the returns that should be allowed the foreign firms for attainment of the desired goals, but in practice it is often very difficult to ascertain precisely what the amounts are. Especially in countries somewhat above the lowest levels of development, there is great danger that the demands for ending foreign exploitation will force the government, even if well intentioned, to squeeze the foreign firms too much. Some governments have blindly sought to back the foreign firms to the wall in retribution for past ills, to the detriment of development; others have sought intelligently and scientifically to get the maximum gain for

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the country without cutting off such foreign activity as is still necessary. Ultimately, of course, the LDCs, with local private or governmental ownership, can operate the mines and petroleum resources themselves. Most are not yet able to do so without at least foreign technical help and access to marketing channels. One of the most encouraging developments in the field has been the increased importance of the joint government-foreign private enterprise, which gives the government final control over policy and access to marketing outlets but gives assurance of some reasonable return and stability to the foreign firms.

This Resources for the Future study is by far the most thorough and competent volume to appear on the subject. The first two chapters, outlining the contributions of the petroleum and mineral industries to economic development and the conflicts between host country and foreign investor, plus the final chapter summarizing the volume and stressing major problem areas and alternative approaches, were written by Professor Mikesell. These are very well done, and are required reading for a person seeking to become acquainted with the field. There are two other general chapters: a rather disappointing one by Jack N. Behrman on taxation of extractive industries concentrating to too great an extent on details in a few countries with inadequate attention to the broader questions and a chapter by Philip E. Church on labor relations on resource development exploring some of the problems that arise in this field and their significance for economic development. This is a major issue in many LDCs with mineral resources–for example, Zambia–quite apart from, although complicated by, foreign investment.

The remaining twelve chapters present case studies of petroleum or mineral development by foreign firms in five countries, with stress on the foreign firm–host country relationship, the contributions to development, and the evolution of new solutions to reconciliation of conflicting interests. The Venezuelan experience demonstrates that petroleum exploitation does not contribute a great deal to economic development unless the government's revenues from the industry are used to promote general development. A chapter on iron ore development in Venezuela reaches much the same conclusion.

The experience in Saudi Arabia shows how petroleum developments may contribute little or nothing to a country, serving to make the rich richer without aiding development. In recent years the government has commenced to use the revenues in a more democratic fashion and to seek greater concessions from the oil industry, but the situation is still one of limited contribution to development. The picture in Iran is somewhat similar, although with much greater governmental participation in the industry and somewhat better use of revenues.

The chapter on sulphur development in Mexico is of particular interest because the Mexican government, more than any other Latin American country and perhaps any LDC, has pursued with much success for a long period (50 years or so) a relatively consistent policy of seeking to promote economic development with substantial participation of government and minimization of foreign domination. The chapter on Brazil's iron industry shows how foreign firms can get into serious difficulty in an LDC by unfortunate policies not directly related to the profits of the enterprise, particularly where there is a strong underlying hostility toward "yankee imperialism." The chapter on Chile stresses the attempts of the Frei government (one of the most competent in Latin America) to find a logical solution for treatment of the copper industry. It illustrates the political obstacles to solutions and the need for foreign firms to recognize that there is no such thing as a permanent agreement on taxes or any other element in an LDC; political pressures undo the most binding agreements, a fact that investors must recognize.

These case studies are on the whole very detailed. Most of them do have the great merit of relating the mineral development and policies to the underlying social, economic and political conditions of the country. While they are case studies, they offer significant general lessons to the LDCs, to firms considering investment in LDCs, and to students of the questions.

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