State Capacities and the Renationalization of Oil Production

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ABSTRACT

The global oil market is of great importance to almost every country in the world. Thus, the happenings of the domestic economies of large oil exporters should also be of great concern for most countries in the world. As a more recent effort of economic development, some states that have abundance in the oil resource have been contemplating nationalizing their oil sectors once again. This study focuses distinctively on the cases of Nigeria and Venezuela. Both states are important players on the global oil market, and have a great deal of background circumstances in common. The question is whether states "renationalize" their oil sectors once they have the necessary capacities, assuming that in the past their nationalization attempts were unsuccessful. This is a qualitative research study and it does a case-by-case comparison followed by the employment of Mill's Method of Difference in analysis. The independent variables used in the study are as follows: (a) Lack of transparency in governmental spending, (b) Poor linkages between other major industries, (c) Oil as a primary export equals to or is over 90% (International Trade Centre, 2011), and (d) Governmental spending largely originates in oil revenue. The dependent variable is whether states chose to nationalize once again or not. The results show that Venezuela chose nationalization but Nigeria did not. Due to the similarities in their independent variables, the findings were surprising, however, they show that Venezuela was most likely too quick to nationalize once again without improving its management abilities. Nigeria, on the other hand shows proof of caution and greater hopes for a more successful renationalization in the future if it continues on its path of policy reform.

CHAPTER I

INTRODUCTION

One of the world's principle sources of energy is oil. Its extraction, refinement, and distribution have been an important focus in the resource industry for many decades and will continue to be for years to come. As long as the world market fails to incorporate alternative forms of energy to completely replace the oil market, there will be great struggle for global dominance of oil-based capital. Over the past century many states have discovered oil as a natural resource that could be exploited. Most states, however, lacked the instruments necessary for oil production and thus they reached out to larger publicly owned oil firms. These firms came in under common terms of profit agreed upon by the state leadership through which they provided the necessary technology and technique to extract, and in some cases refine, oil.

This research paper will present the existing debate of the resource curse and identify the key factors that dominate the existing theories regarding the state capacities in national oil production. The availability of abundant natural resources should intuitively indicate the possibility for the creation of a sustainable economy. If oil is exploited wisely, one could assume that the exports of a country would increase. In turn, larger exports could contribute to the overall economic growth of a state without harming other sectors of production, and without the misallocation of revenues from profits. This unfortunately is not the case in a lot of resource-rich countries. This study will be focusing on a specific area in the natural resource industry: the ownership of oil and gas reserves.

Out of the top twenty nations that are major global exporters of oil, only about a quarter seem to be able to maintain a well-rounded economy (CIA World Fact Book, 2013). For most of the remaining three-fourths of the oil-exporting states on the top list, the primary and most significant export, by a large margin, is petroleum (International Trade center, 2013).

The states whose exports primarily depend on oil are at a very high risk of being impacted by fluctuating global oil prices. Due to the disproportionate nature of the economy of these states, a negative activity in the form falling prices or a crisis on the global oil market can have a direct impact on the lives of their citizens. Several studies have been done to address the issue of lopsided oil-dependent economies, and many of them will be presented in the theoretical framework of this text as an explanation of what the current market looks like, theories included.

1.1 What to understand by 'nationalization'?

There are a few different paths that states could follow in order to manage their petroleum industry. Firstly, a state can allow the majority of the control of its petroleum sector to be in the hands of multinational oil companies which can manage all sides of oil production: extraction, refinement and processing, transportation, and distribution, as well as adherence to the international market. Secondly, a state may choose to have a combination of efforts between elements of a partially state owned, and partially internationally owned oil market with subsidiary cooperation.

Thirdly, a state may choose to have a nationalized oil industry where the sector is run through an agreement between private domestic oil companies and national companies with minimal international collaboration. This type of oil management does not allow very much power for international corporations or external handling. Lastly, a state can have a fully state-owned, or nationalized, oil sector with no involvement from multinational oil companies where the state manages all aspects of the sector and acts simultaneously as a business manager, absorbing market shocks and financially managing its interaction with the international oil market. As an example, however, the copper industry of Zambia and Zaire suffered greatly at the expense of a fully nationalized copper industry as the state could not act as a political and a business faction simultaneously (Shafer, 1985).

Of all of the aforementioned types of petroleum management, this study will define nationalization as the process by which a state chooses to remove all foreign management done by multinational oil companies in its oil sector. Additionally, the process does not include mergers with international subsidiaries. This nationalization process can develop either through state-owned or through domestic private firms, or a combination of both.

1.2 Oil Exports

Oil exporting countries must create circumstances under which they will be able to reach their maximum potential (Toft and Duero, 2011). The value in having a nation with the ability of exporting lucratively is related to its willingness to continue to supply the world oil market. A nation can have a prosperous oil sector in its full capability if it engages in exporting its natural resource to other nations around the globe. Thus, “when it comes to assessing oil supplier reliability it is equally important to assess (states’) longer term ability and willingness to deliver oil to the global market” (Toft and Duero, 2011).

A study by Toft and Duero analyzes whether “state-ownership in upstream oil undermine(s) output expectations” (Toft and Duero, 2011).1 This study found significant differences in states that had privatization-favouring policies versus those with nationalization policies. They show that large amounts of private investment are necessary in order for oil production to meet “long-term demand growth”. Thus, in order for a state to be able to nationalize its oil production and distribution, it would have to do so with significant investment into its domestic private sector.

> *“(The) findings indicate that countries with less favourable oil sector frameworks systematically performed worse than countries with investor friendly and privatized sectors. (Furthermore,) the findings indicate that assessments based on remaining reserves and planned production capacities alone could inflate expectations about future oil supplies in a world where remaining crude reserves are located in countries with unfavourable investment frameworks” (Toft and Duero, 2011).*

[1]There are three parts that make up the processes of the petroleum industry. The first part is the *upstream* sector that focuses on “exploration and production”. The second is the *midstream* sector that includes the transportation, storage and sale of petroleum prior to processing. Lastly, there is the *downstream* sector that involves the refinement, processing, purifying and distribution of petroleum to various other industries that require it (PSAC, 2013).

The study is focusing on whether some of the states with large oil reserves have what it takes to become attractive investment sights. A major factor for the investor to consider in this calculation is whether the state in question is open to international business and corporate involvement. Venezuela and Nigeria are two states that relative to their location have abundant natural oil reserves, but unfortunately they also fit the criteria of "countries with unfavourable investment frameworks" (Toft and Duero, 2011).

1. 3 On Crude Oil and Limited Availability

Something to consider while discussing the issue of oil is its natural availability. Should the resource run out in the nearer rather than farther future, then, there are many economies at stake. The abilities of states to manage their economies in a well-rounded manner will address this particular concern.

Looking past the powers at hand, and past the struggles for controlling the oil market, a much greater concern long-term is whether oil will even be around to be exploited in the not-too-distant future. Kenneth F. Deffeyes, in his book, "Beyond Oil" talks about the world's mistake to rely so heavily on petroleum products. Through some of the research he has done as a petroleum engineer, Deffeyes found that the concerns voiced by M. King Hubbert in 1969, are actually valid and slowly becoming true.

Hubbert discovered that the oil supply will peak in the year 2000, much sooner than what is stated by the oil industry, where it is more likely to have added another fifty years to the prediction (Deffeyes, 2005). These predictions are based on a mathematical formula derived by Hubbert that culminated in what is now called Hubbert's Peak.

Hubbert's Peak is a formula that indicates where "the peak of the production rate occurs when half of the oil has been produced" (Deffeyes, 2005). This peak is of concern to all users of petroleum, especially to the states whose economy is highly dependent on it. States that are on the verge of finding positive solutions for their oil exploration techniques should also work on alternative plans and alternative sources of revenue for their economy.

Taking into consideration the potential for long-term depletion of petroleum resources, states that have a rich natural endowment of petroleum must carefully evaluate the way in which they will profit from their natural resource availability. A promising approach would be reinvesting the oil industry revenues into other parts of the national economy, to kick-start parts that may be lagging behind.

Table 1.1 Nations with the largest proven oil reserves in the world in 2012 and their GDP per capita in US dollars

States	Reserves (Billion bbl)	GDP per Capita (USD)
Saudi Arabia	262.6	31,800
Venezuela	211.2	13,800
Canada	175.0	43,400
Iran	137.0	13,300
Iraq	115.8	7,200
Kuwait	104.0	40,500

United Arab Emirates	97.8	49,800
Russia	60.0	18,000
Libya	46.4	12,300
Nigeria	37.2	2,800

**Data available at the CIA World Factbook data for 2012 (CIA World Factbook, 2012).*

1. 4 Nationalization of Oil

The nationalization phenomenon of the oil industry has been studied over a case-by-case basis where individuals look to find common characteristics that could drive states to make the bold decision to nationalize oil production. This study aims to show how the characteristics of statehood in two different states affect their natural resource management. Researchers have been trying to find the reasoning that determined states to be apprehensive with regard to engaging with their international partners. Guriev et al. found that "nationalization is more likely to occur when oil prices are high and when the quality of institutions is low, even controlling for country fixed effects" (Guriev, Kolotilin, Sonin, 2009).

During the 1970s, many oil-rich states have attempted to nationalize their oil industry. At the time, the most appealing was a full-fledged nationalization where all foreign owned companies were escorted out of the country along with any ownership or stakes they held in the oil industry. This type of somewhat forced, or more radical, nationalization failed in many states. Venezuela, for instance, is one of the states that did not achieve a successful nationalization of its oil industry in the 1970s. The lack of success is evident with the state's inability to gain sufficient revenue from the oil industry and to be able to pour it back into the economy through re-investments in other industries.

With the beginning of the new millennium, also came a new form of nationalization. This type, as described by the president of Bolivia, Alvaro Garcia Linera, “offer(s) (a) humble contribution to what (is seen) as 21st century style nationalization, which means that foreign companies with capital and know-how are present in the country with their machinery, and they can earn profits, but never again can they be the owners of the gas and the petroleum” (Llana, 2007).

1.5 RENATIONALIZATION

After the first round of nationalization failed universally, there was a visible increase in the power of publicly owned oil firms around the globe. Oil firms created mergers among each other, and then linkages amongst these mergers in order to create a complex web of oil production. This web of oil production and ownership allowed for a concentrated acquisition of capital of a few firms over others. Some argue, however, that these firms are only acting in their own self-interest and are thus overlooking the interests of the state whose oil they exploit. Thus, there seems to be a global resurgence of domestication with state-led support called renationalization, a phenomenon that encompasses a state’s attempts to regain the control and benefits of its oil sector.

A process of renationalization would need to imply that the states embarking it feel that they have the necessary capacity to face transnational oil firms located on their domestic turf. Also, it could be implied that states have the necessary domestic transition firms on which they can rely in the private sector should they decide to no longer work with outside firms. Furthermore, this renationalization process puts the institutional constitution and economic behavior of the states under constant scrutiny. One may say that it takes a lot of courage for a state to take on such an endeavor while others might say that it is poorly calculated and haste behavior. In this study, the two specific cases of Nigeria and Venezuela will be analyzed. The study does not aim to create a theory that can be generalized; rather its purpose is to see whether these two states are ready to overcome the challenges of the resource curse.

Since this essay aims to address the resource curse theory in more contemporary cases on the ownership of oil and natural gas reserves, a range of literature has been covered. Prior to narrowing down the cases in question, the second chapter will present various aspects of the resource curse along with its manifestations in the past and its effects on state governance. Firstly, however, there will be presented an adopted definition of the resource curse and its perceived negative effects.

Pauline Jones Luong describes the effects of the resource curse in a two-pronged manner, namely:

> *"Economically, states with resource wealth are prone to rent-seeking, excessive borrowing, wasteful spending (often on large public works projects), and unbalanced growth. (While) the negative political conditions can be summarized as weak (or under-institutionalized) states and authoritarian regimes" (Luong and Weinthal, 2002).*

This is the case of the capital carrying giants or international oil corporations versus the renationalization of oil production and extraction through the support of domestic oil companies. In other words, states that attempt renationalization will face many challenges. One of these challenges is represented by the extremely large amounts of capital carried by the largest oil companies in world that will work against the aims of states to nationalize. Aside from the amount of influence these international companies have, they also monopolize the industry. So the question is whether national companies finally have the expertise to challenge transnational companies. If they do, then one must look at what factors contribute to this and at the process through which they came about, and at what institutional factors lead to this instance. This study aims to look at two states, Nigeria and Venezuela and identify their circumstances in terms of governance and their approaches to renationalization of oil production, if any.

CHAPTER II.

THEORETICAL FRAMEWORK

In the case of oil production there is an availability of a wide range of studies that analyze factors behind state's failure to nationalize. The domination of transnational oil firms in domestic markets was prevalent in the middle of the twentieth century, until states decided to try a nationalization of their natural resource production. This nationalization was not successful in most states, as there was a reopening of these domestic oil markets to the operation and significant control by transnational oil corporations.

A major issue that occurred during the process of nationalization was the states' inability to develop the necessary capacities at a *state level* that are required for the successful exploitation of their oil resources. These countries found themselves suffering severely under what was coined in works of Terry Lynn Karl, Jeffrey Sachs, Michael L. Ross, Pauline Jones Luong, and Michael Shafer among others, as being a disadvantage of having an economy that is largely dependent on one abundant natural resource sector. These works focus on many aspects of why states failed to nationalize, but overwhelmingly, their work brings up the issue of state capacity and governance inadequacies.

The theoretical framework of this study will focus on the existing literature that is centered on the topic of the nationalization of oil production. The issue of resources and the process of nationalization has been a point of interest for many political scientists. The studies that were published in the past half of a century cover phenomena that revolve around whether resources are harmful or helpful. They also show whether it is the state's fault or someone else's when it comes down to the state's failure to profit from the existence of oil resource abundance. Many researchers are under the impression that the cases in which oil exports make up a large enough part of the national GDP they also hinder the economy. There have been arguments that the problem of the economy comes from linkage weaknesses, while there were other arguments stating that it is an institutional issue and it should focus more on institutional inconsistencies than overall structures.

Existing theories related to resource-rich countries focus on explaining how it is that democratization or the maintenance of a democratic nation does not seem to be able to take place simultaneously with a state's overdependence on its natural resource. Hence, theories such as the *Resource Curse*, and the *Dutch Disease* occurred, all in attempt to explain this phenomenon. The cases of Nigeria and Venezuela have been identified in the past as failures in economic development of other sectors at the cost of their resource wealth. These failures can be more specifically defined as having a very high poverty rate, low GDP per capita, and few other well-developed and independent sectors of the economy.

From the instance in which the majority of the revenue received by the state comes from the oil resource, there should be cause for great concern. This is the case for both Nigeria and Venezuela, and unfortunately the efforts to make changes in conditions have been complicated. Michael Watts has written about Nigeria as being a failed "oil-based development" in 2004 and that despite its importance as an oil producer and exporter on the African continent, its development outcomes have been significantly lagging (Watts, 2004).

This study will look at past debates on the matter of oil wealth and will apply them to a current analysis of state behavior with relation to renationalization. Thus, for starters there will be a review of various cases that analyze the condition of petroleum resource abundance in contrast to abilities of governance. Further there will be a look at Ross' "How resource wealth affects democracy" and Shaffer's text on what kinds of property form is enhancing state capacity. Lastly, there will be a focus on works of Pauline Jones Luong who has also written on the subject of property rights and how they relate to energy wealth.

2.1 Defining the Resource Curse and its Effects on the Economy

Michael Shafer writes about the benefits that were given by transnational firms and how once deciding to regain ownership of their natural resource industries, states suffer because they cannot simultaneously act as governmental engines and businesses (Shafer, 1985). Shafer's focus is on the services provided in the past by multinational corporations, which partook in natural resource exploitation in various states. He claims that because of the instable nature of natural resource markets, the full dependence of a state on its natural resource export or production can be a very risky behavior.

Shafer elaborates that multinational corporations provided states with the necessary insulation from “external market shocks” and price fluctuations. In addition, he brought forth the idea of business mentality versus state mentality. He brings to evidence that in the nature of states and the government there is a process that has very high turnover rate through elections, especially in democracies or upcoming democracies. These instances of frequent turnover affects negatively the state’s ability to manage its natural resource ownership, seeing as an administration could have difficulty planning forward and embarking in economically sustainable development.

Michael Ross, also an author on the resource curse theory, chose to focus on the effects of the natural resource abundance that certain states experience with regard to the development of their resource-poor counterparts (Ross, 1999). Ross outlined the effects of the resource curse as being the following: a decline in terms of trade for primary commodities, the instability of international commodity markets, the poor economic linkages between resource and non-resource sectors, and the ‘Dutch Disease’. Here the decline in the trade of primary commodities has been an observed phenomenon in states that have been overly dedicated to one sector only. The instability of international commodity markets has the potential to harm resource exporters and to create very high levels of private investment. This occurs as a result of exporters attempting to ameliorate the effects of future price shocks.

The lack of backward and forward linkages is a reoccurring and legitimate argument that has at its core, the state’s neglect of other non-resource abundant sectors.

Some argue that it is a narrow-vision mentality, while others simply base it on greedy human nature. Whatever the cause, the truth remains that in many resource-rich developing or underdeveloped states, the other sectors of the economy are suffering greatly.

Governments are responsible for providing linkages and they are the only ones with the capacity to materialize them. Ross points out however, that a problem must then be that developing states do not receive enough revenue from their natural resource sales. The Dutch Disease is a phenomenon described by Ross as a period of economic stagnation caused by a boom in resources. Although at first hand it sounds counterintuitive, the phenomenon takes place as a result of increased attention given to the resource abundant sector and a decline in the production of the manufacturing sector (Ross, 1999). This is a misconception under which states often believe that a resource boom could automatically cause the growth of other industries as well.

Thus, Ross addresses the question of why governments are unable to take corrective action. He initially points out various activities that states could embark in so that they may create a well-rounded economic development process. Part of the suggestions he makes involve reinvestment into various underdeveloped sectors, the diversifying of exports, the use of commodity stabilization funds, the creation of tight fiscal policies and the use of temporary commodities. However, states often have difficulty reaching these levels of activity. Ross attributes this to cognitive, societal, and state-centered explanations through which he points out that a leading sector's characteristics influence the institutional capacity and autonomy of the state itself. In the end he argues that inflexible leading sectors produce weak state institutions, and flexible leading sectors produce strong ones (Ross, 1999).

2.2 Solutions From Past Cases

Erika Weinthal and Pauline Jones Luong, in their essay on "Energy Wealth and Tax Reform in Russia and Kazakhstan" approach the issue of the resource curse from the standpoint of *privatization*. Privatization has been proposed as a potential way of combating the negative effects of having resource abundant conditions. The aforementioned essay analyzes the cases of Russia and Kazakhstan and aims to show whether the privatization of their natural resource – oil – has allowed them to battle successfully with the negative effects of the "curse" (Luong and Weinthal, 2002).

Upon embarking a privatization period, the two states had a completely different outcome in terms of economic and state reactions to domestic production. Luong and Weinthal look at the "structure of ownership" by analyzing whether the domestic or multinational ownership of the natural oil and gas reserves can be linked to the "to the excessive spending, unbalanced economic growth, and weak institutions" that is seen in resource wealthy states (Luong and Weinthal, 2002).

Luong and Weinthal emphasize the difference in privatization to domestic partners versus privatization to international oil producers. These were key differences visible in the cases of Russia and Kazakhstan where the former privatized domestically, and the latter privatized with a dependence on international firms. This analysis is a multidimensional approach to the issue of resource abundance management because it not only looks at whether states privatized or nationalized, but it also takes into consideration the dimension of transnational privatization versus a domestic one.

The formulated hypothesis in the piece on Russia and Kazakhstan narrows the focus on the idea of *taxation* (Luong and Weinthal, 2002). Through their own analysis of the theoretical framework surrounding the arguments of the resource curse theory, Luong and Weinthal found that the *creation of a taxation regime* would be the best option for resource wealthy states to prosper. Namely their "findings show that privatization does indeed offer a potential path out of the 'resource curse', but only if it involves a transfer of ownership to domestic interests" (Luong and Weinthal, 2002). In simple terms, a *viable tax regime,* that was coined in the essay as being key for development of natural oil reserves, is more likely to be supported by domestic privatization, seeing as it is in the interest of domestic firms to support the fruitful progression of the oil sector.

The argument presented on the case of Russia and Kazakhstan was centered on two primary elements, namely the "resource allocation effect (RAE)" and the "political influence effect (PIE)" (Luong and Weinthal, 2002). Through these two elements, the authors were able to show who were the key actors and how they influenced the institutional outcomes of the field. The RAE is used to show the difference in the allocation of revenue from the oil sector. In a state ownership, Luong and Weinthal show that the revenue is more concentrated, state-controlled, and centrally planned. In the case of privatization, however, the revenue is more dispersed and capitalist actors come into play as they attempt to exert pressures and influence on the state itself. *Privatization seems to benefit the industry the most if it is domestically based.* Foreign involvement in oil extraction and production has a tendency to cause the outflow of revenue.

In the case of state-ownership of the industry, the nature of political climates dictate that individuals are more likely to exploit the oil market rather than invest into its long-term development and sustainability. Thus, "state leaders are likely to ignore the development of a broad-based tax regime that is so intimately tied to state capacity and democratization" (Luong and Weinthal, 2002*). Because the private ownership of natural resources depletes the state from a great deal of revenue it would otherwise receive, the state is forced to invest into institution building and into developing forward and backward linkages among other industries* (Luong and Weinthal, 2002). Through the development of a wider range of sectors, the state can assure itself a more steady inflow of funds, as well as a more stabilized economy.

The model presented by Luong and Weinthal shows that the end results of a state ownership at the hands of bureaucrats, is "rent-seeking, corruption, and excessive spending and borrowing". Meanwhile, the private ownership circumstances are expected to have an outcome of "limits on rent-seeking, limits on corruption, and less opportunity for excessive spending and borrowing" (Luong and Weinthal, 2002). The general idea with the private ownerships, that are supposed to aid the entire sustainability process, is the creation of lobby groups such that private companies can seek to have their needs met through their pull in the state. This pull usually manifests itself as a form of institutional strengthening and support.

In their paper, Luong and Weinthal "predict that states that privatize the exploitation of their resource wealth will build tax regimes that deliberately target a much broader tax base and seek to achieve greater compliance" (Luong and Weinthal, 2002). The taxes expected to increase are those on personal income and corporate profit, while indirect taxes are expected to decrease. The study's findings show predicted outcomes in the case of Russia, while in the case of Kazakhstan, privatization had a negative long-term effect. The authors attribute the differences between the two states to the *bargaining power* existent between the state and the private sector, depending on whether the private sector was foreign or domestic in nature.

The conclusions drawn by the authors state that privatization in terms of a solid tax regime only occurs if the privatization takes place with domestic partners as it did in the case of Russia. Unfortunately, the foreign influence and interests, along with exerted bargaining power, set Kazakhstan back severely. This article shows that in fact it is not an abundance in resources that causes states to have trouble, rather it is the existence of faulty approaches or institutions that fail to explore the available wealth in a prosperous manner.

CHAPTER III.

CASE SELECTION AND METHODOLOGY

3.1 CASE SELECTION

There are two cases chosen for this research paper, namely Venezuela and Nigeria. The two states were chosen because they are both very visible on the international oil market. Their contributions are significant and they are heavily endowed with their natural oil resource. Additionally, out of the top ten nations with the largest oil reserves, these are the only two states that are not part of the Middle-East region, or that are not developed. Venezuela comes in at second place on the list of the largest oil reserves in the world, and Nigeria on tenth place as of 2012 (Index Mundi, 2012).

Additionally, both Nigeria and Venezuela have a significant growth process that they have yet to embark. They were both classified as "emerging and developing economies" by the International Monetary Fund in 2012 (IMF, 2012). Nigeria is in the lower-middle income bracket and Venezuela is in the upper-middle income bracket according to the World Bank databases, (World Bank, 2013). Both are long-term members of the Organization of the Petroleum Exporting Countries as well.

3.2 VENEZUELA

Venezuela is a Latin American country of great importance to its continent and to the world. The greatest value that Venezuela's economy possesses is its oil industry. The petroleum resources located within Venezuela's borders make it the country with the largest oil reserves in the world (CIA World Factbook, 2013). The oil industry has undergone a “forced nationalization” in the 1970s under president Hugo Chavez’s very first term in office (Guriev, Kolotilin, Sonin, 2009). The primary oil company is Petroleos de Venezuela, SA. (PDVSA), and it is a state-owned vehicle that has been in charge of the industry’s management for many years.

> *“In June 2007, ExxonMobil Corporation and ConocoPhillips, two of the largest U.S. oil companies, abandoned their multibillion dollar investments in the heavy oil deposits of the Orinoco basin in Venezuela. This action followed the breakdown of negotiations between the companies and the government of President Hugo Chavez and Petroleos de Venezuela (PDV), the Venezuelan national oil company. Four other international oil companies, including Total S.A. from France, Statoil from Norway, BP from Great Britain, and Chevron from the United States, accepted agreements that raised the PDV share in their Orinoco projects from approximately 40% to a controlling interest of about 78%.” – (Pirog, 2007).*

Oil and the revenue it generates represent a very significant part of the Venezuelan economy. Additionally, roughly half of its fiscal revenue originates in the oil industry (World Bank, 2013). Initially, Venezuela was very entrenched in its oil production to the extent that it became a classic case of the “Dutch Disease”. This economic condition occurs when a state is blinded by the success of its natural resource industry that it is misguided by gluttony or other factors as it neglects other industries in the country. The neglect of these industries causes the state to become very dependent on its natural resource, to be driven to keep production high at all costs, and to ignore political values and focus on economic ones, often at the expense of its citizens. Because of the “Dutch Disease”, in the second half of the twentieth century, Venezuela fell behind in agricultural and industrial development (Wilpert, 2003).

Late president of Venezuela, Hugo Chavez, enacted some key policy changes in the early 2000s that increased the role of the government in the oil sector. In addition to trying to stabilize the international oil market through his influence in OPEC, Chavez also tried to fill up the gaps in Venezuela’s economy that have been ignored for many years prior to his office appointment. His domestic efforts created a “renationalized” oil sector but still allowed the minimal participation of non-state investments through strict partnerships with the PDVSA. However, the disconnect between the intentions of the government and that of the primary national oil company in Venezuela, this time around caused a large scale economic disaster (United Nations News Center). As he government aimed to increase its revenue share in the oil sector, its aims were conflicting with the desires of Petroleos de Venezuela S.A. to gain as much capital as possible. Being one of the largest oil companies in the world, the PDVSA has been solely focused on continuing its wealth expansion.

The majority of the revenue that comes from oil is gathered through the PDVSA. The PDVSA, although originally created with the intention of minimizing the presence of foreign oil companies nationally, and of increasing government control over the oil industry, became somewhat of a free agent during president Chavez’s hiatus period. Shortly after he regained presidency, Chavez increased state control over the PDVSA in

2003. The purpose of this increased control was so that *the revenue from the industry would travel more directly into government budget accounts* (Plummer, 2013).

A positive aspect of the state control of the Venezuelan funds is that they were primarily re-funneled into other areas of the economy that were lagging behind. However, many criticized former President Chavez for not being responsible enough with his money handling and abusing the power of the government, enriching the private sector, but severely depleting the public one. Despite the government's aims to enlarge other areas of its economy, Venezuela still cannot depend on any alternative industries for exports and revenue. President Chavez embarked a very decisive nationalization scheme that is largely successful, however, it does not seem to be stable since the country is suffering from a soaring inflation rate of 22% (Plummer, 2013).

As opposed to other countries in financial trouble, Venezuela's very recent economic activity has caused large fiscal deficits that are not easily reducible (Plummer, 2013). Now, in the first half of 2013, Venezuela found itself in large debt for its excessive government spending, and in the process of partially paying back these debts with *oil*. President Chavez has been criticized greatly, especially after his death in 2013, with regard to his spending of billions of dollars that were produced by the oil industry. The lack of congressional oversight in the case of his spending was contributing greatly to the misuse of Venezuela's oil revenues. His nationalization project was successful in the sense that it offered the president greater control of the funds, however, many doubt whether his use of the funds were beneficial. It seems that the nationalization of the oil industry is not enough because Venezuela's economy continues to be heavily dependent on its oil industry, which accounts for increasingly larger parts of its exports.

One of the main problems in Venezuela's management of capital is that, as a result of president Chavez's actions in 2005, most of the capital handling has been done by a group called Fonden, the National Development Fund Inc. (Ellsworth and Chinea, 2012). Fonden is the president's way of creating a state organization that is supported by all major revenue sources in the country, through which government spending can be done easily. The lack of transparency and the highly concentrated and centralized power structure in Venezuela allows Fonden to exist and to make frequent very large spending that is often harmful for the country (Ellsworth and Chinea, 2012). The revenue from the oil industry should be channeled back into Venezuela's economy through the development of its other industries that are mostly lagging behind.

3.3 NIGERIA

Nigeria is the greatest oil exporter and has the largest oil reserves on the continent of Africa. Its potential is great, yet its economic results are meager. The majority of the oil exploration in Nigeria is done through joint ventures with six major international oil companies and the national oil company, Nigerian National Petroleum Corporation (Nigerian Investment Promotion Commission, 2012). The following companies operate under joint ventures: Royal Dutch Shell, Exxon Mobil Corporation, Chevron, Agip, Elf, and Texaco, and they are some of the largest transnational oil companies in the world (EITI, 2011). The oil companies have been managing oil extraction through subsidiaries in many countries around the world. States usually reach out to international oil corporations for help, as they are lacking the necessary domestic industrial resources and funds to complete the exploration themselves.

In the twenty first century, Nigeria is a significant oil exporter and is of great interest to the petroleum-producing world (Gboyega et al., 2011). The challenges faced by the state to manage its oil sector have been primarily due to governance inadequacies. Specific areas of concern have been pinpointed in a working paper for the World Bank database written by Alex Gboyega, Tina Soreide, Tuan Minh Le, and G. P. Shukla. Gboyega et al.. The paper addresses specific areas of Nigeria's national economy, where a regulated governmental intervention could have effected a positive change in the development of various economic sectors. The arguments presented bellow are linked to the petroleum management issue primarily because a very large portion of Nigeria's economy is dependent on its oil sector. Petroleum "(accounts) for more than half of (Nigeria's) GDP, about 85 percent of government revenues, and over 90 percent of exports" (Gboyega et al., 2011).

A problem recognized as significant in Nigeria's economic development is the exceedingly large percentage of its citizens living below the poverty line. Gboyega et al. address this issue, along with that of a low GDP per capita, as being in part caused by the government's failure to provide reliable and necessary public goods and services (Gboyega et al., 2011). Poor development is connected to the issue of a resource curse as relating to its abundant oil availability through the "multiplier effect" (Gboyega et al., 2011). The inefficiencies in economic development are framed in terms of weak institutions that do not have the potential to maintain a sustainable economic development. It has been shown through aforementioned cases, that as a definition of the resource curse, weak governmental institutions are unable to manage available abundant resources.

In the case of oil, the industry requires a lot of action and control on behalf of the governing institutions such that the industry can be regulated and maintained prosperous even in the case of disasters or external unforeseeable shocks (Gboyega et al., 2011). The institutions that failed to provide the necessary tools for industrial development that would benefit the whole country, instead allowed for the appearance of gray areas where politicians managed to take advantage creating their own profits for personal or private gain. This rent-seeking behavior has diminished the value of the newly founded democratic government in Nigeria and has caused great damage to the state of the national economy (Gboyega et al., 2011). Gboyega et al. describe the lack of early democratic development in Nigeria as being at fault for the lack of "political and bureaucratic accountability" (Gboyega et al., 2011). Overall, part of the problem areas in Nigeria have been relating to the control of corruption.

Nigeria joined OPEC in the mid 1970s, allowing for a large inflow of petroleum based capital called, the *petrodollar*. Its oil production is projected to end in approximately forty years, according to senior World Bank economists. The principal problem with the oil sector in Nigeria is that the oil revenues created from production and export do not get reinvested into improving the living standard of its citizens. The World

Bank’s published Nigeria Economic Report (NER) has made a few suggestions for Nigeria’s handle on the future of its economy. Specifically, it has been suggested that “Nigeria will need to build up its fiscal reserve to protect the country from oil price volatility,” and that “it will also need to increase internally generated revenue to compensate for what will likely be declining oil revenues relative to the size of the economy” (World Bank, 2013).

Additionally, Nigeria’s economy, measured by GDP growth, is increasing in size more quickly than its oil production. Because there is “significant inflation”, it is suggested that the “size of government oil revenues relative to GDP should decline even in the event that oil prices increase” (World Bank, 2013). An area that requires great reform, according to this 2013 report, is that between the federal and state level governing systems. There is lack of transparency and great difficulty in communication between the two, which has been the cause of an increasing disconnect.

The report further suggests improvements in “coordination and cooperation” in “macroeconomic management, in coordinated policies to enhance market connectivity and improve public services, and in the realization of national standards in public financial management and disclosure” (World Bank, 2013). This form of connectivity and cooperation could help Nigeria develop a long-term sustainable form of economy that would be able to withstand the greater challenges it will most likely have to face in the future. Increased connectivity between states and their federal government would be beneficial from many points of view. It would be an increased incentive for outside investors in the Nigerian economy, it would increase the availability of products to all Nigerian citizens, it would allow for greater mobility of labor, and for the spread of markets to wider areas in the country.

As a symptom of the resource curse, Nigeria’s economy is significantly disproportionate. The issue with the disproportionate economy is that it does not allow for a lot of flexibility and it increases the risks of economic disaster. In addition, this limits the options of the government and it complicates the reparation processes. Such a strong dependence on the oil sector also increases regional disparities. Because petroleum is available only in specific regions of Nigeria, a state of its large size and population requires a more evenly distributed economy, thus a more evenly distributed attention to address other industries as well. Gboyega et al. state that a good indicator of Nigeria’s poor development is “the fact that it remains highly dependent on petroleum (that) reflects its failure to manage these resources to develop a broad-based economy” which is necessary for sustainable development (Gboyega et al., 2011).

According to the World Bank’s lead economist John Litwack, “international experience demonstrates that countercyclical fiscal policy is essential to conquer the ‘oil curse’ of boom-bust cycles and slow economic development” (World Bank, 2013). This Keynesian suggestion for fiscal policy-making is supposed to help an economy counteract the dangers of a fluctuating or heavy impacting business cycle. In the instance of the petroleum business, a market that is relatively volatile, a countercyclical approach could help preserve Nigeria’s economy, and prevent it from heavy losses. This policy form is one that gathers “insulation” in a period of boom, to counteract trauma during an economic depression. The countercyclical fiscal policy requires the government to exert heavy control of the state’s economy. Many argue that this form of control can be damaging in the case of corrupt governments or states where government officials are not able to maintain the stability of their nation.

Over the past decade, Nigeria’s economic reforms have shown strong results. The creation of its Excess Crude Account, for the excesses of its oil business, helped maintain a steadily growing economy for Nigeria, *even when* most of the world was feeling the impacts of a global financial crisis (World Bank, 2013). Along with this institutional reform, Nigeria adopted the Extractive Industries Transparency Initiative, the purpose of which is to increase the effectiveness of the governance of the oil industry. This reform has also been very effective in increasing the credibility of the Nigerian oil sector.

As of the last couple of years, Nigeria has been working constantly on decreasing its federal deficit and that of the oil revenue balance. Over time, it has been able to decrease its deficit significantly by implementing cuts in governmental spending, and by reorganizing governmental management of its fiscal policies. The International Financial Reporting Standards have been implemented for the purpose of governmental oversight of the financial sector, to prevent leaks and misallocations of funds. The fiscally decentralized aspect of its economic governance continues to be a weakness in the country’s economic development. Despite its improvements and multi-sector growths, Nigeria has yet to improve the lives of its citizens by increasing employment rates and living standards.

Royal Dutch/Shell, a major oil company in the upstream Nigerian oil industry, has been successively reducing its production and asset management in Nigeria. This reduction has been a result of the threat of losing its possessions due to the planned increased nationalization of the oil industry by the Nigerian government (Reuters, 2013). However, Nigeria has a while to go until it can manage complete nationalization that would be a result of significantly reducing the presence of all subsidiaries on national territory.

As an OPEC member, Nigeria has been a central point of focus for many international oil companies. Nigeria has been fortunate to have the largest oil reserves on the African continent, but such a large blessing comes with a curse that must be dealt with. The difficult task of managing the oil industry in an efficient and lucrative manner that is facing the Nigerian government sets Nigeria apart from other developing economies. A large wealth comes with large responsibilities, and in the case of Nigeria, it means going above and beyond what every other developing state is doing to create order and good governance, and reach a high-functioning level of democracy in the near future.

3.4 METHODOLOGY

The nationalization status will be defined using the stated condition in the first chapter of this paper, *"nationalization as the process by which a state chooses to remove all foreign management done by multinational oil companies in its oil sector, (…) including the elimination of mergers or joint ventures with international subsidiaries."*

The analysis will adopt a methodological approach where the two cases with similar independent variables have different outcomes on the dependent variable called the Method of Difference (Mills, 1872). The isolation of the variables that are similar will allow for the identification of differences that could have caused the diverse outcome in the dependent variable. The dependent variable will indicate whether the state nationalized its oil industry or not. The state that did not nationalize yet will be indicated with a value of (0) and the state that did nationalize will be indicated with a value of (1).

Upon conducting the country profiling for both Nigeria and Venezuela, several conclusions can be drawn. Nigeria has a national oil company present that is under the direction of governmental control, however, it engages in significant activity with subsidiaries and joint ventures with the six aforementioned international oil corporations. Thus, Nigeria, although in a gradual process of increased nationalized control, according to the nationalization definition adapted in this text, is ***not nationalized.*** Nigeria receives a score of (0) on the dependent variable.

Venezuela also has a present national oil company that has been created with the purpose of increasing governmental control over the oil supplies in the country, however its outcome has been slightly different. Venezuela has ousted most international companies from its oil industry under the direction of president Chavez. There has been a flood of nationalization policies, and the oil industry is one of them. The national Venezuelan oil company has circa eighty percent control and ownership of the oil industry, and only engages in very rigid partnerships under strict understandings with international partners for offshore drilling. Thus, Venezuela receives a score of (1) on the dependent variable for having a ***nationalized*** oil industry.

The independent variables are similar between the two countries. Upon conducting the analysis of each country's profile, there were four significant variables that seemed to have a great affect on the nationalization process in both states. The variables are also detected the same way the dependent variables were detected. A score of (1) indicates the presence of the characteristics suggested by the variable, while a score of (0) shows the lack of characteristics. The following four independent variables all have a score of (1) for both Nigeria and Venezuela. These variables are as follows: (a) Lack of transparency in governmental spending, (b) Poor linkages between other major industries, (c) Oil as a primary export equals to or is over 90% (International Trade Centre, 2011), and (d) Governmental spending largely originates in oil revenue.

(a) The lack of governmental transparency has been affecting both states negatively over the past few decades. There has been rampant corruption and misallocation of funds that have not been disclosed to the public or to any international monitoring agencies. Nigeria has embarked in a process of increased transparency by trying to adhere to international standards; however, the lack of connectivity in its governance has complicated its transparency initiatives. In Venezuela, the issue of transparency has been constantly criticized. The citizens of Venezuela are afraid that there is little to no congressional oversight in governmental spending and in the allocation of petrodollars that are supposed to belong to the people. In both cases however, the governmental maintenance of a lack of transparency can be attributed to increased control over the oil industry that has been providing large sums of money.

(b) The issue of poor linkages between major industries is present in both states. Both Nigeria and Venezuela have been neglecting their agricultural and textile industries, as they have been acting mostly on the development of their oil industry. The lagging behind of the other major industries in the country is a concern for both, as in the long-term, oil is a scarce resource that has a finite timeline. Many analysts have emphasized that a good way to ensure future economic growth is by maintaining a well-rounded economy. In both the cases of Venezuela and Nigeria, the best way to approach the development of their other industries is by re-funneling their oil revenue into the state's economy, rather than haste spendings that cannot be identified and are often harmful.

(c) The issue of oil dominating the exports of both countries by a large margin is a concern because it reflects the state of the rest of the industries in the country. In the case of Nigeria, oil accounted for approximately 89% of its exports in 2011, and in the case of Venezuela for the same year, oil accounted for approximately 96% of its exports (International Trade Centre, 2011). The large percentage of exports that are centered on the oil industry affects the prospects of nationalization significantly. It is expected that both states, with such large dependence on oil exports, would be pushing for the nationalization of their oil industry.

(d) Governmental spending in both countries largely depends on the revenue generated by the oil industry. In the case of both nations, governmental spending can be done at the expense of the petrodollar. Both Nigeria and Venezuela have been spending a significant amount of the oil capital on expenses that in the past could not be identified.

CHAPTER IV.

HYPOTHESIS/EXPECTATIONS AND ANALYSIS

4.1 HYPOTHESIS

H: It is hypothesized that states that have experienced the Resource Curse in their first round of nationalization, are ready for successful renationalization that will exclude the resurgence of the Resource Curse.

4.2 EXPECTATIONS

The assumption is that governmental management capacity in oil exporting countries in general is strong, and that it is a major impact factor on the successful exploitation of a state's resources. Prior to testing the hypothesis for the cases of Nigeria and Venezuela, a few considerations must be made. Both states are very old oil states. The oil industry was developed around mid twentieth century in Nigeria and in Venezuela (with a slight difference of a few decades between them). Thus, in both cases, the initial exploration and oil industry development was under the control and guidance of large international oil companies that had the tools and history necessary to handle the oil industry lucratively.

Additionally, both Nigeria and Venezuela are very early members of OPEC, which is the most important oil cartel in the world. The OPEC membership suggests that Nigeria and Venezuela have been able to meet the standards set forth by the organization and have been implementing its policy requirements. The initial nationalization process was hasty in both cases, as the states were not prepared to take on the challenges of managing the oil industry. Here, the resource curse came into play in Nigeria, as it was unable to defend itself against the volatile market fluctuations in the international oil industry. Venezuela suffered similar economic losses, as it was not prepared to act in its own interest without risking having parts of the government blinded by the initial influx of revenue. In both cases the other major industries that have been carrying the economy prior to the oil period were significantly neglected and are still lagging behind.

The expectations for the findings of this study are that Nigeria and Venezuela have learned from their past difficulties and have made the necessary adjustments to have successful renationalization. Furthermore, it is expected that Venezuela, as the newly nationalized state, is more successfully managing its oil industry, in harmony with the development of the rest of the economy. Similarly, it is expected that Nigeria still has significant changes to make to its governmental handling procedures and to its policies, to reach a safe point of full and independent renationalization.

4.3 Analysis

When applying the Method of Difference, four similar variables have been chosen that have been identified in the case selection and in the literature review sections as being important to the development of the economy of a state that is heavily abundant in one natural resource. The four independent variables are instances in which both Nigeria and Venezuela show similarities. The variables are as follow: a) Lack of transparency in governmental spending, (b) Poor linkages between other major industries, (c) Oil as a primary export equals to or is over 90% (International Trade Centre, 2011), and (d)

Governmental spending largely originates in oil revenue. These variables represent negative aspects of a dominating oil industry, and aspects that need to be addressed by the government in order for renationalization to be successful and for the resource curse to be avoided.

Despite their similarities on the independent variables, however, these countries have very different outcomes on the dependent variable. Nigeria, having still a very active presence of international subsidiaries and of joint ventures between its national oil company the Nigerian National Oil Corporation, does not qualify as having a nationalized oil industry. While the presence of international oil companies continues to be strong, and the policies are not entirely under the control of the government, the Nigerian state will not have a nationalized oil industry.

Venezuela, on the other hand, being under the control of former president Hugo Chavez, has been undergoing significant nationalizations of a wider range of its industries. Its most important industry, the oil industry; however, does qualify as being nationalized as it is managed principally by the Petroleos de Venezuela, S.A. national oil company. Only strict agreements allow for any international exploration and it is only under specific partnership terms created by the PDVSA.

Thus, it is evident that there is a difference in the management that is undertaken by Nigeria versus that of Venezuela that would cause them to have a different outcome on the dependent variable, despite the similarities. It can be postulated that the difference is a result of the more developed nature of Venezuela's economy, and on the fact that it has a much larger reserve of oil. However, it also must be considered that for both states, oil represents a large part of the national economy, thus perhaps the individual sizes of the economies in gross comparison to each other is not as valuable. Proportionally, both countries need their oil industry and both countries need to even out their economies to continue economic growth and to assure themselves long term stability after the oil industry has expired.

If so similar in the independent variables, then what accounts for the differences in the outcomes of the dependent variable? A big important process that Nigeria is embarking, that is not visible with Venezuela is its gradual approach to renationalization. Nigeria has been taking many significant and cautious steps over the past few decades to increase its transparency measures, and to meet international standards for oil management. As opposed to Venezuela, which has a strongly centralized, vertical governance, Nigeria has been dealing with significant disconnect between its various levels of governance, as well as between horizontal governance.

Although it seems to be lagging behind in development when contrasted with Venezuela, its cautionary approach will most likely come to its benefit in the future. There are many changes it has yet to make, however, if it will choose to take the advice given by its international financial consultants, economic development from oil-based revenue can be in its future.

Venezuela, on the other hand, up until very recently has been dominated by a highly centralized leadership under president Hugo Chavez. His stronghold over

Venezuela's finances, and specifically over its oil revenue, has been a principal cause for its turmoil today. The *lack of transparency* and the *lack of initiative* to meet international standards for financial management have been harming the country over the years.

Considering the four independent variables, (a) Lack of transparency in governmental spending, (b) Poor linkages between other major industries, (c) Oil as a primary export equals to or is over 90% (International Trade Centre, 2011), and (d) Governmental spending largely originates in oil revenue, it is clear that Nigeria has been much more cautious. It has made significant progress in increasing transparency of government spending, in developing other industries nationally, as well as drafting up plans and having consultations with regard to improving its governmental spending. Additionally, a reason for the different outcome can be a result of the lack of connectivity between various governmental branches.

Venezuela has been classified as a highly centralized government with the majority of power being handled by the president. Nigeria has been more of a disconnected form of governance, where the individual federal states in the country were not managing communication or were not sharing policy goals and implementations. This lack of connectivity in Nigeria could also be the cause for a much more slowly moving development of the oil industry

CHAPTER V.

DISCUSSION AND CONCLUSIONS

5.1 RESULTS

The results of the analysis show that although countries with abundance in oil may face similar challenges, it is their approach to dealing with those challenges currently that may differ and will cause different outcomes on the dependent variable. The hypothesis states that countries that have experienced the Resource Curse during their first round of nationalization are unlikely to experience it again during renationalization, as their undertaking of nationalization a second time around means that they are able to overcome it.

The hypothesis is valid in the case of Nigeria, where it is evident that the state is not ready for full renationalization. Thus, along with progressively increasing the National Nigerian Petroleum Corporation's stake in the oil industry, it is also trying to put in place some checks and balances that will help the country from making the same mistakes it has made in the past. Analysis shows that Nigeria has characteristics of all of the four independent variables and because they are yet unresolved, it has chosen to maintain a gradual process of renationalization.

Nigeria's long-term plans made by the government for the management of the petroleum industry seem to be geared towards a more successful management of the oil industry. This successful management, in the case of Nigeria, is a multifaceted management project. Nigeria is working on evening out the distribution of its funding throughout all sectors of its country, not focusing only on the oil sector. This part of the project has a long way to go before it will be successfully completed, however, the drafted plan is the first step. Nigeria is also working on increasing the secure operation of its upstream and downstream oil industry. The successful completion of the goals set by the Nigerian government are dependent on its ability to maintain a long-term development mentality, which is the first step to overcoming the Resource Curse.

The hypothesis is not valid in the case of Venezuela because despite showing similar characteristic through the four independent variables it shares with Nigeria, the country chose to rush into the nationalization of its oil industry. The management of the industry is not the primary concern in the case of Venezuela. However, what is of great concern is the necessity for even development of its economy through the use of oil revenue. The concerns voiced by critics over the terms served by former president Chavez, show that that the country is lacking in many aspects of the oil industry management. Specifically, the lack of governmental transparency, the excessive governmental spending, the overdependence on oil industry for revenue, and the poor industrial linkages, have been harming Venezuela's economy since its nationalization.

For Venezuela to improve and maximize its use of its natural resource endowments, it should follow suit and aim to increase its adherence to international standards of oil management. The most important step for Venezuela, however, is the loosening of the centralized power so that more checks can be effectuated with regard to how funds are being used. There needs to be more transparency, and more even representation of the will of its citizens in the management of its oil industry.

5.2 Contributions and Limitations

This research paper on the management of oil industry merely aims to show that similarities in negative management behavior does not always suggest similarities in outcome. Some states remain blinded by the benefits of having an abundant oil sector, and continue to act irresponsibly, while others manage to overcome their immediate urges for spending and think forward, hoping for a better future for their country.

The contributions of this research is to show how countries can choose to overcome the Resource Curse challenge and still maintain sovereignty in the oil industry. The study shows that, as in the case of Nigeria, the process of overcoming these challenges is gradual and must be taken slowly so that in case certain policies are not as beneficial, there is room for change.

There are several limitations to this study as well. The case study can arguably be a negative factor in this situation, as it can be suggested that, from country to country, across all oil exporters, the differences are very evident, thus making this particular comparison of less value. Another limitation to the study is of resources and time, as there is always more room for extensive research and even experimentation.

5.3 Conclusions

This research paper begun by presenting the existing debate of the resource curse and identifying the key factors that dominate the existing theories regarding the state capacities in national oil production. As part of the introductory process, definitions of various levels of nationalization were presented. Additionally, the introductory chapter addressed the importance in oil exports and the significance of states' overdependence on one primary resource and one primary export.

The limitations of the oil industry were also presented through showing the findings of King Hubbert in 1969. Hubbert derived a mathematical formula to indicate that the oil resources of the planet that are proven have reached their peak and are soon going to decline in availability. This finding is important to this research paper because it further emphasizes the importance in having a well-developed economy. In the case of Nigeria and Venezuela, if oil will not be able to be the supply of their wealth in the more distant future, it is imperative that they develop other industries in order to have back-ups to support their economies. Upon completion of this research paper, the finite availability of oil is even more pressing as it shows that there is a definite timeframe during which states must take advantage of their oil abundance, as later, they will be unable to do so.

The theoretical framework presented the Resource Curse Theory and its specific characteristics. The theory shows various weaknesses that occur in a state's governance and oil management, such that it leaves the state at a great disadvantage. Additionally, the Resource Curse Theory occurs only as a result of a nationalized natural resource industry. The rest of the research paper focused on showing that the states that chose to embark in nationalization once again were either ready or getting ready to do so without risking the resurgence of the curse.

The methodology chosen was that of the Method of Difference through which similar characteristics in the case of Nigeria and Venezuela's oil management were presented in the independent variable, and dissimilar outcomes were presented in the dependent variable. This method was chosen because it allows for the identification of possible causes for the dissimilarities in the outcome of nationalization. The hypothesis states that nations that have had nationalization in the past, and that suffered from the Resource Curse, will only embark in renationalization if they will not risk suffering of the curse once again.

The study found that Nigeria and Venezuela were similar in four conditions: (a) Lack of transparency in governmental spending, (b) Poor linkages between other major industries, (c) Oil as a primary export equals to or is over 90% (International Trade Centre, 2011), and (d) Governmental spending largely originates in oil revenue. However, the study also shows that they were dissimilar in the outcome of their renationalization processes. Through the adapted definition of nationalization, it was shown that Nigeria did not nationalize its oil industry, while Venezuela did nationalize it. These differences could not be attributed to the independent variables, and thus alternative explanations were sought.

The Nigerian case agreed with the hypothesis, showing that this country learned from its mistakes in the first wave of nationalization. Cautious not to make the same mistakes, Nigeria has been taking a gradual approach to nationalization as it waits to nationalize fully until it reaches a higher standard of governance. The Venezuelan case, on the other hand, does not agree with the hypothesis as it has nationalized its oil sector before reaching the stage of mature oil handling. The premature nationalization is evident as a result of the shared independent variables between Nigeria and Venezuela that indicate the government's inability to manage its oil sector and oil revenue.

These outcomes can be attributed to a few factors that were presented in this text. Firstly, it could be a result of the different sized economies and the different size of the natural reserves between the two states. A proportional approach is important, however, such that consideration can be given to the great importance of oil for both economies. The high oil dependence would instill greater need to control the oil industry and to have the state's primary attention devoted to its management. This thought process often leads to the neglect of other industries that are not available to buffer the country from financial disaster in case of a crisis on the international oil market. In the case of states that have suffered greatly at the cost of lack of buffering, as is the case of Nigeria, there is a higher likelihood of a change in approach.

Overall, the most significant difference in the approach between the two states could be attributed to the differences in leadership. During both waves of nationalization in Venezuela, the president of the country was Hugo Chavez, and he was the main orchestrator of changes. The first wave of nationalization in Nigeria, however, was done during a military regime, while the approach to the second one that is planned for the future, is under the instruction of a newly elected democratic government.

For further research, there should be a wider range of countries used for comparison that are likely to undergo a stage of renationalization. Expanding the number of cases considered could help narrow down the possible causes for different outcomes. Additionally, further research can be done by separating the Middle Eastern OPEC members and seeing what factors are similar between them with regard to oil management and whether they have different outcomes on the dependent variable. Understanding cultural backgrounds as well as implications of political activity in economic decision-making is imperative because the management of the economy and political governance go hand in hand.

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