Bostock, Mark and Charles Harvey, ECONOMIC INDEPENDENCE AND ZAMBIAN COPPER -- A Case Study of Foreign Investment. Praeger, 1972. xx, 274 p. $18.50

Vernon, Raymond, SOVEREIGNTY AT BAY -- The Multinational Spread of U.S. Enterprises. Basic Books, 1971. x, 326 p. $8.50

For a significant number of African countries, the exploitation of natural resources is a major source of development finance. In the five year period 1965-70 the contribution of major minerals to export earnings exceeded 75% in Libya, Mauritania, Sierra Leone, Zaire and Zambia. Nigeria has now joined this group. The contribution of mineral income to gross domestic product for a number of countries -- including Gabon, Liberia and Mauritania -- in recent years has been about 30%. In Zambia in 1970 copper accounted for over 90% of foreign earnings, 40% of GDP and 52% of government revenue.

As these mineral-rich countries and others move into the decade of the 1970's, their attention is being increasingly drawn to methods of expanding their income from mineral development and increasing their control over exploration and exploitation activities. In the late summer of 1973 Libya announced that it would take over 51% interest in several major American oil companies. At about the same time President Kaunda announced that the Zambian government would take steps to gain a firmer control of the country's copper industry. A major focus of attention was to be a renegotiation of certain of the terms of the Government's 1969 take-over of majority interest in the operations of Anglo-American Corporation of South Africa and American Metal Climax.

Despite the importance of mineral development to many of the countries of Africa, as well as many other countries of the third world, little has been known, until recently, of the forces that facilitate and create change in investor-host government relations and of the terms of concession arrangements generally. Oil provides the major exception. The forces for change in that industry are well documented and a number of commercial services provide access to the terms of older and recently negotiated contracts. In the hard mineral and timber sectors, however, many developing countries have operated in a state of relative ignorance concerning developments in other countries and within particular industries.

The two books under review both make a major contribution to knowledge in this area. Bostock and Harvey's Economic Independence and Zambian Copper, using the 1969 take-overs of copper interests as a point of departure, provides documentation not only of the terms of the 1969 agreement and prospects for the viability of the new arrangement but also of the development of the Zambian copper industry since 1895. The take-over and subsequent agreement are put in political and economic perspective. Of particular importance are analyses of the tax regimes of the old and new concession arrangements as well as of such matters as valuation of assets, the management and consultancy contracts, and the sales and marketing contracts. Such data for other countries is difficult to come by.

The Zambian arrangement negotiated in 1969 provided for the Government's 51% share in the Zambian Anglo-American group and the Roan Selection Trust operations. Shares were to be paid for by issue of 6% loan stock to be paid off in installments every six months over 12 years (in the case of Zambian Anglo-American group) and 6% bonds to be paid off in installments every six months over 8 years (in the case of RST). It is these terms which, it is reported, the Zambian Government is now anxious to re-examine.

Raymond Vernon's Sovereignty at Bay is concerned with much more than the natural resource industries. Its general focus is on the "multinational spread of U.S. enterprises." However, for those interested in understanding the forces that affect country-company relations in the mineral industries, Chapter 2 (The Raw Materials Ventures) is worth the price of the book -- and more. Professor Vernon's main thesis in this chapter is that "the waxing and waning of the power of foreign-owned raw material enterprises . . . has been a function of (1) the scale of undertaking required for effective performance; (2) the complexity of the technology associated with the activity; and (3) the importance of captive overseas markets as an outlet for raw material." (26) His analysis provides what has long been lacking in the literature on concession arrangements: a framework for understanding why change (usually increased government participation) occurs in some industries and not in others. Why, for example, have oil and copper producing countries been able to take increasing ownership and control of operations in their countries while bauxite producing countries, in general, have not? Why have Libya and Nigeria, for example, been able to take substantial equity ownership of their oil industries?

Why have the events detailed in the Bostock and Harvey book been possible while other African countries, with different raw materials industries, have retained traditional concession arrangements?

Taking the seeming invulnerability of the aluminum industry from incursions by host countries and the apparently increasing vulnerability of the copper industry to the same forces as one example, Professor Vernon explains the differences in terms of the relative bargaining positions in the two industries. Bauxite is more widely distributed geographically than copper: copper companies have fewer countries to choose from in locating their operations. Perhaps more important, copper companies have been much slower than aluminum companies in integrating into fabricating stages and control less technology and fewer markets relative to aluminum companies. Copper companies, therefore, are more dispensable to host governments than aluminum companies.

The Vernon book offers the sort of analysis that lawyers have not been prepared to make in the past but which is essential if they are to provide realistic advice to investors and developing countries on concession arrangements and foreign investment policy generally. The Bostock and Harvey book and the Vernon book introduce elements of realism in a field which has long been shadowed by mythology and misconceptions.

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