

# ***AFRICA AND THE GEOPOLITICS OF WORLD OIL AND GAS: PERSPECTIVES, CHALLENGES AND OPPORTUNITIES***

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## **Overview**

Two fundamental factors underpin the continued global apprehensions about the sufficiency and security of global supply along the petroleum value chains in the 21<sup>st</sup> century. First, adequate and reliable energy supply, of which oil and more recently gas, the world's dominant energy source in the past half century, has been fundamental to the unprecedented and remarkable growth in the world economy, the significant improvement in material prosperity and social progress witnessed by the world's population during the period. Second, the geology and geography of petroleum have and continues to result in uneven global and regional distribution of oil and gas resources highlighted by petroleum resource concentration in relatively few countries. Thus, it is not surprising that since petroleum became an internationally traded commodity almost a century ago, the geographical concentration of proved hydrocarbon reserves in a small number of countries in a region deemed to be prone to political instability continues to generate contentious debate and apprehension in the evolving state of global energy markets. The economic, political and strategic responses to the dramatic changes in the structure, conduct and performance of the petroleum industry in the post-1973 period have had far reaching impact on global economics and geopolitics. Also significant, is the recent aggressive entry of China and India, two emerging global economic powers into the world oil and gas markets. Their strategic entry into the African oil industry has certainly added another dimension to global energy geopolitics. To put the problem in analytical perspective, a game theoretic framework is constructed to explore some of the dynamic and strategic issues connected with the political economy of global energy games. Subsequently, a number of issues are explored. Among these are: how has the geopolitics of oil and gas affected the Africa region; how African oil and gas are impacting the geopolitics of oil and gas; the future role of the Africa region in ensuring expanded access to a secure and stable supply of oil and gas to meet the world's energy requirements for economic growth and development; the challenges and opportunities presented by the geopolitics of oil and gas for African economic performance and international economic and political relations. The paper demonstrates the rising importance of Africa oil and gas in the context of the changing face of global energy geopolitics associated with the dramatic entry of China and India, two new and major players in strategic contests embodied in recent global petroleum games. Notably, we identify the key factors that make the region an important player in global oil and gas games in the medium term. We identify the key factors that make the region an important player in global oil and gas games in the medium term. Among these are the relative comparative stability of the African region, notwithstanding the crisis in Nigeria's oil producing Niger Delta region, the relative quality attractiveness of its crude oil and gas and its strategic location vis-à-vis the world's major energy consuming economies. Finally, we discuss the key issues and challenges confronting the development of Africa's hydrocarbon sector, in the context of global economic and energy security considerations, such that the region will effectively maximize the net benefit of its hydrocarbon exploitation and in the process use the income generated to underpin sustainable economic development in the decades ahead.

## **Methods**

The political economy issues associated with the global competition for energy, with focus on oil and gas, is framed in a game theoretic framework. The analytical framework to characterize the problem has three components. First are the players, which are identified as net importing and net exporting petroleum countries. OECD countries represent the buyers, while OPEC and non-OPEC producers would represent the sellers in this geopolitical game. The interaction among the players is assumed to be sequential, with the players making alternating moves in a dynamic repeated game framework. Second, are the strategic decisions of the two groups of players. Third is their payoffs. It is assumed that in their strategic decision making, they follow the paradigm 'of looking ahead and reasoning backwards'. The institutional setting for the game is the current global oil industry setup defined by OPEC on the one hand and the IEA on behalf of the major consuming countries, with the US as the dominant power. In its real form it is game of asymmetric information. The current geopolitical context of global oil and gas game is fraught with credibility problem. However, establishing and maintaining reputation and credible commitment that minimizes irrational behaviour by both the governments of consuming and producing countries is central to sustainable global oil and gas future that fosters energy security, minimizes geopolitical conflicts and ultimately benefits both the buyers and the sellers in the increasingly globalized world economy of the foreseeable future. Further strengthening consumer-producer dialogues as evident in IEA-OPEC meetings is a necessary step in the right direction though not sufficient.

## Results

The paper demonstrates the rising importance of Africa in the geopolitics of world energy especially in the context of the changing face of energy geopolitics associated with the dramatic entry of China and India, two major but new players in global petroleum games. We demonstrate the strategic significance of African oil and gas in the global context of real and perceived instability in the Middle East oil and gas supplies. Notably, we identify the key factors that make the region an important player in global oil and gas games in the medium term. Among these are the relative comparative stability of the African region, notwithstanding the crisis in Nigeria's oil producing Niger Delta region, the relative quality attractiveness of its crude oil and gas and its strategic location vis-à-vis the world's major energy consuming economies. The strategic significance of African oil and gas is highlighted in the global context of real and perceived instability in global oil and gas supplies in the Middle East, declining production profile in the North Sea and Indonesia, and uncertainties concerning production in Venezuela and Nigeria.

## Conclusions

The strategic dependence of the world economy and global politics on oil and gas underscores the economic, political and strategic significance of these hydrocarbons. The recent aggressive entry of China and India into the world petroleum industry, notably in Africa, has added another dimension to the geopolitics of hydrocarbons three decades after the first major upheaval in the world oil market. The global imbalance in demand and supply regions will continue to pose challenges for both energy consuming and producing countries. Clearly, oil and gas are likely to remain at the core of the complex of issues connected with global energy demand and supply equations and sustainable human development for many decades to come. Thus, while it is safe to predict that the debate on world energy geopolitics will not be settled any time soon, the nature and content of the discussions are bound to change as structural changes take place in evolving world energy markets and the global economy. Besides, the economic, environmental and political risks associated with the global economic and energy inequities suggest that these issues should not be underestimated at both the global and regional levels. The world has and would continue to live with the uneven distribution of oil gas wealth. Geology and geography have determined this position. However, income insecurity and poverty associated with the current grossly uneven distribution in global prosperity also has geopolitical implications that should also be addressed as decisively as energy security. Geopolitical issues associated with energy inequity should be of concern, however, this should not be to the neglect of the inequity in energy access that confront a large fraction of the world's population living in Africa and South Asia. In conclusion, the global agenda in the next few decades should be to bridge not only the energy gap but also the income gap which is more pernicious in its impact on the poor in developing countries.

## References

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