Oil Production and Its Impact On The Political and Economic Development of Nigeria

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ABSTRACT

The mismanagement of natural resources is not unique to Nigeria. Recent studies prove that states that depend solely on mineral exports tend to have slow economic growth rates, high levels of corruption, and in some cases, conflict. Nigeria is endowed with numerous natural resources and is Africa's largest oil producer. The resource curse will explain how economies with plenty resources are under developed because they depend on that single source of production and fail to develop other sectors. The underutilization of other sectors has caused hardship in the economy. Prior to the discovery of oil, Nigeria exported palm products: maize, cotton, cocoa, among others. The agriculture sector was fully utilized and provided employment and generated taxes and revenue for the country. Furthermore, the rentier state ideology, which explains that states which derive substantial portions of its natural revenue from the rent of indigenous resources to external clients, means that all or most state revenue is derived from its resources. While this appears profitable, it leads to a weak state. Oil production in Nigeria has not helped much in the country as remains marred by poverty and most of the rural population do not even enjoy the benefits of the country being the biggest oil producer in Africa and also one of the biggest oil producers in the world. This thesis analyses the impact of oil production since its discovery and how it affects the growth of the Nigerian economy. It explains how government institutions cause slow growth in the economy through bribery and corrupt leaders and the petroleum industry is plagued with corruption, militancy and oil theft. Regardless, oil still remains the major export and largest source of income for Nigeria.

Keywords: Corruption, Oil Production, Unemployment, Resource Curse, Natural Resources, Rentier States.

ÖZ

Doğal kaynakların yanlış yönetilmesi sadece Nijerya'da görülmemektedir. Son zamanlarda yapılan araştırmalar, yalnızca mineral ihracatına dayalı devletlerin yavaş ekonomik büyüme oranı, yüksek düzeyde yolsuzluk ve bazı durumlarda çatışma eğiliminde olduklarını kanıtladı. Sayısız doğal kaynağa sahip Nijerya Afrika'nın en büyük petrol üreticisidir. Nijerya gibi ülkeler tek kaynaktan yararlandığı için ülke içinde diğer sektörler gelişemiyor ve böylelikle ülkeler gelişmişlik düzeylerini yükseltemiyor. Bu durum kaynak laneti olarak açıklanmaktadır. Diğer sektörlerin yeterince kullanılmamasının ekonomide sıkıntıya neden olduğu görülüyor. Petrolün keşfinden önce, Nijerya palmiye ürünleri yanı sıra mısır, pamuk, kakaoyu ihraç etti. Tarım sektörü tamamen kullanılmış ve istihdam sağlanmış, ülke için vergi ve gelir tahakkuk ettirilmiştir. Ayrıca, devlet gelirinin tamamının veya çoğunun kaynaklanndan türetildiği anlamına gelen kiracı devlet ideolojisi, devletlerin doğal gelirlerinin önemli bir bölümünü yerli kaynakların dış müşterilere kiralanmasından türediğini açıklamaktadır. Bu karlı görünse de zayıf bir duruma neden olur. Yoksullukla uğraşan Nijerya'da petrol üretimi bu sorunun çözülmesinde pek fazla katkıda bulunamadı ve kırsal nüfusun çoğu, Afrika'daki en büyük petrol üreticisi ve aynı zamanda dünyanın en büyük petrol üreticilerinden biri olan ülkede yaşamanın faydalarından yararlanamıyor. Bu tez, keşfinden beri petrol üretiminin etkisini ve bunun Nijerya ekonomisinin büyümesini nasıl etkilediğini analiz etmektedir. Kamu kurumlarının rüşvet ve bozuk liderler vasıtasıyla ekonomide yavaş büyümeye neden olduğunu ve petrol endüstrisinin yolsuzluk, militanlık ve petrol hırsızlığı ile uğraştığını açıklamaktadır. Ne olursa olsun, petrol Nijerya'nın en önemli ihracat ve en büyük gelir kaynağı olmaya devam ediyor.

Anahtar Kelimeler: Yolsuzluk, Petrol Üretimi, Işsizlik, Kaynak Laneti, Doğal Kaynaklar, Kiracı Devletler.

DEDICATION

TO MY FAMILY

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LIST OF ABBREVIATIONS

BI	Business International
EFCC	Economic and Financial Crimes Commission
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
NCDB	Nigerian Content Development and Monitoring Board
NNPC	Nigerian National Petroleum Corporation
OPEC	Organisation of Petroleum Exporting Countries

Chapter 1

INTRODUCTION

Africa's largest oil-producing country, and holder of OPEC's largest population, the economy of Nigeria depends to a large extent on revenues from the trade of the country's vast oil resources. Oil was initially discovered in the country's Nigeria Delta region back in 1956 by the Dutch Shell company. Nigeria became one of the world's oil producers following its production of 5,100 bpd in 1958. Multinational companies were given both offshore and onshore expedition rights after the country gained her independence in 1960 (Tamuno, 2006). Government control of the domestic petroleum industry and its attendant subsidiaries has been carried out by the Nigerian National Petroleum Corporation following its establishment in 1977.

The Nigerian economy is greatly affected by petroleum products and exports as they account for over ninety percent of the country's income, which has cause other economic sectors to be ignored where oil is concerned. Nigeria is the world's 6th largest oil producer (putting out as many as 2.5million barrels on a daily basis) and the country's oil reserves have been estimated to lie somewhere between 24billion and 31.5billion barrels, which might only serve to worsen its dependence on oil (NNPC, 2016). The low sulphur levels found in Nigeria's Bonny Light Crude Oil means that it is of particularly good quality. The quality of the oil, coupled with its location in a region far from the tumultuous Persian Gulf, mean that Nigerian oil and gas would remain in high demand for the foreseeable future.

The problems currently facing Nigeria due to its vast mineral resources and its resulting dependence on said resources are hardly unique to it as numerous studies have shown that lower economic growth rates, corruption, and the deterioration of the economy are common in country's dependent on the export of minerals (see Sach and Warner, 1997; 2001). As a general rule of thumb, the more dependent a country is on mineral exports, the more likely it is to experience these and other economic problems even though the dependence is most likely beneficial for the relevant sector.

1.1 Statement of The Research Problem

A mineral economy is understood to be a developing economy in which a minimum of 8% of the country's income and 40% of the export income is generated by the mineral sector (Auty, 2007). Nigeria is one such mineral economy.

It is practically impossible to overestimate the importance of oil for the Nigerian economy as oil has consistently accounted for over 90% of the country's income since the oil-price shocks of 1973/4. Oil accounts for approximately a quarter of Nigeria's GDP and the lions share of government revenue. The level of dependence on oil for income has had several (often dire) consequences for the Nigerian economy. Nigeria has fallen victim to a host of sectional, ethnic, and religious countries since its independence. These conflicts have been exacerbated by the country's rampant economic, environmental, and educational inequality. While the discovery of oil has been beneficial to certain groups in Nigeria, many rural communities and states have fallen victim to high poverty rates due to oil exploration. Even the profits from oil export have had a questionable impact as a general lack of infrastructural development and low standards of living remain pervasive thus proving that oil revenues have been grossly mismanaged.

In light of this, this thesis explores just how crude oil has been beneficial for Nigeria as well as assesses how the production of oil has affected other economic sectors. The thesis also aims to offer a delineation of the various problems that have accompanied Nigeria's oil endowment – unemployment, economic and social instability, and exploitation. Examples of these will be offered so as to enable a practical understanding of how Nigeria's development has been affected by them. Also, the study will explore historical shifts in oil prices in addition to Nigeria's emergence as Africa's largest oil-exporter in supporting the notion that an over-reliance on a particular resource is an economic 'curse' as they are many other examples of resource-endowed countries that have failed to develop their economies. Nigeria's GDP since the discovery of oil will also be analysed in an effort to determine its highest and lowest points within the context of oil exports and prices, as will unemployment rates.

1.2 Research Question

How has Nigeria's economic and political development been affected by the availability of oil?

1.3 Aims and Objectives of the Study

With respect to political development, this thesis discusses corruption and economic development which will focus on unemployment and the neglect of other economic sectors, particularly the hitherto dominant agriculture sector. The term 'corruption' refers to activities aimed at exploiting the public; it entails a situation where public officials use the revenue from natural resources for their personal benefit (Klavern, 1954). The use of public office for personal gains may not be recognized as corruption provided there is a positive contribution in the society (Friedrich, 1966) although this is not the case most of the time.

This thesis aims to dissect the government's revenue misappropriation, the corruption that has plagued the management of the oil sector, and how non-oil sectors have been neglected, thus increasing the existing dependence on oil sector exports based on the understanding that developing economies dependent on their substantial natural resource endowments tend to suffer from high levels of unemployment, corruption, and poor governance (Omeje, 2008). The aim of the research question is to discover how the presence of natural resources (specifically oil) has affected the development of Nigeria's economic and political spheres, particularly vis-à-vis the future of the oil sector itself and income from it because while one would expect the volume of oil-related exports to translate into steady increases in GDP and general stability for Nigeria, the reality is that Nigeria's economic and political sectors have been plagued by mismanagement and corruption respectively, since independence (Sandbakken, 2006). Furthermore, feelings of neglect in terms of revenue allocation and inequality in certain regions in the country has fuelled unrest in recent years.

1.4 Significance of The Study

The present study is important in that it aims to examine what benefits have accrued to Nigeria as a result of its production and trade of crude oil, as well as the attendant problems. It also offers more specific understandings of terms like 'corruption', which have often lent themselves to various understandings, despite (in the case of corruption) being endemic to the Nigerian political system. Lastly, the study is important as the issues it takes into account are particularly pertinent to the current economic and political climate in Nigeria as evidenced by the fact that even the average Nigerian most likely has at least a basic understanding of them.

1.5 Hypothesis

Hypothesis H_1: Nigeria's dependence on oil production and exports has resulted in higher levels of political corruption amongst government officials.

Hypothesis H_2: Nigeria's dependence on oil production and exports has resulted in the neglect of other non-oil sectors of the domestic economy and lower employment levels.

Null Hypothesis H_0: No relationship exists between oil production and export, corruption, sectorial neglect, and unemployment levels in Nigeria.

1.6 Methodology

By taking Nigeria as its chosen case study, this study aims to achieve its stated objective of exploring how the economic and political development of a country are impacted by oil production. It relies primarily on secondary sources, such as statistics and reports gotten from the Nigerian government and the World Bank. The study covers the period starting from the late 1950s, when oil-drilling began in Nigeria, up until 2015 when a drop oil prices caused the Nigerian economy to go into recession. The data covering this period is sourced from the National Bureau of Statistics, the Energy Information Administration, and the Central Bank of Nigeria as well as oil prices and crude oil export volumes sourced from OPEC's yearly statistics bulletin. As a final note, the study uses a deductive approach in that it is grounded primarily in the work of similar studies.

1.7 Scope and Limitation

The present study is limited from its onset by the fact that it uses a single case study, as opposed to a comparative approach for example. This inherently limits both the reliability and applicability of its findings, especially in conjunction with its (somewhat limited) dependence on secondary sources. It explores whether or not oil-dependence or other factors are responsible for the Nigeria's inhibited economic and political development. The research is further limited by the challenge posed by the Nigerian bureaucracy, which restricts both the accuracy research and findings of the, and their generalizability. Lastly, the study is limited in that apart from corruption, hardly any other political and social variables are explored in-depth.

1.8 Theoretical Framework

1.8.1 The Research

Oil, and many countries' dependence on it, remains an important issue for the global community as a whole. African, Middle Eastern, and Asian, countries are some of the world's largest producers of oil, occupying seven places in the world's 15 top oil producers. Despite this, they are plagued by networks of bureaucrats and politicians who siphon the oil wealth leading to the question of whether oil is truly a blessing or a curse for these countries.

Auty (1994) coined the term 'resource curse' in an article titled "Industrial Policy Reform in Six Large Newly Industrializing Countries: The Resource Curse Thesis". He used the term to refer to the paradox whereby countries blessed with an abundance of natural resources tend to be plagued with slow-growing economies relative to countries lacking such resource endowments. Resource endowments are considered to provide a possible means of income to be used as capital for stimulating growth and increasing output levels (Sach and Warner, 1999). While technology spill-overs are typical in manufacturing industries, the same is not the case for resource-dependent economies, which are instead adversely affected by currency appreciation (Gillis et al., 1996), as are investment in sectors apart from that of the dominant natural resource and returns to human capita; (Gylafason, 2001).

As stated by a recent World Bank publication:

> Natural resource exports can damage institutions (including governance and the legal system) indirectly-by removing incentives to reform, improve infrastructure, or even establish a well-functioning tax bureaucracy-as well as-directly-by provoking a conflict to control revenues from the resources…There is growing evidence that this effect is the most problematic (Hartford and Klein, 2005).

Implicitly, while resource abundance has the capacity to be beneficial for countries with good institutions, the reverse is the case for countries with bad institutions (Mehlum et al., 2006). The quality of a country's institutions is understood by economists to be an important factor for the growth and development of the domestic economy (Easterly and Levine, 2003). While institutions are viewed by some as constant (Glaser et al., 2004), they are considered by others to be a reflection of the particular policies in place at a specific point in time (Knack and Keefer, 1995). Regardless of the position one takes, the fact remains that institutions are important for understanding the resource curse.

The resource curse emerges when a resource-abundant country concentrates its attention on the attendant sector while neglecting others leading to stunted growth (particularly of the other sectors) and even the little growth that is realised is to the sole benefit of the corrupt elite (Patrick, 2012). This is the situation in Nigeria, where poor maintenance, widespread unemployment, and civil unrest are rampant. The domestic oil sector, like the government, is plagued with corruption, which has resulted in inflation and debt accumulation (Uwakonye, 2006). Fortunately, policy makers have initiated efforts to eradicate corruption, defend the rule of law, and empower the human capital of public servants within the confines of the constitution (Pearson, 2005).

1.8.2 Models of The Resource Curse

There are three models of the resource curse: The Dutch disease, rent-seeking, and institution models.

The Dutch Disease

The terms 'Dutch disease' is used in economics in reference to a situation whereby there is both a thriving sector and other lagging traded-good sectors in the same economy. The booming sector draws resources from the lagging sectors, thus putting pressure on the latter and causing relatively higher prices for non-traded goods (Corden & Neary, 1982). This understanding is problematic in that it assumes a permanently adverse relationship between economic performance and resource-abundance (Akylebekova, 2015).

This model takes the economy in question to be divided into a tradable natural-resource sector, a tradable manufacturing sector, and a non-traded sector. In a natural-resource driven economy, tradable production activities are concentrated in the natural resource sector (Sachs & Warner, 1995). Such economies tend not to pursue export-led growth due to high prices and practically non-existent strategies to bolster exports (Bulte, 2008).

Rent-seeking model

According to Lane & Tornell (1999), distortionary redistributive practices (rent-seeking) – as opposed to a declining manufacturing sector as is assumed in the Dutch disease model – are the cause of slow economic growth. The rent-seeking model posits that there are no progressive wealth shocks as the natural-resource sector is inhibited by rent-seeking activities (Krueger, 1974). This model divides the economy into an efficient formal sector and an inefficient informal sector. The taxes gotten from the formal sector transfer wealth to powerful groups, who shield their profits from taxation by allocating it to the shadow sector despite is lower return rates (Lane & Tornell, 1999). This model is deficient however, in that it depends on institutions, which are contingent on the economy and the dominant-resource sector, and are themselves vulnerable to rent-seeking behaviour (Lane & Tornell, 1999).

Institutions model

Institutions are the vehicle through which natural-resource endowments affect the growth of the domestic economy (Mehlum et al., 2006). Mehlum et al. (2006) opine that only countries with sub-par institutions suffer from the resource curse. Botswana, with its low corruption levels and established institutions, is one country that exemplifies the natural-resource-led growth posited by the institution model. Despite an abundance of diamonds and the corresponding rents, the country has managed to establish a working socio-economic system. It converted the minimalist public service structure gotten from the colonial era into a relatively efficient corruption-free bureaucracy (Acemoglu, 2002), unlike Nigeria who took a turn for the worse post-independence.

Rent-seeking and production go hand-in-hand in economies with institutions favourable to producers as institutional incentives – lack of corruption, rule of law, bureaucratic efficiency, and the unlikelihood of the government retracting contracts – allow producers to pursue profitable rent-seeking activities (Kendall-Taylor, 2011). Producers however, have to work within legal and institutional limits when competing for resource rents, subsidies, contracts, and public support.

This model is deficient in that it fails to account for performance differences among countries with bad institutions. Like the institutional model, it also rejects the notion that there is a consistently negative relationship between economic growth and the abundance of natural resources (Lane & Tornell, 1999).

1.8.3 Rentier State Theory

A ‘rentier state’ is a state in which the majority of government income is accounted for by foreign revenue and the export of natural-resources (e.g. oil) – external rents (Mahdavy, 1970). The rentier state theory holds that countries that are wholly dependent on natural resource revenues are doomed to weakness (Mahdavy, 1970). This notion is particularly pertinent for Nigeria where oil accounts for the bulk of government revenue, which itself is concentrated with only specific societal groups.

According to Ross (2003), the rentier state is divided into (i) the people – rendered less democracy-conscious by the oil wealth – and (ii) the government – which is less concerned with economic development due to the oil wealth. The more salient aspect of the rentier state theory vis-à-vis Nigeria is that both the domestic economy and government revenue are largely dependent on oil-rents. The danger here is that while concentrated government spending and a few relatively developed cities present an image of growth and prosperity in the rentier-state, this is not representative of the country as a whole, which is often plagued by government neglect (Agah, 1958).

1.9 Structure of The Thesis

The remainder of the thesis if structured as follows: Chapter 2 provides a review of the relevant literature; Chapter 3 discusses the relationship between corruption in Nigeria and natural resource abundance; Chapter 4 discusses the Nigerian economy’s overdependence on oil and how this has negatively impacted the development of other sectors and its overall development in general; Chapter 5 provides a summary conclusion of the thesis as well as recommendations and a proposed direction for further study.

Chapter 2

LITERATURE REVIEW

This chapter analyses specific articles, books and other materials related to the resource curse and rentier state theories. It examines different authors' perspectives on the issue as gathered from various sources connected to the study. This review aims to explain why countries with abundant mineral resources underperform compared to those that are relatively less endowed countries, and to draw policy lessons.

2.1 Nature and Meaning of the Resource Curse

According to the World Bank, a mineral economy can be defined as one in which at least ten percent of the Gross Domestic Product is accounted for by mineral production, and mineral exports constitute over 40% of total exports (Auty, 2007). The abundance of natural resources, such as minerals, in a country, was generally understood to be positive in that it engendered economic and political development in a country. However, the underperformance of many countries blessed with natural resources, especially oil, has led to a revision of this position and the increasing acceptance that the abundance of natural resourced might be a curse, rather than a blessing (DiJohn, 2002).

The causal notion that resource abundance leads to poor growth, and in many cases, conflict in the concerned country, forms the basis for the resource curse theory. This notion is based on the observation that "that resource dependent economies and resource booms seem to lead to highly dysfunctional state behavior, particularly large public sectors [,] unsustainable budgetary policies" (Robinson, 2006), and official corruption, resulting in a violent competition for the resources amongst the citizens of the nation (see also Idemudia and Ite, 2006a; Idemudia and Ite, 2006b).

Economists discovered that countries with abundant natural resources, particularly in Africa and the Middle East, have the highest rates of poverty (Wenar, 2008). Over the years, attention has been drawn to the fact that despite the amount of oil, natural gas, and mineral resources within their borders, African economies have not attained sufficient levels of development and still suffer from high poverty rates and low per capita income. The standard of living in these countries is relatively low with slow industrial progress relative to the level of available resources while countries such as Japan, Singapore, Taiwan etc. have successfully attained the 'Western' standard of living despite being peninsulas with no natural resources to explore (Frankel, 2010). Nankani (1979) explains that growth in economies rich in mineral resources and their social welfare is menial compared to non-mineral economies at the same level of development.

Article 21 of the African Charter on Human and People's Rights states "All people shall freely dispose of their wealth and natural resources. This right shall be exercised in the exclusive interest of the people. In no case shall the people be deprived of it". This, however, is merely a theoretical rather than practical assertion as ultimately, those in government are after their personal interest rather than some 'societal good'. Proceeds from the resources are concentrated in the hands of the few and most times cannot be accounted for which encourages corruption because officials give and accept bribes for positions to be in control of these resources. The presence of natural resources makes countries vulnerable to the Dutch disease- a situation where resource rich countries struggle with poor economic performance. Collin and Hoffer (2002), argue that natural resources may increase the chances of a civil war in a country. Countries without natural resources have 0.5 percent chance of civil conflict compared to countries with natural resources that face up to 25 percent. Civil conflict is a result of failed institutions and the management of resources contribute strongly to the quality of institutions, natural resources reduces the aggregate income when institutions are import oriented, while income increases when institutions are export oriented (Collin and Hoffer, 2002).

Isham et al. (2003) state that natural resources affect economic growth through their negative effects on economic institutions and lobbying for the revenues gotten from the exploitation of said natural resources which is harmful to the economic and political institutions of a country endowed with them. Similarly, Polish writer Ryszard Kapuscinski (1982) argued that "oil is a resource that anaesthetizes thought, blurs vision, corrupts. Oil is a fairy tale and, like every tale, it has a little lie. It does not replace thinking or wisdom". Due to the revenue received from the trade of natural resources, governments have a tendency to become unconcerned with developing infrastructure, education, employment etc. as officials would rather divide the profits amongst themselves. This leads to a corrupt society as officials within the government try to outbid each other to acquire the wealthiest sector. This competition causes conflict in the society especially in ethnically divided societies.

According to Leif Warner (2008), the resource curse strikes a country that receives a large portion of their revenue from their natural resources. Overdependence on these resources leads to stagnant economic growth and inequality because the state apparatus is less likely to utilize alternative sources of income or as Shafer and Karl (1994) succinctly put it, revenues from resources makes policymakers narrow-minded. The abundance of natural resources can be a ‘curse' for various reasons; one being that the prices of products like oil is likely to depreciate in the foreign market for different reasons such as conflict, economic instability to mention but a few. The benefits attached to natural resources could also turn into a curse when miscreants and tyrants hoard the countries resources while using the proceeds to make the people worse off and subsequently subduing societal resistance (p.16).

Alan Gelb (1988), argues that ineffective mineral sector management leads to four major problems: an inability to save during boom periods, inadequate patterns of consumption and investment during economic growth, the neglect of the competitiveness of other sectors (e.g. agriculture) during the boom, and sluggish adaptation to the aftermath of economic growth downswing although Sachs and Warner (1995) suggest that exported goods could bring about minimum growth in other sectors in the economy as the government in developing states take close measures to collect incomes returned by foreign industries which have be recirculated albeit minimally.

A final concept related to the resource curse thesis that is worth mentioning is that of the “Dutch disease”. The notion of the Dutch disease explains that a rise in a country's resources (specifically in ‘rentier states’, a concept covered later on in this chapter, where income is based primarily on external rents) leads to stagnation in the economy as the state apparatus does not develop “reciprocal obligations with citizens via the nexus of domestic taxation” as it is wholly dependent on “unearned income” coming from the exploitation of natural resources (DiJohn, 2002). The concept of the

Dutch disease provides a clearer explanation of the deprivation experienced in many resource exporting countries (Corden, 1982).

In conclusion, the resource curse theory provides a unique theoretical approach towards understanding the causal relationship between resource abundance and the underperformance for many resource-rich countries. There are two schools within the broader theoretical framework. The first school, which this study is more closely related to, focuses on the economic features of resource-rich countries and is closely related to the rentier-state model claiming that resource wealth is closely related to poor economic growth and poor performance in the manufacturing and agricultural sectors. The second school on the other hand, focuses instead on the relationship between resource abundance and the occurrence of violent conflict contrasting the rentier-state model's prediction that resource rich countries are likely to experience internal stability due to the state's aversion towards collecting taxes (Bagaji et al., 2011).

The present state of development in Nigeria presents evidence in support of the main arguments of both schools within the resource curse theory (see also Ite, 2005). In the first instance, the tax collection system in Nigeria is relatively weak and there is an arguably systematic neglect of non-oil-related sectors in addition to the resource extraction based violence that has been a major problem for the country's Niger Delta region for over a decade.

2.1.1 Resource Curse in Nigeria

According to Olongula, Kareem and Raheem (2014), a strong public voice in addition to obligation, effective government, good coordination, and powerful anti-corruption policies are important for good governance. Consequently,

> "Nigeria's inability to decisively tackle most development challenges such as poverty, unemployment, security and deplorable state of infrastructure has been largely attributed to bad governance in all ramifications. These include political governance, economic governance, corporate governance and effectiveness of institutions" (Federal Government of Nigeria Transformation agenda" (TAFGN, 2011 in Gberevbie *et al.* 2014, p. 138).

Mehlum, Moene and Torvik (2005) argue that the development of resource-rich countries depends on how revenue is distributed by domestic institutions. An element of the resource curse is shown when the institution become 'grabber-friendly'. The presence of grabber-friendly institutions suggests that being a producer in the competitive natural resource revenue marketplace is a disadvantage (Mehlum, Moene and Torvik 2005, p. 11). Having bad institutions with poor governance and plenty natural resources, producers are influenced to become grabbers, which paradoxically leads to less motivation to produce. Therefore, understanding the resource curse in Nigeria requires an understanding of the relationship between bad leadership in domestic institutions and the resource curse itself.

In addition to the quality of domestic leadership, economic performance is also a vital aspect of the resource curse. It is argued that countries rich in natural resources experience poor economic, political growth and development (Rosser 2006, p. 13). According to Seers, "oil is often not the blessing it appears to be: it provides great opportunities, but the very nature of the industry also makes these nearly impossible to grasp and induce structural gains" (Ikpeze, 1999).

The Nigerian economy is struggling to displace the poverty that affects about 57 percent of its population despite its vast wealth from fossil fuels (Uka, 2009); to clearly understand the situation in Nigeria and why it persists, we turn once again to the concept of the 'Dutch disease'. In addition to its aforementioned assertions, this concept also argues that a state, which generates revenue through its natural resources, would experience an increase in the real exchange rate of its currency followed by a decline of its trade sector, and most likely its manufacturing sector as well. Furthermore, resource-rich countries with weak institutions experience 35-70% decreases in non-resource export goods and an increase in non-resource imports of approximately 35% (Ploeg, 2011). These phenomena are present in the case of Nigeria as evidenced by widespread poverty, low levels of trade in non-oil related good relative to the period prior to the discovery of oil, and the import of even some basic goods such as toothpicks.

In the article titled “Parallel Institutionalism and The Future of Representation in Nigeria”, Carl LeVan argues that there is a prevalence of an inadequate level of public trust towards the government in Nigeria as 81 percent of citizens feel the government is handling the domestic economy poorly (LeVan, 2015). One aspect of good governance is government efficiency and effective regulations; as such, this lack of trust in Nigerian institutions in terms of economic performance shows a corresponding deficiency in the Nigerian government’s regulatory activities. The article argues that the growth of resource rich countries depends on the distribution of resources and institutions, government performance is hindered by corruption and personal interest within the bureaucracy (Mehlum, Moene and Torvik 2005, p. 14).

The dominant argument regarding the relationship between government institutions and resource wealth is that the surplus revenue worsens the quality of the institutions especially in countries with already weak institutions because the external income allows the government avoid accountability and resist modernization (Ploeg, 2011). This point is intrinsic to the rentier state model covered below.

2.2 Scope and Nature of the Rentier State

Rentier state theory assumes that the leading cause of poor economic growth and political dictatorship in oil-dependent states is the harmful effect of external rent (Yates,1996). It helps us understand the problems related to the development in resource rich countries solely dependent on these resources. A rentier state is considered to be that which at least forty percent of total government revenue consists of economic rents (Bagaji et al., 2005).

Natural resource revenues are generated and controlled by the governing elite who expand it to their benefit rather than societal welfare. Two categories commutators include oil wealth makes states less democratic and oil wealth causes governments to do a poor job of promoting development (Omege, 2008). Developing economies with high rate of dependence on extraction and export of natural resources have correspondingly high rates of corruption, poor governance and mass poverty.

Beblawi demonstrates for a state to be rentier: it must be one in which rent stations predominate, the origin of the rent must be external, only a few engage in the generation of the rent and the government must be the principal recipient of the rent (Beblawi, 2015).

Although this theory is regarded too apply exclusively to the Middle East, this literature will only focus on the aspects relevant to Nigeria.

Fernando Cardoso, Peter Evans and Thomas Bierstecker argue that multinational corporations and factors of Western capital create the dependency in the third world. Under development is caused by dependency (Cardoso, Evans & Thomas, 1980). The rentier nature of the Nigerian economy consolidates the weak position of the Nigerian state in the global capitalist system. This renders the state relatively susceptible to capture by foreign oil companies and the rentier elites, to the detriment of local communities in the Niger Delta.

An article by Andre Gunder Frank posits a world system that divides the world into two spheres; an industrialized core and the under-developed periphery. The core exploits the periphery, making themselves richer and the rest impoverished (Frank, 1970). Governments have spent extra revenues not only on investments projects or debt reduction, they imprudently incur lasting expenditure commitments by using fluctuating raw material proceeds for permanent programs. They extend subsidies and social benefit schemes whose continuation the favored sectors expect, demand and fight for

Rentier State explains how the development of states relates to exploitation of natural resources. Despite the abundant oil and gas in a country, only a handful benefit from the income generated (Beblawi, 1987). He further highlights four qualities present for a state to be 'rentier''. Firstly, revenues coming into the country must be from export products, it must be an economy where the income from foreign product is the advantage of that country, just a few partake in the creation of the revenue whereas the rest of the population are consumers and finally, the government should be the sole beneficiary of the generated income (Luciani,1987).

Rentierism enhances state autonomy by eliminating economically motivated pressure groups and a segment of the bourgeoisie depend on the state. The rise of culturally based groups that consider economics as secondary, as observed by Collins (1980), these patterns of cooperation and clientele paint the picture of a tightening nexus between government and foreign capital; the bureaucracy and the managerial elite were coopted as shareholder’s while the commercial elite secured a niche in the alien-dominated distributive network and were therefore tied in as satellite through the alien monopoly of supply and credit.

As political power increasingly became dependent on allocations of petroleum revenues and and decisions in petroleum regulation, the social contract between politicians Nigerian Content Development and Monitoring Board(NCDB): they enact the Nigerian oil and gas industry content development act 2010, they aid indigenous contractors in developing to their capacity. The NCDB recruit workers eligible for the sector and the electorate become less critical for political control. As a consequence, the electorate’s perception of political accountability fades. These outcomes confirm the rentier state theory- that in a resource-rich and dependent country revenue control can become the main source of power- a problem Nigeria is faced with (see Ross, 2001; Yates, 1996).

Chapter 3

OIL AND CORRUPTION IN NIGERIA

This chapter will discuss the causes of corruption with an emphasis on natural resource abundance in Nigeria, it explains a few anti corruption policies established to reduce the level of corruption. Exploring the relationship between oil revenue and corruption is necessary in order to understand how countries with plentiful natural resources (agricultural products, food, fuels, etc.) can be economically derelict, with poor institutions, and weak governing policies.

3.1 Corruption and Resource Endowment

Schleifer & Vishny (1993) define corruption as "the sale by government officials of government property for personal gain" (p. 599). Similarly, Jacob Van Klaveren (1954) explains corruption as exploiting the public. Taken together, this implies that corruption entails a government official taking advantage of his office and using it for personal enrichment at the expense of the public. Corruption has a negative impact on the economic growth of every country although some commentators such as Freidrich (1966) do not recognize the use of public office for private benefit as long as the politician makes a positive impact on the environment or improves the welfare of the community.

Ross (1999) argues that revenue from natural resources weaken democracy and state institutions. Natural resources cause division amongst regions in a country, the region having the highest concentration makes excessive demands and tend to oppose the government when their needs are not met up with. According to Ross, there are three structures that explain how oil-rich countries weaken democracy: the modernization effect, the rentier or taxation effect and the repression effect (p. 298).

As Tsui (2011) suggests, when a government gets the oil rents they should reduce taxes on its citizens which in turn distracts the people from scrutinizing the governments and causes poor representation in the government. He further explains that oil-rich countries spend large sums on the internal security and military which weakens democratic aspirations. When the government gets these oil rents, they may patronize people with gifts or charity to distract the public or institutions from their political rights. More so, a state's fiscal policy is controlled by the type of regime: an administration that is sourced by oil rents tend to be more authoritarian while administration sourced by taxes appears more democratic (p. 104).

The modernization or group effect suggests that through oil grants and incentives, the government manages to pacify non-governmental organizations from demanding government accountability. Hence, oil hinders politicians and the population from pushing for a social change that results in a more democratic environment (Inglehart, 1997). Democratization can be re-introduced in such a society through improved educational systems, urban methods of communication and so on. The repression effect, on the other hand, emphasizes the restriction of the population's involvement in political activities.

3.2 Types of Corruption

Alan (1989) classified corruption into 4 categories: cost-reducing, cost-enhancing, benefit-enhancing and benefit-reducing corruption.

In *cost-reducing corruption*, civil servants try to lower the costs imposed on business enterprises by government regulations below their normal levels. For example, the state regulator can eliminate all taxes owed the government by a business or lower them substantially. Also, the civil servant can exempt the business owner from complying with certain state regulations, further reducing the owner's transaction costs. In exchange for services provided the entrepreneur, the bureaucrat is given a certain percentage of the cost savings generated (Haque and Sahay, 1996).

Cost-enhancing corruption means that politicians who control stocks of public goods try to extract rents from potential customers by requiring they pay for free goods by charging them a price higher than the government approved price. In many instances, the politician charges customers a price for goods. Politicians who issue permits for businesses to enter economic sectors closed by government regulations (import, export) may extract part of the monopoly profit that is supposed to accrue to the owner of the permit. This means the politician illegally taxes economic activities (Tanzi,1998).

Benefit-enhancing corruption explains that politicians provide more than necessary public benefits to individuals and groups. The receivers in turn give up some additional benefits to the politician. This form of corruption is dominant in African countries. Incumbent leaders provide resources to supporters that incite violence and cause instability in the system i.e. military officers (Johnston, 1997).

Lastly, *benefit-reducing corruption* suggests that politicians unlawfully hinder benefits due private citizens from the government. For instance, the director of a public office may delay the distribution of benefits to pensioners, save the funds in a different account at a bank, and subsequently divert the accumulated earnings for his personal use. This is another dominant form of corruption in African countries, where civil servants are more aware about public affairs than citizens (Alam,1989).

3.3 Causes of Corruption in Developing Countries

In most developing countries, the level of corruption in the public sector is more than in the private sector. Government intervention means how much control a government and its administration have in the economy. This means officials have a say as to who has access to these revenue, the level of participation and how much? (Klitgard, 1998). This suggests that government institutions are vital to the determinants of corruption. Apart from government interference, other determinants include development level, freedom of the press, economic integration. (Lassen, 2003). Lambsdorff (1999) argues that government intervention does not increase or reduce the level of corruption in a country, rather poor institutions are the major determinants of corruption. Corruption occurs in several ways but it is generally related to various government activities.

Becker (1968) explains that the probability of committing a crime solely relies on the probability of getting caught. Furthermore, the restrain of the penalty heavily depends on the willingness of authorities to enforce relevant rules and acceptance by the citizens of the judgments provided by institutions. Political stability and transparency are important conditions for effective anti-corruption strategies. In other words, countries facing political instability are unlikely to have the political strength to effectively empower judicial institutions, and situations of complex rules and procedures are unlikely to bring about the necessary understanding and support (p.11).

Krueger (1974) estimates that rents generated by government regulations in import licenses exceeded 5 percent of national income for India in 1954, suggesting that rents made from the imposition of trade regulations are quantitatively and theoretically important. It implies that the degree of openness to foreign trade should be an important factor in determining the level of corruption in Nigeria.

Rauch and Evans (1999), conducted an experiment in 35 countries and concluded that the extent of corruption is high in countries in which civil service recruitment and promotion depend less on merit-based considerations. Natural resources incomes are sold at much higher prices than extracted, Sachs and Warner (1995) explain that resource-rich countries are mostly subject to rent-seeking behaviour than poorer countries. Specifically, they discover that most of primary products export in total exports is associated with indices of bureaucratic efficiency, though not at the conventional level of statistical significance.

3.4 Corruption in Nigeria

Corruption is deeply rooted in most African countries rich in natural resources; it is one of the major factors behind the stagnant development in the region. The public sector is filled with fraudulent activities. Leadership in Africa (especially in Nigeria) is perceived as a way to acquire wealth instead of a means of service (Ayittey, 2006). Heads of government, ministers and holders of public office in general have been known to abuse their positions in regards to foreign loans and contracts; they embezzle funds stored in foreign banks, divert finances needed to fund federal projects, and exaggerate amount for foreign projects.

Nigeria's economy boomed during the early 1970's when oil was newly discovered, it accounted for 90 percent of their income and generated over 80 percent in revenue. The proceeds from resources were either squandered or spent on extravagant projects, for example, they moved the capital to another state which cost billions of dollars.

Corruption has plagued government services in such a way that passing through customs bribes have to be paid, pay police officers at checkpoints, pay secretaries at the ministry to make an appointment, pay your way to certain offices to be awarded job contract. Government officials take bribes as much as they give them, including pay reporters to create a good story about them to the public.

Most Nigerians believe corruption started during the military regime before the election in 1999. At the time there was so much money from the oil fields that the treasury was a haven for incoming generals, this included lawmakers and governors. Unpaid civil servants survived by selling their services (Ayittey, 2006). By the end of 1996, a local magazine exposed how an ex-government official lavished $214,000 on his birthday party, an audit in 1994 disclosed nearly a third of the country's foreign debt was spent by the military rulers, of which some had fled the country (Nigerian Times International, 1996). After the death of the military president in 1996, the incoming president inherited a country in a financial disaster. For more than year, 108 senators approved legislations and a budget after stalling for months, they approved budgets which included $50 million for furniture in their homes and offices (New African, 2000).

By the end of 2004, the Nigerian treasury received up to $450 billion which was unaccounted for, it is believed that that money was siphoned into individual pockets as is usually the case (Ayittey,2006). This did not create a good image for the country as it became the most corrupt country in the world.

Since independence there are several ways oil has affected democracy. It is important to state that various factors have played an important role: democracy appears to be weak and unstable in low-income countries, such as Nigeria, and democracy has deteriorated in African countries in general (Ross, 2003). Industrialization gives rise to a larger, more influential, urban working class, which tends to make a more stable and democratic government. Several studies suggest that natural resources tend to make states less democratic, this effects works through three mechanisms.

First, when a government has abundant natural resources, it less likely to impose taxes on the general population; yet the taxation process typically forces government to become more accountable to their citizens (Lam and Wantchekon 1999). When the government keeps taxes low, they avoid inquiry from their citizens. Secondly, a government with natural resources spend largely on military forces; by developing a more repressive apparatus, they are able to undermine movements that challenge their authority (Leamar et al. 1999). Finally, democracy evolves from societies undergoing industrialization process gives rise to a larger, more influential, urban working class, which tends to make for a more stable and democratic government. Oil development delays industrialization by causing the Dutch disease which weakens democracy and harms the poor (Watts, 1997).

3.5 Consequences of Corruption

The general consequence of corruption is that it lowers economic growth, this occurs in different ways. In the presence of corruption, entrepreneurs are aware that part of the proceeds from their investment may be claimed by corrupt officials. Bribes are required in order to get permits, corruption can be a form of tax through harmful, given the need for secrecy and uncertainty that comes with it which in turns reduces interest to invest (Messersmith, 2003).

Mauro (1995) proves that corruption reduces economic growth and investment: the magnitudes of these effects are considerable: a one-standard –deviation improvement in corruption indices drawn from Business International (BI) cause investment to rise by 5 percent of GDP and the annual per capita GDP growth rate to increase by half a percentage.

Recently, transparency is viewed as one way to reduce corruption in resource-rich countries. Transparency in a government can be defined as the public getting access to information, reliable economic, social and political information (Shaxson, 2007). Transparency is important for good governance as it gives room for accountability, therefore absence of transparency makes corruption less risky, makes it difficult to find honest politicians and creates more rent-seeking opportunities. Politicians can either be upright or corrupt; when he/she is corrupt it implies he/she takes outside their given salary but an upright politician gives the actual price on oil rents and receives a fixed wage with certainty (Kauffman and Bellver, 2005). A bribe is a sort of compensation to the politician for exaggerating the amount in oil rents for a given company which reduces the company tax. Corruption can be amended if large fines are introduced, cost from getting income from bribes gets them sacked.

Democratic accountability is important in resource-rich countries. Studies show that oil interrupts democracy, it is an aspect of the rentier effect. Having the sole ownership of the oil revenue the government limits the urge for democratization, by patronizing their supporters with gifts, positions in the public sector etc. (Ross, 2001). An example of this dynamic can be found in the cases of oil rich countries like Saudi Arabia and Iran that have failed to make a transition to democracy.

However, it is quite difficult to link between transparency and corruption in countries with abundant resources. Looking at Angola and Liberia, they become more transparent after their various civil wars according to the press freedom index. Corruption, on the other hand, only ended in Liberia, this means democratic accountability improved in Liberia but not in Angola and also also explains the conditional effect of transparency (Reinikka and Svensoon,2005).

Bac (2001) argued that as much transparency exposes corrupt politicians, it also tells us the ones to bribe. Transparency reveals to potential bribers who they need to establish contact with to get an unfair advantage. This means a transparent government makes it easier for an oil company to identify the officials it needs to be bribe for example health regulations.

Fox (2005) further explained that certain kinds of information have unplanned consequences. He discussed a situation whereby an incumbent politician is well informed on the consequences of his actions than the electorate, but acting on this information can be misunderstood as being bias. This could result in a politician who wants to be re-elected to vote against his better judgment. Sharing information on the subject of discussion, for example the efficiency of oil companies, will have beneficial effects because it will be more difficult to misrepresent political decisions.

Recent studies emphasize how the resource curse stresses the importance of effective institutions for transforming resource rents into favorable development outcome. There are two conditions that explain institutions as a factor that prevents corruption-related problems that are at the center of the resource curse (Mehlum et al, 2006). One is that resource rents attract people out of productive activities and into rent-seeking. The idea is to increase the attractiveness or profitability of the productive sector, through improved institutions like the rule of law (Prat, 2005). Robinson et al, (2006) explains that the resource curse arises as a result of patronage, because politicians use the rents to gain political support, particularly through the inefficient allocation of jobs in the public sector. As such they suggest the key to avoiding the resource curse are institutions that restrict the ability of governments to distribute public sector positions to political supporters, that is institutions of democratic accountability.

The second condition relates to the inefficient delivery of good and services. Corruption causes waste and inefficiency in economic development as contractors and suppliers fall short on delivery because they have bribed an official and as such they are overestimated and cash advances are given on the side to officials (Ayittey, 2003). Inferior work is done: the roads are poorly constructed and everything washes away immediately rain sets in. The dilapidated infrastructures in Nigeria are the results of contractors who fail to do their jobs, the education system is failing, health care amenities are either unavailable or taken for personal use. Not much attention is given to the state institutions because public offices are not given based on knowledge and experience but on personal connections (Mbaku, 2010). The decay spreads to all other areas of government; the judicial system is plagued with bribes and cases are settled out of court with bribes.

The institutional breakdown and inability to provide basic social services creates an unfavorable atmosphere for development. The cost of doing business is high in such an environment because there is little or no security, unstable electricity and water and the application process tends to be rigorous (Perotti, 1994).

Lastly, corruption restrains foreign investment. For many years Nigeria has been the hub of Africa's largest market for many reasons including the fact that it has the continent's largest population and its second largest economy. However, with the increasing problems of poor infrastructure, political stability, religious conflicts and corruption there has been a decline in foreign direct investment. According to Herman Cohen, a former US assistant secretary of state to African affairs in 1991 he asked 'why should foreign investors be criticized when African rulers use their power to steal the country's resources and do not invest in their own country'. He further stated that in the past 10 years' governments have exported over $20 billion yearly into foreign accounts and invested in real estates (Africa insider, 1994). This means that the leaders do not believe in the security of their country is not a good image to portray to potential foreign investors.

3.6 Efforts to Mitigate Corruption

3.6.1 Transparency International

It is a non-governmental organization established to control corruption and bribery in over 100 member countries. It was founded in 1993 by Peter Eigen a former world bank director and others with headquarter in Berlin, Germany. It aims to work with governments to put an end to corruption as well as seeks the prosecution of corrupt leaders and the confiscation of illegally acquired properties. It has certain codes of conduct which it adheres to in an effort to ensure credibility and accountability. Transparency International also looks to raise awareness on the problems of corruption. It compiles an annual list of the most and least corrupt countries in the world. Nigeria ranked 136th in the years 2014, 2015, and 2016 of 174, 167, and 176 countries respectively (Transparency International, 2014; 2015; 2016). This tells how deep the level of corruption within the country. Transparency international offers help to the Nigerian government to investigate the oil sector because therein lies the problem and solution. They also call on the government to strengthen anti-corruption agents and increase transparency in the investigation on asset recovery.

Transparency initiatives need to be effected by the government and subject to government interests (Transparency International, 2011;2013; 2014; 2015; 2016).

3.6.2 The Extractive Industries Transparency Initiative (EITI)

It is a global standard that encourages free and accountable management of natural resources, it considers key issues surrounding governments and the oil and gas sectors. Established in 1993, Nigeria became a partner in 2004 and meaningful progress has been achieved. The EITI is aware that poor maintenance of natural resources leads to corruption and conflict, they advocate for more transparency in the extractive sectors.

Their EITI's mantra is that oil rents belong to the country and so ways to collect, distribute and use the rents should be clear and acceptable to everyone (Brunetti and Weder, 2005). Upon membership, countries are expected to satisfy 4 conditions before implementing the EITI. However, an argument against the EITI is that corruption begun a long time ago and this initiative might just be a little too late to be effective, also countries and companies' may choose to be involved and follow up if they become members (Verdier, 2006).

3.6.3 The Economic and Financial Crimes Commission

This is an agency in the Nigerian government that investigates criminal and corrupt practices, is an instrument by the government to prosecute corrupt officials. Established in 2003, it has been successful in impeaching corrupt leaders and lawmakers.

Noble as the agency may appear, its implementation raises questions. Adewale (2007) insists that the commission most times picks on corrupt officials who are not on the team of the president, which may be due to a change in political party or an election. The agency was also used by the presidency to scrutinize candidates for public office, which is wrong as it is not provided in the constitution. The EFCC is supposed to act under the law when handling corrupt cases but the leaders have appointed their loyalists which in turn affects the credibility of this agency.

To make the EFCC more credible, legal obstacles need to be eliminated. One of the major problem is immunity of the president, governors, lawmakers and aristocrats, which has prevented proper investigation and prosecution. These public office holders have abused immunity, illegal activities has been overlooked as a result. It is a strong belief that the elimination of this clause will be a breakthrough in fighting corruption because these officials control 90percent of the natural resources and continue to waste resources when in power (Ajayi, 2007).

Chapter 4

OIL, THE NEGLECT OF OTHER SECTORS, AND UNEMPLOYMENT IN NIGERIA

This chapter will discuss the overdependence of the Nigerian economy on oil production and exports as they relate to a lack of development in the Nigerian economy and suggest that the development of other sectors – such as agriculture and tourism – has been negatively affected by this dependence. It will further suggest that an overall diversification of the economy to accommodate other sectors would lead to an increase in the country's overall productive capacity.

4.1 Oil as the Bane of the Contemporary Nigerian Economy

As Ross (2013) points out, it is nearly impossible to exaggerate the importance of oil for the economy of Nigeria. In the years following the first oil price hikes of 1973/74 when the price nearly quadrupled, oil exports have consistently accounted for over 90% of Nigeria's export income with some years decisively more excessive than others e.g. the year 2000 when the figure stood at an alarming 99.6%. The government's decision to focus its attention on the oil sector therefore is understandable in light of the fact that in the nine-month period following the spike in oil prices, its net revenues nearly quintupled (Schatz, 1984).

The primacy of oil in the Nigerian economy continued even after the oil boom ended in 1977 and Nigeria is currently one of the world's largest oil producers and in addition to accounting for the bulk of the country's export income, the petroleum sector has also been the country's primary source of foreign exchange (approx. 90%), accounting for 25% of it's GDP and about 80% of the government's total revenues (Watts, 2004; Umar & Abdulhakeem, 2010).

The Nigerian economy's inordinate reliance on the oil sector has led to a host of negative repercussions for the country's economic and social spheres. In an effort to illustrate this point, following is an analytical look into how the economy of the country has suffered by exploring the ways in which 1) non-oil sectors of the economy have been neglected and 2) the Nigerian economy itself as a whole has been left extremely vulnerable to exogenous shocks followed by an exploration into the ways social life has suffered due to the dependence. The latter part of the discussion takes unemployment as its object of concern because unemployment is one economic variable that is almost directly linked to society itself. Further, as determined by Umar & Abdulhakeem (2010), in addition to GDP and money supply, oil prices also exert a significant influence on unemployment in Nigeria.

4.2 The Nigerian Economy Prior to the Discovery of Oil

Historically, agriculture was the mainstay of the Nigerian economy and helped to shape the country's political and economic sectors (Abolaji, 1985). Prior to the 1956 discovery of large oil deposits in the country's Niger-Delta region, the Nigerian economy was primarily agrarian with cash crops, such as rubber and groundnut, serving as drivers of the exports as well as the local economy in that the agricultural sectors provided the foreign exchange necessary for the import of non-domestically produced raw materials and capital goods. This trend continued even after independence in 1960, at which time cocoa was the country's primary export commodity (Adenugba & Dipo, 2013).

During this period, various economic indicators such as unemployment, inflation, and productivity remained within acceptable limits as did domestic demand. Several protective measures were also put in place by the government to ensure that domestic industries were afforded the opportunity to grow. Ironically enough, the agriculture sector was heavily taxed and the foreign exchange earned from the export of agricultural produce was used in the development of other sectors, such as education and healthcare amongst others (Folawewo & Olakojo, 2010).

Agricultural production was a national enterprise in that each of the country's regions had specific products it specialized in: cotton, hides, and groundnut in the North, Cocoa in the South-West, and rubber and palm-produce in the South-East.

From 1970 onwards, Nigeria's agricultural exports and revenues began to experience continuous declines as did the agricultural sector itself. To put the change into perspective, agriculture exports stood at an average of 72% of the country's GDP between 1955 and 1969, fell to a low 35% at the start of the 1970s, and continued to drop even lower in subsequent years although it began to pick up, albeit gradually, at the start of the 21st century accounting for 41% between 2000 and 2007 (Folawewo & Olakojo, 2010).

The reasons for the initial downward trend are threefold. First, low global agricultural products prices discouraged exports and eventually had a limiting effect on production itself (Okpuno, 2016); secondly, the eruption of the civil war in 1967 led to a decrease in migrant workers for the local farmers causing them to experience rising production costs in addition to the already falling prices (see Mustapha, 1999 for a discussion as it relates specifically to cocoa farmers); and lastly, the oil price shocks of 1973-74 led to an increase in oil revenues and a subsequent re-ordering of the country's economy so that oil replaced agriculture as the primary driver of the Nigerian economy.

Overall, prior to the oil boom, agricultural and commercial activities dominated the Nigerian economy. The picture was not all the way rosy however as the economy also suffered from a neglected informal sector, unequal development due to the government's biased policies, weak institutions, amongst others (Online Nigeria, 2003). Problems that the government failed to solve before the oil boom and were only exacerbated and simultaneously concealed by it.

4.3 The Neglect of Non-Oil Sectors in Nigeria

The Nigerian economy, despite its overdependence on its oil & gas (petroleum) sector for revenue, also comprises a number of other sectors. These include the agriculture, manufacturing, textile & clothing, mining, services, and tourism sectors. The primacy of the petroleum sector in the Nigerian economy has left the development of these other sectors lagging. The growth of the Nigerian economy therefore has been unbalanced as some sectors (such as petroleum) have been allowed to grow while others haven't thus causing the country to remain classified as a developed country (Adenugba & Dipo, 2013) despite its potential. Schartz (1984) terms the Nigerian economy therefore, as an "inert economy" – one that reacted passively to increased revenues and has no growth generating power outside of the oil sector.

The agriculture sector of the Nigerian economy serves as the best means of illustrating the neglect of the nation's non-oil sectors as it was dominant prior to the oil boom. Speaking on cocoa production, Mustapha (1999) argued that the oil boom did not create subsequent problems but merely accentuated existing faults. The same conclusion can be drawn for the sector as a whole. As has been noted earlier, prior to the beginning of the oil boom, agriculture was the mainstay of the economy. The benefits the government realized afforded it the opportunity to undertake a domestic modernization project, which it did.

The resultant policies were aimed at reviving dying sectors of the economy, particularly agriculture but were unable to do so due to the macroeconomic context within which the policies were enacted. In the first instance, the government's wider developmental agenda was somewhat biased against the agricultural sector in that resources were being channeled to other sectors which had the additional effect of drawing labor away from the sector. Moreover, the government's monetary policy over-valued the naira leading to lowered domestic profits for farmers (especially as production prices such as the cost of labor were on the rise) and cheaper imports, which encouraged importation as opposed to the consumption of domestically-sourced produced. The overall effect therefore was a decline in the agricultural sector (Mustapha, 1999; Ojo, 1988). To put this in perspective, while Nigeria currently exports the majority of West Africa's tomatoes, it is now the largest importer of tomato paste (Green, 2013).

Regardless, agricultural exports still constitute the lions share of Nigeria's non-oil exports contributing up to 41% of it's GDP between 2001 and 2007. This, despite their low price elasticity of demand, which means that even when their prices are reduced, as in an export boom, their export volume remains low meaning they generate less income (Folawewo & Olakojo, 2010). The Nigerian economy could be said therefore to be oil and agriculture driven (Gokmenoglu *et al.*, 2016).

Although it has since been relegated to second place, the agricultural sector of the Nigerian economy has been fairing relatively well (particularly in recent years) in comparison to other non-oil sectors of the Nigerian economy. The manufacturing sector for example contributes ~10% of the country's GDP annually, 8.59% in the third quarter of 2016 well below the agricultural sector which contributed 24.09% in the same period (NBS, 2016), and employs ~12% of the workforce (Tokunbo, 2017). This revelation is particularly striking when we take into account the fact that in many other advanced and even developing countries, manufacturing contributes more to the economy than agriculture (Adediran & Obasan, 2010).

The manufacturing sector, concerned with the conversion of raw materials to finished consumer goods (Adenikinju *et al.*, 2005), has particularly suffered from government neglect and bureaucratic ineptitude. Despite efforts to boost it by directing banks to dedicate specific percentages of their loanable funds to the sector, foreign exchange restrictions on 41 items crucial to the sector [and the agricultural sector as well] by the central bank have led to the shut down of 50 companies in the sector. Infrastructural inadequacies and currency devaluation have also led to an increased cost of production. Coupled with the present recession, the manufacturing sector has been forced to shrink even further (Tokunbo, 2017) with a total of 820 companies closing up shop between 2000 and 2008 according to the Manufacturers Association of Nigeria. Consequently, as is the case with agriculture, the country is forced to import even the most basic commodities such as soap and toothpicks that could just as easily be produced domestically (Ngene *et al.*, 2016).

It is worth mentioning that the monoculturalistic emphasis of the Nigerian economy on oil exports makes little logical sense considering 1) that oil deposits are depleting and thus will eventually run out, and 2) that there are 34 other types of minerals in the nation, none of which contributes significantly to the nation's revenue (Nworu, 2017). Policy makers have therefore been inept in that even if they preferred to focus exclusively on the export of natural resources, even this area is easily diversified to include resources other then crude oil. In fact, even the oil sector itself has not been given adequate attention as exemplified by the collapse of all the local refineries forcing the the country to import refined oil (Otaha, 2012). As Aluko (2007) succinctly put it, our oil is the finest and most qualitative in the world, yet we consume the crudest and worst quality oil domestically because rather than refining it locally, we keep our refineries idle and import abandoned foreign oil.

Moreover, the abundance of government revenue from oil exports has caused it to invest in numerous sectors best left to private enterprises thus crowding out private investment (Akinlo, 2004). While this in of itself is not a bad thing, government investment tends to be biased and further accentuates problems caused by the monocultural nature of the economy, which in an interesting twist only causes it to rely more heavily on oil for revenue (Osuntogun *et al.*, 1997 in Adenugba & Dipo, 2013). There is no viable domestic private sector in the country and even the significant private firms (such as Cadbury and Guiness) are foreign owned (Otaha, 2012).

Summarily, the growth of the non-oil sectors of the Nigerian economy had historically been limited due to their neglect and even the limited growth that was achieved has dwindled overtime (Schatz, 1984). The high oil revenue kills incentives to invest in non-oil sectors thus reducing their overall size and competitiveness (Otaha, 2012).

4.4 Oil and the Vulnerability of the Nigerian Economy

The dependence of the Nigerian economy on oil revenue has made it particularly susceptible to extremely volatile and externally determined marked prices according to Taiwo *et al.* (2012) who found crude oil to exert a significant and almost deterministic effect on the growth of the Nigerian economy. This has led to significant problems in fiscal planning and reduced the consistency of public spending as the bulk of the government's budget depends on oil revenue. Oil exports therefore, are not a viable means of national development (Otaha, 2012). Furthermore, the growth of the economy as a whole is exogenously driven as it relies almost exclusively on crude oil prices (Umar & Abdulhakeem, 2010) which have also been found to marginally affect domestic industrial production through its effect on exchange rates (Ayadi, 2005).

Even during the oil boom years, oil revenue failed to effectively stimulate domestic demand and much of the revenue leaked out of the economy in the form of payments for foreign goods and services or in other ways since domestic supply was insufficient (Schatz, 1984). Increases in domestic demand therefore, rather than stimulating domestic economic expansion, have translated into increased foreign expenditure and other forms of external transfers. Arguably, this would not be the case if 1) the economy was not so dependent on oil and other sectors had been afforded the opportunity to grow; 2) the abundance of foreign exchange had not made imports so artificially cheap; and 3) domestic (agricultural) supply was able to meet domestic demand (Tokunbo, 2017).

These harsh realities are further exacerbated by the fact that the oil sector itself is only marginally linked to the domestic economy itself. As Otaha (2012) points out, of all the oil companies operating in the Niger-Delta region, none of them is owned by Nigeria/Nigerians. The proverbial ‘national cake’ is not baked by Nigerians but foreign firms. This has caused Nigeria to lose some of its sovereignty as in addition to the influence wielded by the larger oil firms like Shell and British Petroleum, importing states such as the United States and China have been known to occasionally dabble in domestic affairs; particularly when they concern the Niger-Delta region.

The recent drop in global oil prices have had adverse effects on the Nigerian economy. The government, in response, has adopted various strategies aimed at boosting the non-oil sectors of the economy and stabilizing it. Despite these efforts, the performance of the non-oil sectors has remained very much below their potential (Adenugba & Dipo, 2013) which is particularly troublesome given the current recession and low global oil prices. In the past, oil revenues kept the country’s external reserves flush but reserves are dwindling fast due to the country’s reliance on imports and the inability of oil revenues to counter the resulting decrease in reserves (Proshare, 2016).

4.5 Oil-Dependence and Unemployment in Nigeria

The neglect of non-oil sectors of the Nigerian economy and the resultant lack of economic activity has led to increases in unemployment. The causal logic here is simple – as activity in the other sectors has declined, the demand for labor has experienced simultaneous declines (see Obadan & Odusola, 2000) despite increases in GDP, FDI, and other economic indicators driven primarily by the oil sector (barring the recent recession and other similar instances over the years). In an ideal setting, labor freed from the shrinking sectors would be absorbed by the emerging sectors – in this case, oil – thus keeping employment levels relatively stable. In reality however, the exclusivity of the oil sector and its capital intensive nature means that it is unable to do so.

For example, the share of labor employed by the agriculture sector shrunk from 64.1% in 1981-85 to 53% in 2001-2007 (Folawewo & Olakojo, 2010), an 11.1% decrease, while unemployment increased from 3.9% in 1986 to 12.7% in 2007 (Kolesnikov, 2014), an 8.8% increase. The similarity in changes between a reduction in activity in the nation's leading sector after oil, and increases in its unemployment rate demonstrate how oil dependence and the subsequent neglect of other sectors has adverse consequences for the country's socio-economic life. Furthermore, the central bank restrictions on goods needed in the manufacturing sector mentioned earlier and the subsequent close of businesses also contributed to unemployment in the country (Tokunbo, 2017).

From the foregoing, it is evident that the reliance of the Nigerian economy on a capital intensive sector such as oil has contributed directly to the nation's unemployment rate. Further evidence lies in studies such as Subhan (2008) & O'Nwachukuwu (2017) who found variables such as manufacturing, increased domestic economic activity, and government expenditure to have a negative impact on unemployment; the economy's dependence on imports, which also had the adverse effect of increasing the country's external debt burden which in turn has had adverse effects on employment levels (Boboye & Ojo, 2012); and lastly, revenue shocks resulting from the volatility of oil prices which also negatively affect employment levels (Abubakar, 2016).

4.6 The Diversification of the Nigerian Economy

One of the campaign promises of the administration of incumbent President Muhammadu Buhari was to diversify the economy away from its dependence on oil exports and revenue. The diversification of the economy is intended to occur on two fronts: domestically in production, and internationally in terms of exports.

According to President Buhari, the policies being enacted by his government were intended to boost domestic manufacturing and attract investment to the country's mining and agricultural sectors with the added intent of reducing unemployment (Nwabughiogu, n.d.; Vanguard, 2017). One way in which the government is trying to achieve tis is by restricting firm's access to forex for the import of certain products that are available domestically including palm oil products, glass, toothpicks, rice etc. (CBN, 2015; Ejide, 2016).

The inability of Nigeria to become self-sufficient even in terms of basic food items such as rice only accentuates the need for domestic diversification (Nworu, 2017). The diversification of domestic production in various sectors is important for the growth of the economy as proven by studies such as Nghene *et al.* (2016) who found manufacturing to have a statistically significant effect on overall economic performance. A new medium-term agricultural promotion policy was introduced by the government for the years 2016-2020. The policy laid emphasis on food security, job security, import substitution, and more importantly, economic diversification (Olakunle, 2017). In line with this new policy, the government launched a new cashew plantation initiative in 2016 starting with the South-Western Osun state (Yusuf, 2016).

According to Dunn Jr. & Mutti (2004 in Adenugba & Dipo, 2013), Nigerian policy makers would do good to adopt an export promotion strategy, which involves encouraging domestic production for exportation [in addition to at least relatively meeting domestic demand]. The further contend that such a strategy however, would depend on economic diversification and an expansion of non-traditional (oil) exports.

The Nigerian Export Promotion Council maintains that the potential benefits that could be realized from the diversification of exports include: increases in foreign exchange which will assist in financing other sectors, employment creation, improvements in living standards, business expansion, etc. These benefits are thought to aid the growth and development of the economy as a whole (Adenugba & Dipo, 2013).

In conclusion, while Buhari's efforts thus far are commendable, it is necessary that in addition to the focus on agriculture and attracting investment to the country's non-oil sectors, a general industrialization plan is necessary to fully diversify the economy and boost the country's GDP (Mbaegbu, 2016). It is evident that the overall performance of the Nigerian economy has remained consistently sub-optimal due to the neglect of the country's non-oil sectors. In a study aimed at determining the relationship between FDI and growth in the Nigerian economy, Akinlo (2004) determined that FDI has a lagged, small, and statistically insignificant effect on the growth of the Nigerian economy thus supporting his argument that extractive FDI (in the oil industry) is not as growth inducing as manufacturing FDI (and arguably investment in all other sectors with more forward and backward linkages). He does however suggest that FDI in the oil sector could be more growth inducing if the sector is integrated into the economy. Alternatively, the diversification of the economy could have similar effects.

Chapter 5

CONCLUSION

The resource-curse thesis posited by Auty (1994) describes how it is that countries with an abundance of natural resource endowments tend to fair worse economically than those without. The contention is that this is the result of such countries choosing to focus all their economic capacity on the resource's sector while neglecting all others, leading to underdevelopment. Even the little growth that such countries manage to realise unfortunately is threatened by the practices of corrupt government officials. Nigeria, Africa's most populous country, and with the largest known reserves of petroleum and gas in sub-Saharan Africa (Gboyega, 2011) can be said to be suffering from the resource-curse as exemplified by the primacy of its oil sector to the detriment of all others.

The search for oil initially began in 1903 and culminated in its discovery in the country's Niger-Delta region in 1956. Following the discover, the sector was dominated almost exclusively by foreign corporation up until domestic companies began to become more involved in the sector in the 90s.

Nigeria became a member of the Organization of Petroleum Exporting Countries (OPEC) in 1971 and created the state-owned Nigerian National Petroleum company (NNPC) in 1977, which began operating in 1980 with 100,000 barrels daily (Odeyemi and Ogunseitan, 1985). Presently, the country's oil sector is undoubtedly the most important sector of the economy as it provides the bulk of the governments revenue and foreign exchange.

While the dominance of the oil sector was a welcome development (for some at least) during the initial oil boom years, sentiments have since changed in this regard as the cost of oil-dependence for the Nigerian economy and society at large seem to outweigh the benefits. In addition to the socio-economic disadvantages of oil in Nigeria, the oil sector has also been faulted for the lack of environmental control that has led to numerous environmental hazards manifesting in the country's Niger-Delta region (Shinsato, 2005).

In recognition of the fact that the importance of oil-production for Nigeria cannot be overemphasized, this thesis set out to explore and explain just how it is that oil dependence has affected Nigeria i) politically, with regard to the rampant nature of corruption, and ii) economically, with a focus on the neglect of non-oil sectors and unemployment.

In the first case, it appears that the primacy of oil for the Nigerian economy has contributed to the persistent corruption in the country. This has occurred in at least two ways. Firstly, government officials have been known to collect bribes from firms in the sector for contracts, drilling rights, amongst others, the prices of which are additionally padded with the surpluses going into their pockets. Secondly, government revenue from the sale of petroleum products is often embezzled and hidden in foreign banks while domestic infrastructure suffers.

There have been recent attempts by the federal government to curb such practices, most notably through the establishment of the EFCC in 2003.

The influence of oil-dependence on Nigeria's political sphere is not limited exclusively to corruption. It has also somewhat mitigated the efficacy of the country's democracy as the abundance of oil revenues have allowed the government to forgo taxes over the years. This has resulted in poor representation and a placated public, uninterested in scrutinizing the government.

Economically, it was found that the dependence of the Nigerian economy on oil production has indeed negatively impacted the development of other sectors of the economy, and also contributed to unemployment in the country. Prior to the discovery of oil, agriculture was the mainstay of the Nigeria economy. Due to the fact that it was labour intensive and had many forward and backward linkages, unemployment levels remained reasonable as did the overall state of the economy.

Following the oil boom in the early 1970s however, other sectors of the Nigerian economy such as agriculture, manufacturing, and mining, were relegated. Governmental neglect of domestic non-oil sectors led to reduced private investment in such sectors thus impeding their growth over the years. The resultant reduction in economic activity in such sectors contributed to unemployment as the the labour released from said sectors could not be absorbed by the capital-intensive extractive oil sector.

Furthermore, the oil dependence has left the Nigerian economy extremely vulnerable to exogenous shocks as oil prices and export chains are externally determined. As recent years have shown, sudden reductions in either global oil prices or demand for oil has the capacity to send the Nigerian economy into recession.

For these reasons, efforts at diversifying the economy away from, and thus reducing its dependence on, oil are underway. These initiatives have thus far achieved slow albeit positive results.

Summarily, the benefits of oil for the Nigerian economy have failed to be realised fully and the country's dependence on oil revenue has enabled corruption amongst government officials, unemployment, as well as contributed negatively to the development of other sectors of the economy.

5.1 Recommendations

Two interrelated recommendations follow from the discoveries of this study. Firstly, while the government's present efforts at fighting corruption and diversifying the economy are no doubt commendable, there is a need to intensify these efforts and seek additional support from other stakeholder to ensure maximum efficiency.

Secondly, to ensure that the problems outlined above are completely eradicated rather than simply mitigated, it is also necessary that domestic agencies are strengthened to enable them tackle these problems. This recommendation is particularly salient in regards to the judiciary so as to ensure that it performs just as it should, particularly where corrupt officials are concerned.

5.2 Direction for Further Study

While this study has done just what it set out to (explore how Nigeria's dependence on oil has affected it politically and economically), further study is necessary to explore the impact of this dependence on more specific aspects of Nigerian political or economic life. Furthermore, such studies ay employ a more comparative line, both for different sectors within Nigeria itself, and Nigeria and other countries.

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