Nigeria: Another Victim of the Oil Curse or a Rare Survivor?

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Though the discovery of oil in the Niger River Delta in 1956 was first seen as a godsend for a nation who had recently freed themselves from the fetters of colonialism, it was not so. Government corruption and incompetence, foreign and corporate manipulation, and long-rooted ethnic conflicts and militant insurgencies exasperated by the former two have took their toll on Nigeria. This series of unfortunate events left the country in arguably no better position than if they had never struck oil. However, there is a case to be made that these problems are *because* of oil rather than *in spite* of oil. That is, Nigeria is afflicted with the nefarious oil curse.

More broadly known as the resource curse, this ailment is defined as the counterintuitive trend in which developing countries with vast amounts of natural resources—especially oil—end up being economically, politically, and developmentally inferior than a similar country with less resources. The oil curse has been known to empower dictators by financing their regime's grasp on power; stifle democratic institutions by making governments less reliant on tax money and more reliant on oil revenues which are notorious for being clandestine and volatile; perpetuate the patriarchy by creating jobs predominantly for men, diminishing industries which predominantly hire women, and expanding social services that cater to women and children; and leave countries more susceptible to civil war and terrorism. Nigeria has exhibited these symptoms in the past and has made a shaky, tenuous recovery, though certain areas have improved at slower rates than others and still face possible remission.

As seen in figure one, the importance of oil's role in the Nigerian economy cannot be understated. As a percentage of Nigerian GDP, oil rents play a significantly bigger role in government revenues than tax revenues do. The International Monetary Fund found that Nigeria's $87 billion oil and natural gas export revenue accounted for 58% of Nigeria's 2014 total government revenue while oil and gas made up

95% of the country's total exports. This linkage between oil rents and government revenues creates two problems: it is volatile and gives politicians incentives to be secretive about their source and magnitude. It also makes them substantially less beholden to the will of the people.

The latter point is seen in the disparity between the country's thriving economy and the hundreds of millions of Nigerians living on a median income of roughly five quarters a day. The per capita GDP (PPP) of Nigeria ($5,123) suggests that the country is twice as better off as Tanzania (PPP $2,111), but a deeper analysis shows that they share "similar levels of typical well-being as measured by median income or consumption," showing the misleading nature of oil wealth (Diofasi and Birdsall).

Figure three illustrates that employment in the oil sector (itself within the industrial sector) is relatively small compared to the service and agricultural industries. This alludes to the fact that the majority of oil wealth is produced by and allotted to a small minority of the population. The concentration of oil wealth in the hands of a few (often determined along ethnic or political line) has been the fuel of many of the country's armed conflicts. The allure of extravagant black market and relative ease of access due to Nigeria's reliance on pipelines has also enticed many Nigerians to partake in oil theft, further hampering the country's oil production and therefore its economy (Ross).

Though Nigeria was an agricultural powerhouse at its inception, the discovery of oil triggered another ailment in the country: the Dutch Disease. Investments shifted from the agricultural to oil and Nigeria's once-promising agricultural sector floundered. Although seventy percent of the population is employed in the agriculture sector and although Nigeria is one of the world's leading producers of rice, it is still a net importer of the staple crop because most Nigerians are engaged in subsistence farming.

According to Nigeria's Ministry of Budget and National Planning, oil rents as a percentage of Nigerian real GDP have decreased by a few points in the past couple years. Economic growth in the country has slowed down as a result, placing Nigeria in a recession. As Nigeria began to see less of its revenue come from oil, it began making up for the difference by expanding its agricultural and services sectors, thereby alleviating some of the Dutch Disease's symptoms. In figure three, the gap between oil exports and total exports in the 21st century has become more pronounced. The growth in agriculture and services also coincides with increased female participation in the workforce, as seen by figure three.

While the oil curse largely focuses on the self-sabotaging actions and policies of oil-producing nations, it often seems to downplay the role oil companies and oil-consuming countries play in the degradation of producer's political institutions and economies. An article in the Journal of American History suggests American oil companies amplified ethnic and political tensions in post-colonial Nigeria by running a misinformation campaign. This was done in order to prevent the country from enacting a Libyan-style tax decree that would cut into their profits. The passage of the tax decree at the end of 1966 did not deter the oil companies' ambitions. They continued their hit campaign, even using fake pseudo names to write scathing newspaper articles against the proposal. Their campaign used fake statistics and numbers to make it seem that only certain regions of Nigeria would benefit from the proposal, further stoking ethnic tensions. The article found that

> U.S. oil companies' antitax campaign contributed to the regional and ethnic tensions that led to the outbreak of war. Opacity played a central role in their tactics, both through the dissemination of incorrect information (even if unintended) and the posturing employed in their threats to shut down production. (Klieman)

In short, the actions and influences of American oil companies in the emerging oil industry of post-colonial Nigeria laid the foundation for the opaqueness that *still* stains the country's oil industry.

A 1997 African Economic Research Consortium report written by Ademola Ariyo suggested "Better monitoring and transparency of operations within the petroleum oil industry will also ensure a significant increase in total government revenue" (33). Since the advice has yet to be taken two decades later, I believe it is about time it is given another look. Too much money has been squandered through patronage and the indiscriminant granting of duty waivers and government contracts for public sector projects, particularly within the oil and natural gas industries. Inadequate or missing tax information are also major impediments to true economic reform in Nigeria. The IMF warned that "unless the trend was urgently improved, [the Nigerian] governments' ability to effectively finance infrastructure and meet other pressing socio-economic obligations would continue to be constrained" (Ogbonna). In the words of Ariyo's report, Nigerian authorities must "squarely address this problem to enhance the usefulness of tax policy as a tool for effective macroeconomic planning and implementation" (34). Once foreign investors and companies feel secure that their money will not be squandered due to corrupt bureaucracies, they will be more likely to invest more of it. This capital should be used to increase offshore production and refinement capabilities—ones that are less susceptible to terrorist exploitation and are more efficient.

Nigeria should then use newfound oil profits to further develop its export-oriented service sector in order to inoculate themselves from any further instances of the Dutch Disease. Quotas that allot a certain amount of service jobs and political seats to women are encouraged, if not, required. These quotas, when administered properly, can help promote gender equality. Increased gender equality would lower fertility rates (currently at 5.5 children per woman), and—coupled with increased transparency in oil revenues and new opportunities provided by the service sector—would likely result in higher incomes and raise the standard of living for most Nigerians, regardless of their geographic location or ethnicity.

Nigeria has the potential to become a serious international player and a leader in Africa, but can just as easily become a seething hub for terrorist networks. "The long tradition of politicians and governments controlling the oil export business and pocketing the proceeds" must be stopped in order for Nigeria to succeed. Nigeria can break this tired tradition by diversifying the country's economy and exports, thus dissipating the influence of crooked, self-interested middlemen, politicians, and businessmen. But attempts to diversify the Nigerian economy will be moot if average citizens are unable to purchase the goods they produce. Nigeria's path forward will require a multi-pronged approach which: weens the country off its oil dependence; emphasizes the role of its agricultural and service sectors; fosters transparency and democracy; and promotes gender equality and economic opportunity for all.

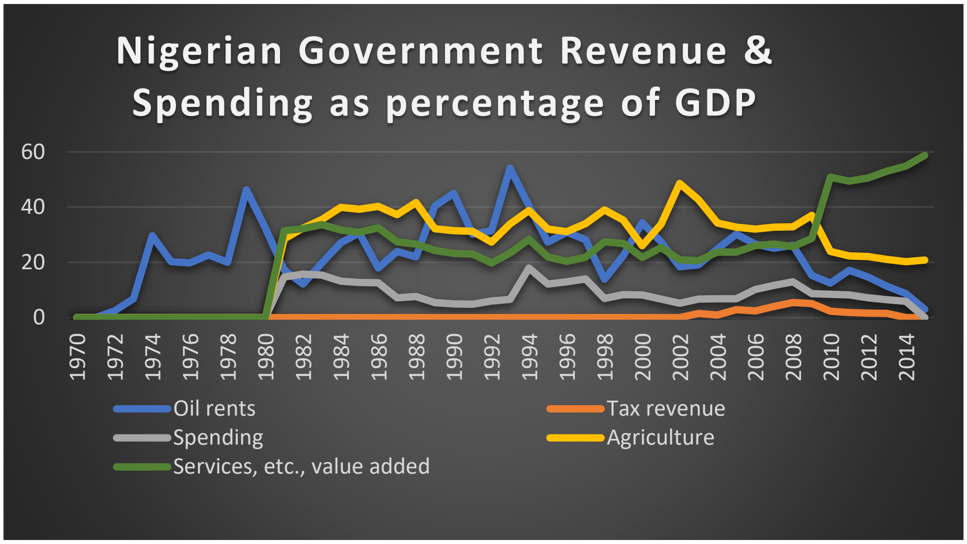
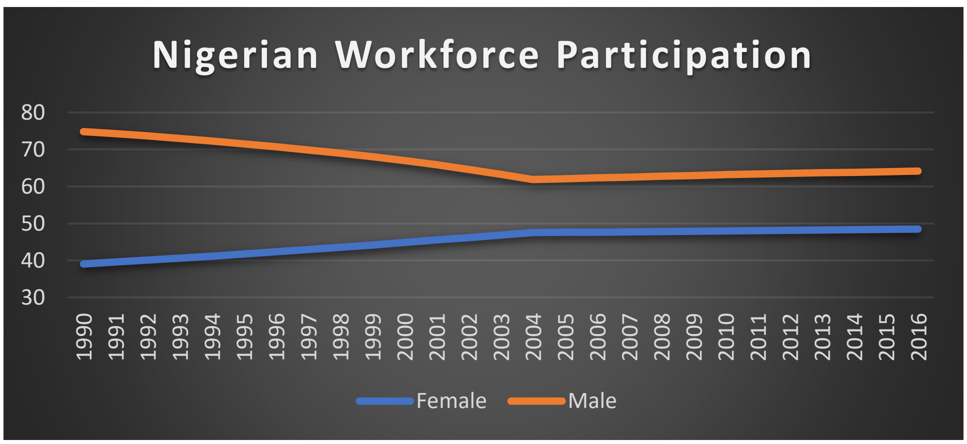


Figure 1. Data from the World Bank.



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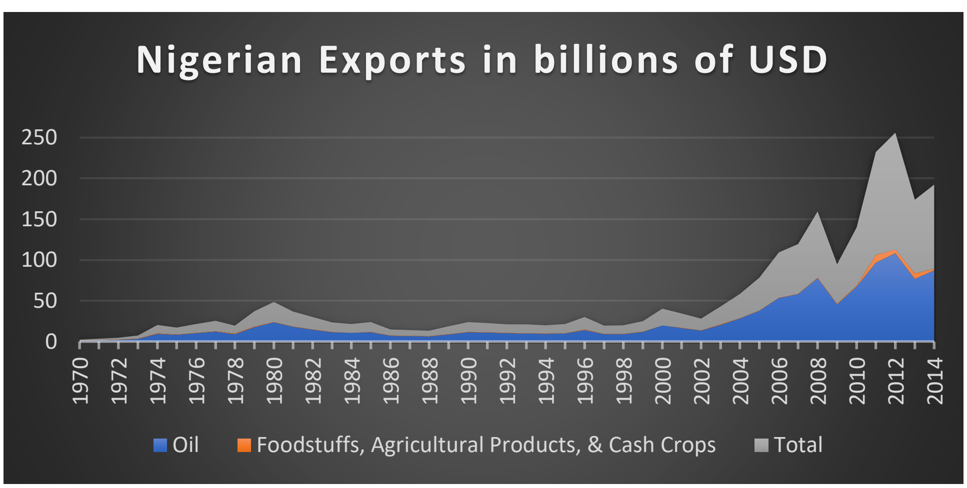

Figure 3. Data from the World Bank.

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