

# OIL WEALTH AND NIGERIA'S ECONOMIC DEVELOPMENT: A HISTORICAL PERSPECTIVE

*John C.N Ukwumah*

## **Abstract**

This paper examined the role of oil wealth in Nigeria's over-all economic, political and social development. Since Nigeria's independence other sectors of the economy had suffered palpable neglect over the years. Since independence, however, money from oil has effectively displaced agriculture and other non-oil sectors of Nigeria's economy as sources of revenue for the Government. With the increase in oil revenue receipts, the preference accorded agriculture by the Federal Government has continued to reduce especially from the 1970s when oil boom provided the Government quadrupled earnings. It is the contention of this paper that diversifying Nigeria's economy is important to the social, political and economic development and transformation of Nigeria. Revitalization of the agricultural sector, sound and practical policies and sustainable strategies for implementation and exploitation of non-oil sector of the economy will remain the cornerstone of Nigeria's relevance within the global economy.

## **Introduction**

In the past, the basis of economic development among most communities within the Nigerian environment was agriculture. Many of these communities during the pre-colonial and colonial period depended solely on agriculture. The most important variable in the practice of agriculture was (and still is), the climate. Different crops were cultivated by communities in various parts of Nigeria. The crops produced reflected the differing cultural disposition and environment of different ethnic groups in Nigeria. Most parts of Northern Nigeria crops such as groundnut, millet, cotton, guinea corn among other crops while the mainly tropical South engage in yam, cassava, palm oil, cocoa, maize, cocoyam production. Livestock farming was (and still is), a very important aspect of the local economy.

The Niger-Delta produced crops such as rice, palm oil, cassava, salt, rubber, while fishing boomed as a reflection of the people's environment. The elevation of man from searching for food and cultivation of crops was a common feature of most societies thousands of years ago. Most of the notable kingdoms in the Nigerian area derived their prosperity and growth from agriculture. Agriculture became the basis for the emergence of notable empires such as Oyo, Benin, Kano, Kan em-Bo rail, etc.

The Eastern, Northern and Western regional governments regarded agriculture as the basis for the transformation of the economy. For instance, the North derived so much revenue from the cultivation of groundnut and cotton while cocoa and palm [produce became major staples for the West and East. The revenue derived from the exportation or these crops invariably increased the expending profile of the various regional governments. This specialization of production of certain crops became the norm in the absence of any distracting alternative. Emphasis on the cultivation of crops for domestic consumption and exportation was vigorously pursued and encouraged by Government. The regions also depended on earnings from the exploitation and exportation of solid minerals. The budget estimates, revenue profile, development plans and expenditure were based on income from agriculture and solid minerals sectors of the economy. It was noted that;

'The little money that was available was to some extent judiciously spent' (Ukwumah: 2000, 258)

Indeed, revenue from agriculture and solid minerals created a very delicate balance between realistic income and expenditure. A greater percentage of the country's foreign earnings come from agriculture and solid minerals. The exportation of these products contributed not less than 90% of the country's revenue in-flow. The discovery of oil fed to the relegation of the agricultural and solid mineral sectors of the economy. Nwankwo (1982, 11), aver that cocoa, palm produce and groundnut now contribute less than 10% of foreign exchange earnings. As a result, most of the common food crops

hitherto cultivated by the local farmers such as beans, rice, etc. are now insufficient to the needs of the people.

Over the years, agriculture and other non-oil sectors of the economy suffered criminal neglect as a result of serious disparity between Federal Government's undiluted attention to the petroleum sector and other important sectors of the economy. The various half-hearted strategies adopted by various administrations over the years had failed to change the fortunes of this very important sector of the economy. This economy could have transformed Nigeria into a major player in world politics. Incidentally, oil became a major factor in the nation's economy from the middle of the 1970s. From zero income from the petroleum sector, the nation has gradually become dependent rather shamelessly on revenue from oil.

By 1957, oil was discovered in commercial quantities at Oloibiri, Bayelsa State but had not become the major source of foreign exchange for the country. Indeed, forty seven years ago, Nigeria was ranked as fortieth richest country in the world despite her total reliance on agriculture and solid minerals as sources of revenue. The nation was not poor by any defined assessment even though agriculture was the mainstay of the economy. It was the belief, at this time; the country was on the path to greatness. There was this mistaken belief by the people that the country's leaders would be in a position to make judicious use of revenue accruing to the state.

### **The Discovery of Oil in Nigeria**

Petroleum or crude oil has been referred to as fossil fuel. This mineral resource has been found below the earth surface several metres deep. The discovery and exploitation of fossil fuels or black gold has helped to transform the society in so many ways. The first deep drilling for fossil fuels was undertaken in the Western part of Pennsylvania (the eastern part of the USA), in the year 1859. By 1901, large oil fields were drilled in the South-Eastern part of Texas, United States of America. Between 1857 and 1859, some oil wells were sunk in Germany. In 1859, the American industrialist, were G.H. Bissell secured the services of Edwin L. Drake to drill some oil wells in Pennsylvania. The discovery and exploitation of crude oil by nations richly endowed by it has tremendously changed their political and economic fortunes beyond their wildest dreams.

Incipient exploration for fossil fuel in Nigeria commenced in 1938 through the pioneering work of Shell-d'Arcy Petroleum of Nigeria. This exploratory work for fossil fuel was disrupted as a result of the outbreak of the Second World War (1939-1945). But by 1946, exploration for oil continued as a result of the cessation of hostilities. Exploration activities were mainly concentrated in the Southern part of Nigeria especially in the area known as the Niger-Delta. The colonial policy of the British government made oil exploration the exclusive preserve of British multi-national oil companies. Thus, Shell-BP's monopoly was broken towards the tail end of British colonial rule as some oil companies mainly multi-national concerns from the US challenged its unhealthy monopoly. Companies such as Mobil, Agip, Ashland, SAFRAP, etc. became involved in the mad struggle for profitable oil fields In Nigeria. The monopoly of the British oil company, Shell-BP was broken in 1955. The participating oil companies were granted operating licences by the Federal Government. But in 1980, a German company, the Nigerian Bitumen Corporation initiated the first attempt at oil exploration with the discovery of some insignificant quantities in Araromi area of Undo State. However, the First World War (1914-1918), frustrated further efforts in this regard.

Drilling activities in Owerri (1957) and Akata Akwa-Ibom (1958), did not yield any quantity of oil. But by January 16 1958, oil was found in commercial quantities at Oloibiri, Bayelsa State. The Niger-Delta area has the world's largest wetlands while her mangrove forest is the third largest in the world (Human Rights Watch: 1999, 53). The Niger-Delta area covered such states as Delta, Rivers, Edo, Akwa-Ibom, Abia, I mo, Ondo, Bayelsa and Cross River States covering about 36,000 square kilometers. But the quantity of crude oil exported was still very small about 5,000 barrels. Nevertheless, exploitation of crude oil or the petroleum sector has not become a dominant feature of Nigeria's economy until after independence. Nigeria's crude oil is known as Bonny Light or sweet crude and it attracts high price in the world market. Over the years, she became the sixth largest oil producer in the world and has Africa's largest reserves of natural gas that is flared in the course of oil exploration,

## **An Economy Dominated by OH**

Since the discovery of oil in commercial quantities and its exportation, revenue from this natural resource rose over the years. Between 1966 and 1970, oil revenue rose to N360 million and by 1977 it increased to N6, 650 million (Gahia: 1993, 43). The dizzying income from oil temporarily shifted government's attention from agriculture through utter neglect and lousy implementation of policies; neglect the very important but strategic and key sector of the economy. Revenue from oil provided more than 90% of our foreign exchange earnings. From the 1970's, revenue from oil dominated various economic activities in Nigeria, hence, the noticeable decline in agriculture, manufacturing, mining, etc. The oil industry became the dominant factor in Nigeria's economy in the 1980's and 1990's. Sadly, it is still a dominant factor in Nigeria's economy till date. The tripartite arrangement was retained upon independence (i.e the regional structure), thus, making these regions mutually independent, self-sustaining and competitive. But the present state structure cannot maintain fiscal independence or economic autonomy. Rather the Federal, State and Local Government depend on earnings from oil for their financial needs. Earnings from oil provided about 27% of the Gross National Product (GNP), and 86% of her income and expenditure (Khan: 1994.189). Oil has affected the way we think and our values, attitude and culture. It has affected all facets of our lives-political, social and economic. The dizzying and over-whelming revenue from oil enabled various inept military and civilian governments to spend large sums of money rather frivolously.

This was hitherto not possible prior to the discovery of oil in Nigeria. By 1980, oil revenue rose to \$2.6 billion and \$5.5 million in 1986 and 1988 (Umesi: 1989,23). Some of the money accruing to the Federation Account was spent on several white elephant projects. Indeed, after the Civil War (1967-1970), not only was manufacturing discouraged, little attention was paid to it while the construction sector of the economy was given undivided attention (Ukwumah: 2000, 261). The various National Development Plans of the post-civil War laid so much emphasis on the construction sector. This trend became very worrisome under the leadership of retired General Yakubu Gowon. Government's ambitious development plans and rolling plans were drawn up and in tandem with the sharp rise in oil receipts from 1975 and 1984. But government's attempt at massive infrastructural development was progressively halted due to a steep decline in oil as a result of pervasive glut in the market. With a drop in Government's earning capacity from the petroleum sector, it failed to honour its obligations to the masses. Generally, the main thrust of most of these development plans was to develop the country. Between 1970 and 1989, over five development plans were launched but with little or no impact on the economy and the living standard of the people. Indeed, this is evident in the mass poverty, mass unemployment, increased destitution, acute malnutrition, etc. (Ofofoeze: 2000, 111). For instance, the Fourth National Development Plan (1981-1985), suffered a major drawback due largely to the glut in the petroleum sector. But the

'weak and partisan nature of the state: the highly corrupt political and economic class combined with the negative impact of world oil glut to worsen Nigerian economic structure... Between 1980 and 1985, the economic contraction in Nigeria reproduced serious balance of payment problems, external debts crisis of about \$30 billion, collapse of the manufacturing sector... And for eight years of Babangida administration, Nigeria's economic performance remained a dismal failure" (Aja, 2000: 7&9).

While we found it difficult making judicious use of our wealth to transform our economy over the years, Western countries are evolving new strategies on the development of alternatives to oil and concerns for the environment took centre stage. The concern for the environment seemed to have stoked the embers of youth militancy in the Niger-Delta. This arose as a result of criminal negligence by major multi-national oil corporations operating in Nigeria even though concerns for the environment have become a recurring decimal. In order to safeguard their environment, developed nations had resorted to experimenting with various substitutes to oil for three major reasons namely:

- (a) The high cost and unstable supply network,
- (b) It is a source of environmental pollution due to emissions from automobiles and industries

(c) It has raised health concerns within their societies.

Therefore, Western governments have approved money for the purposes of carrying out research into alternative sources of energy apart from oil. These alternative sources of energy are ethanol, energy from wind, etc. for household and industrial uses. The world still battles with containing environment pollution and depletion of the ozone layer while exploration activities multi-national companies in Nigeria has been less than commendable. Nigeria needs to ruminate over the possibility of life without oil. Since we are part of the global community, we cannot pretend to be unperturbed by events around us.

The predominance of poverty within the Nigerian environment is the inevitable outcome of the general fault lines of the Nigerian economy. With an economy that is highly dependent on the petroleum sector as the engine of growth. Other sectors of the economy that play pivotal roles in any economy such as manufacturing agriculture and solid minerals that contribute more to the Gross Domestic Product (GDP), have witnessed gradual decline. But despite its vast potentials and traditional role in the country's economy government have been economical with the truth. The domestic economy of other oil producing countries may not be different from the Nigerian experience. But the Nigerian situation is quite intriguing, indeed. The local economies of some oil producing nations have not witnessed extensive and intensive development despite the ceaseless flow of oil money. The situation in Libya, Kuwait, Saudi Arabia, Qatar, Venezuela, United Arab Emirates, Gabon, etc., has shown that even though they have a high per capita income, they have low industrial capacity and their economy is still backward.

Most of these countries still depend on foreign technology to run their refineries and manage some aspects of their national economies. In Nigeria, despite the enormous wealth derived from oil revenue, economic regression has been a vital aspect of Nigeria's economy. She has invariably depended on foreign imports such as food due to the neglect of agriculture over the years. A high proportion of her earnings are expended on financing imports instead of developing local technology, strengthening other vital sectors of the economy especially agriculture, manufacturing and essential infrastructure. The exploration process has been dominated by the multi-national oil companies with little or no control by the home government. These countries need to disentangle itself from these companies with the intention of reducing the profit margin. They must be forced to abide by the provisions of the law on the environment as to safeguard the environment against avoidable pollution. Oil producing states must as a matter of policy make judicious use of money accruing from the exploitation of oil.

Despite huge financial resources, most of these countries have not been able to provide the necessary platform for its industrial and technological growth. Nigeria has been making steady income from agriculture and solid minerals and marching towards economic growth. Inflation rate was very minimal and did not directly affect the price of goods and services. With the intrusion of oil into the economy, inflation was on a steady rise. The growth on public expenditure has progressively increased over the years. In 1961, government spent W104 million and by 1981 it has risen to N14,746 million. Between 1999 and 2007, Federal, State and Local Governments had expended about N16,16 trillion from the Federation Accounting. Out of this amount, the Federal Government got the lion's share of over N7,390,688,951,768.62, 36 states and Abuja and the 774 local governments received \$45,742,903,843,313.33 and N3,3 13,534,856.541.79 (Mamah:2007,1,5) Sadly, the amounts so far expended have had little or no impact on the people in terms of massive employment, infrastructural development; increased standard of living, security, technological and industrial take-off, etc.

Nigeria has remained one of the world's most corrupt nations and ranked 159 poorest nation of the world. Our over-dependence on oil has encouraged spiral inflation. Increasing costs occasioned by high cost of capital projects that were grossly inflated. The masses or the people have not benefited so much from the oil wealth since our government has not made it a policy of planning for the future with the people. A CBN report gave us a bird's eye view of the total oil revenue from oil from 1970-2003. In 1970, oil contributed 26.3% of total revenue receipts amounting to N166.6 million. By 2003, total revenue had increased to N196563.6 billion showing a massive increase of 64.3%. A major complaint of Nigerians has been fiscal indiscretion or wastefulness and naked fraud perpetrated by those entrusted with the nation's treasury who has misappropriated money accruing from oil.

Perhaps on the surface, it does appear that the fortune of an average Nigerian has not improved considerably especially since 1999. The situation in the energy sector (electricity), education, health, infrastructure (such as roads, transportation system), agriculture and other key sectors of the economy have very problematic. The most worrisome problem is the energy sector especially power. We know that electricity is strategic to the realization of development goals and industrialization. Stable power supply would ensure the maximization of efficiency, lower operating costs and conducive business environment. Government must invest heavily in massive infrastructural development such as roads, railway development, water transport, constant electricity supply, etc.

The 2001, World report on Nigeria allege that close to 70% of our citizens dependent on a daily income of less than \$1 while life expectancy hover around 43.3 years (World Bank Report:2001). The 2006, World Bank Report seems to confirm its earlier observation in 2001. A greater proportion of the people, about 70% live below the poverty line while countries such as China, India, Nigeria have a higher percentage of poor people globally. Nigeria was (and still is), one of the poorest countries in the world despite her enormous oil wealth. The cost of petrol rose from N20 per litre to N70 while kerosene diesel and gas witnessed remarkable price adjustments.

The cost of staple foods witnessed an upsurge in prices beyond the reach of the poor and some segments of the society cannot afford to eat three square meals a day. Inflation rate rose significantly too with its attendant negative impact on the prices of goods and services. The over \$45 billion in government foreign reserves have to a great extent, stabilized the exchange rate of the Naira to the dollar. Excessive spending by government had impacted negatively on the price(s) of consumer items. Oladele (2007), noted that: "years of fiscal neglect and executive mismanagement has aggravated our poverty situation... the nation has nothing to show for 47 years of independence"

### **The Future of Oil**

Many countries in Western Europe and the United States of America (USA), have continued to fashion out strategies on how best to tackle their dependence on oil as a source of energy. The strategies adopted by these states pose possible threats to the interest of oil producing nations including Nigeria. Industrialized nations are increasingly finding it difficult to come to terms with the reality of a steep rise in oil price. The political situation in the Middle East has become a threat to a once secure supply centre. Increasing concerns for the environment have paved the way for the legislation of stiffer laws and imposition of lines on defaulters as a safeguard against environmental pollution. Unable to cope with the spiraling oil prices developed countries responded by increasing the cost of finished products. This may affect not only the citizens of these countries but to a large extent imported components of foreign technology that are very vital to the production of oil. Any upward review of prices of goods and services in developed countries may adversely affect the local economies of oil producing nations of the Third World since the world is now a global village.

One day, we may exhaust our oil reserves and we may discover that we did not plan for the future with enormous revenue generated from the petroleum sector. Developing alternative sources of energy and investing enormous amounts of money in development/research became a viable option. Our continued reliance on primary products is very risky and a threat to our overall economic development. Oil wealth has not created the economic El-Dorado we so much cherish. It has brought in its wake poverty, political instability, massive unemployment, youth restiveness in the Niger-Delta, environmental pollution, etc. Nigeria, Saudi Arabia, Gabon, United Arab Emirates, Venezuela, Libya, etc. are still engrossed in their misguided satisfaction with the ceaseless in-flow of oil money while they lack a well-defined industrial base, managerial acumen and technological advancement. Less-endowed nations such as South Korea, Japan, Britain, US, etc. have witnessed dizzying breakthroughs in the realm of technological advancement, industrialization and a greater tendency towards investing in intellectual capital. It has been firmly established that there is a Siamese link between intellectual capital and the pace of economic growth in advanced societies. Nigeria and her mal-adjusted rulers must wake up from their slumber. This is in tandem with the popular expression that ideas rule the world and not money. A nation richly endowed with abundant mineral resources must, as a matter of choice, develop her intellectual capital. There is the over-whelming need to invest in research and development, science and technology and basic infrastructure. Philip Emeagwali (2007,4), seems to agree with the above assertion when he

said that

"the striking economic gap that persists between rich and poor nations has increased...The accumulation of intellectual capital by rich nations has helped broaden this gap because it has enabled (hem to control technology and collect hidden taxes from less affluent nations".

### **Recommendations**

Government must endeavour to diversity the economy in order to avoid over-dependence on income from oil. It is a well-known fact that a mono-economy is prone to the vagaries of the global economy such as slump in oil prices, global politics and economic recession.

Government ignored the agricultural sector and paid undiluted attention to revenue from oil. There was a gradual but subtle reliance on earnings from the petroleum sector. Over the years, agriculture ceased to be a major source of income for government. Government agricultural sector by enunciating sound and practical policies that may help regenerate this vital sector of the economy. There is the need to restore agriculture to its pre-eminent position.

Revenue from oil must be ploughed back into regenerative investments in order to provide an alternative platform for government to earn more .money apart from oil and also provide employment to millions of unemployed men and women rather than on white elephant prefects. Re-investing revenue from oil may secure our future as a nation and save us from the agony of gradual reduction of income from a natural resource that is exhaustible.

Government must pay undiluted attention to the development of solid minerals, manufacturing research, science and technology as a way of broadening the economic base of our country and improving our low industrial capacity. Investing in human capital development, eradication of poverty, improved standard of living, etc. must be vigorously pursued.

Government, must take adequate measures in safeguarding the environment from the debilitating effects of oil exploration and exploitation. Imposition of stiffer regulatory laws on oil companies operating in Nigeria is of great importance. It is very auspicious for us to start making contingency plans for a life without fossil fuel especially against the backdrop of Western nations sponsoring research into alternative sources of energy.

Government on its part, should endeavour to check the excesses of its officials entrusted with the public treasury. Corruption, has become so endemic in the oil industry that it has negative impact on the growth and development of our country. This can be checked through transparency, accountability, good leadership and provision of equal opportunities for its citizens.

### **Conclusion**

There is the need on the part of government to take urgent actions or redress the situation. Government must re-order its priorities by paying undiluted attention to other sectors of the economy such as agriculture, manufacturing, energy, solid minerals and most importantly, intellectual capital. The Federal Government's economic, political and institutional reforms can make the country create an abiding environment for the full utilization of the benefits of oil wealth. Nigeria's progress so far has been very insignificant. Nigeria has performed below the four dimensions of development such as economic political, social and cultural. Her rulers are (or were), men and women who cannot manage a store rigged themselves to power. This has adversely affected the quality and content of the leadership and these have had very devastating impact on the nation's economic development. The government must invest in human capital especially education. Since our economy is closely tied to the global economy, there is the need to make our economy globally competitive.

## References

- Aja A. Aja (2000): *The Present Political Economy of Nigeria and the Prospects of Vision 2010 in policy and Contending Issue in Nigerian National Development Strategy* Aja A. Aja and Emeribe A. (eds.) Enugu John Jacobs Classics p. 7 and 9
- Emeagwali, P. (2007): Technology has out-paced oil in powering world economy in Saturday Sun Steve Nwosu (ed.) vol. 4, No. 246 Lagos: The Sun Publishing Co, p. 49.
- Gahia, C. (1993, September): An oily stain News watch vol. 18, No.13. Lagos: Newswatch Publishers p. 43.
- Human Rights Watch (1999): The price of oil US: Human Rights Watch p. 53.
- Khan, S.A. (1994): *Nigeria: The Political Economy of Oil*. Oxford: Oxford University Press p. 189.
- Mamah, E. (2007, June 18): Federal, States and local governments share N16.45 trillion in eight years in vanguard. Gbenga Adefaye (ed.) vol. 23, No. 60350 Lagos: Vanguard Media Ltd. p. 1,5.
- Nwankwo, A. (1909): *After Oil What Next!* Enugu: Fourth Dimension Publishers p. 11.
- Ofoeze, G.A. (2000): *Economic Planning and Economic Development: The Nigerian Experience in Policy Contending Issues in Nigeria Development*, Aja, A. A. and Emeribe A. (eds.) Enugu: John-Jacobs classics, p.1 11
- Oladele, O. (2007, October 20): We are desperately poor Mr. President in Sunday Sun. Louis Odion (ed.) Vol.3, No. 241. Lagos: the Sun Publishing Co, p. 15.
- Ukwumah, J.C.N. (2000): *The National Economy Under the Military in Nigeria: A Real Consideration Contract Awards and Project Implementation (1970-1985), in the military and State in Nigeria*. Onwuka, J.O. (ed.) Okigwe: Jane-Moa Communications p. 258
- Umesi, R. (1989, October 25): The Economy: The balance sheet The Guardian p.23,
- Internet Source: <http://www.worldbank.com>.