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# Dutch Disease and Nigeria Oil Economy

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**Abstract**
*The paper examines why the enormous promises held out by the inflow of revenues from oil export has not made any significant improvement in the lives of Nigerians and the economy as a whole. The paper traces the problem to the inherent contradictions, anomalies, and problems associated with countries that depend on oil as their primary export commodity. The revenue it generates when prices are high tends to cause "Dutch-Diseases", high oil revenue raises exchange rates, promotes an adverse balance of payments when prices fall, reduce the incentive to risk investment in non-oil sectors like agriculture and manufacturing. Just one example is Nigeria, which, since initiating the export of oil has seen its agricultural sector collapsing and now it is entirely dependent on imported food. The paper draws attention to the political imperative strengthening governance to address these anomalies.*

## Dutch disease and Nigeria oil economy
## Introduction

The question whether mineral wealth is a blessing or a curse more or less began with Richard Auty's assertion that since 1960s, the resource-poor countries have outperformed the resource-rich countries compared by a considerable margin (Auty, 2001:180). Auty has considered economic growth indicators mainly on exports. For him (Auty), this curse becomes an impediment to development by causing what he calls “Dutch Disease”, which means the slump in other sectors of the economy that accompanies influx of revenues from oil exports. The dependence on natural resources (oil) revenues makes the national economy vulnerable to marked prices. The oil dependence and the volatility of oil prices in international markets lead to significant problems in fiscal planning, reduce the quality of public spending, and lead to financial disaster when oil prices collapse. When oil prices fall, however, fiscal budgets go into deficit, countries start taking loans leveraged against their reserves, and march unimpeded into debt (Auty, 2004:3). Indeed, according to Aluko (2004:8), oil states such as Nigeria, Angola and Cameroon have tended to borrow faster and deeper than non-oil states to cover unexpected shortfalls in income.

Studies have shown that oil dependence leads to a skewing of political forces. It concentrates production to geographic enclaves and power into the hands of few elites, creating a fisherman’s market for rent-seeking behaviour. Oil rich states, besides lacking transparency, press freedom and accountability, are marked by stratified social classes with huge poverty gap, what Abubakar (2004:81) calls rich countries with poor people. His observation is supported by many in the development and economic communities. Ten years ago, Adedeji showed that countries rich in natural resources (oil) grew slower than those without (Nigerian Economist, December, 2006:32).

This paper focuses on Dutch Disease and Nigerian oil economy, especially the inverse relationship between high natural resources (oil) dependence and economic development. The paper is divided into five parts including this introduction. Part two examines the meaning of Dutch Disease; part three discusses oil and Nigerian political environment; part four analyses the effect of oil on Nigerian economy, while part five concludes the paper.

**The meaning of Dutch disease**

The impediments of oil revenue to economic growth and development of oil-dependent states is what is cumulatively called Dutch Disease in the literature of development economics (Otawa, 2001:111). The enormous influx of cash resulting from oil tends to foster wasteful, overzealous and imprudent expenditure. High oil revenue raises exchange rates, promote adverse balance of payment as the cost of imports rises. In short, it kills incentive to risk investment in non-oil sectors, the competitiveness of all non-oil sectors such as agriculture and manufacturing industries have been crowded out. The employment of both labour and other resources has been exchanged for unemployment as the government and private expenditure multipliers have been exported abroad. Together, these forces constitute what Michael Ross (2001:114) calls the rentier effect, oil states being “rentier states”.

The rentier state theory argues that counties dependent on external rent like oil, develop a different bond of relationship between government and their citizens from those that rely primarily on taxation. Such states are less likely to be democratic than those that are tax reliant (Ayodele, 2004:14). In some places like Niger-Delta region, oil revenue allowed war to continue as commercial oil extraction has repeatedly been a source of conflict. All too often, the economic benefits accrue to a small business or government elite as well as the agent of multinational companies while on array of burdens such as expropriation of land, disruption of traditional ways of life, environmental devastation, etc are imposed on local communities unabated. In response to the application of neo-liberal policies coordinated and imposed through the International Monetary Fund (IMF), World Bank and World Trade Organisation in collusion with local political networks, local communities have to fight against not only the companies seeking to plunder their land, livelihood, culture and habitat but also to work against a Judicial System that, far from defending their rights, makes laws in order to take community’s rights away (Fossey, 2004:10).

The role of political elites in colliding with multinational companies who are the agents of IMF, World Band and World Trade Organisation creates weak environmental regulations, preferential tax regimes, cheap and legally unproductive labour. These conditions allow companies to operate with disregard for the affected communities and to use destructive processes, toxic substance and pollutants that are banned or severely restricted in developed countries. All these negative variables that accompanied the exploitation and sale of oil are what economists called “Dutch Disease”.

**Oil and Nigeria political environment**

Many oil-dependent states manifest similar political qualities. There is a noticeable lack of accountability which gives rise to massive corruption with political leaders staying in power for decades or becoming president for life, example is the Obasanjo “Third Term Bid”. Weak institutions and poor governance are the result with wealth distributed quickly and unevenly among political, military, economic, cultural and academic elites. Such inequalities exposed and exacerbated by oil wealth (Karl and Gary, 2004:16) coupled with an unequal distribution of power and a detached disinterested government create an explosive expectation gap among the population which caused uprisings, holding hostages of oil workers by angry Ijaw Youths in the Niger-Delta. In response to such forces, oil-dependent governments and the elites that run them place an inordinate amount of resources in military and security spending, which makes a democracy and the rule of law the first casualty.

According to Ross (2001, p. 101), countries rich in natural resources, especially oil, grew slower than those without. Major oil producers such as Algeria, Angola, Iran, Saudi-Arabia and Venezuela have experienced fundamental decline in per capita income in recent decades. In Nigeria, seventy percent live on less than one US Dollar a day, even though the country earned over 340 billion US Dollar in oil revenues since 1970s. In short, oil exports as a revenue source for development does not seem to work. Most countries that have come on line in the last 20 years are exhibiting increased poverty, not less, slower growth, not more, weaker institution and regulatory frameworks, not stronger (Shulz, 2005:100). In addition, oil industry itself is capital intensive and only the foreign multinational companies have the capacity to exploit it. This again has compounded the problem of oil-dependent states like Nigeria. Of all the oil companies operating in the Niger-Delta region, none of them is owned by Nigeria and Nigerians, hence, the so-called national cake is not even baked by Nigerians, but by multinational companies. A quick observation will substantiate the above analysis. In Angola where 90 percent of government revenues come from oil and two thirds of the population have no access to clean water, good schools, and medical facilities while its autocratic president is the richest in the country, a recent IMF audit revealed that $4.2 billion oil revenue went missing between 1996 and 2001. Angola rank 151 on the Transparency International Corruption Perception Index (TICPI) in 2006. In fact, most of the oil producing countries rank near the bottom in the World Bank's Voice and Accountability Index (World Bank Governance Indicators, 2005). Most of those governments lack accountability because of corruption and their leaders have the tendency to stay in power for life. For example, Zaire's president, Mbuto Sese Seko, stayed in power for 32 years (from 1965 to 1997). In Nigeria, General Gowon tried it in 1975, Shagari in 1983, Babangida in 1993, Abacha in 1998 and Obasanjo in 2006, the story is the same in most oil-producing states. In oil-dependent states (as opposed to non-oil dependents), nutrition and life expectancy is often low, child mortality high, literacy rates increases at decreasing rate, food importation is the order of the day, even though they have all that it takes to produce food in abundance. In contrast to these facts, the poor still hope that oil will bring jobs, schools, food, healthcare and housing, yet nothing has come from the oil (Economist, December 2006).

In Nigeria, life expectancy is 46 years fro men and 48 years for women. AIDS and malaria are sweeping the country – another price for its new found oil wealth. Oil wealth has been used by Sudan, Algeria, Nigeria and Indonesia to prolong conflicts. In fact, when oil wealth is concentrated in secessionist areas, there is likelihood for prolonged and bloody conflicts to skyrocket. Paul Collier (2005:111) argues that the phenomenon of oil-fueled wars is particularly acute in Africa where he says there is 25 percent chance for such conflicts in oil-dependent states as opposed to 1 percent in those countries without oil.

**Effects of oil on Nigeria economy**

Nigeria as an oil-dependent country is doomed, though there are examples of countries that broke the oil curse while others avoided it altogether. The latter group consists predominantly of states that were already democratic with effective application of the Rule of Law before oil came along. Such countries include the United States of America, UK, Norway, Canada, etc. Another group, however, has successfully moved from oil doom to oil blessed. These include Mexico, Dubai, Indonesia, etc. Indonesia economy has tripled over the last 20 years. Since the mid 1990s, it has been using its oil receipts to build world class infrastructural facilities in areas of education, health, agriculture and social services. The country is growing at 16 percent per year and oil, once its primary source of income, is now around 6 percent of the GDP (Michael, 2005:46). Three decades ago, Indonesia and Nigeria had comparable per capita incomes. Today, Indonesia is ten times better than Nigeria. Today, Nigeria has not only declined economically, it has also lost its sovereignty as a result of external influence wielded by large multinational oil corporations like Shell and BP; industrialized consumers like the United States of America and rising stars like China do play a determining role in the domestic affairs of Nigeria.

The United States of America as the world's largest consumer of oil has spent a great deal of its resources over the last decades, literally in blood and money to keep oil flowing smoothly to itself and its allies. In the process, it has funded undemocratic and authoritarian governments with aid and weapons to militarise and perpetuate its smooth rule in Nigeria.

Today, there is apparent infrastructural decay with epileptic power supply, absence of pipe-borne water, non-availability of good and enduring housing policy, the highways are in a deplorable state of disrepair and life is so cheap as there is general insecurity in the land. Moreover, the standard of education is on the decline as there are constant academic strikes to press home the demand for better funding and welfare of staff. Government is insensitive to the plight of education in Nigeria; for example, the UNESCO recommended that every country in the world should allocate at least 26 percent of the annual budget to the education sector. This has not been the case in Nigeria as the amount earmarked every year has steadily declined over the years.

Today, in the country, the conditions of the hospitals are worse than mere consulting clinics, as there are no drugs and the best medical experts have either gone to America, Europe and Middle East in search of greener pastures.

Agriculture that should have been the mainstay of the economy has not been attended to. The same thing goes for the development of other sectors. Even the petroleum sector that is laying the golden egg has not been given any attention, all the refineries have collapsed and the country has been importing oil from abroad. According to Aluko (2007:4) “Our oil is the finest, sweetest and most qualitative in the world, but those who are importing oil are importing the crudest and worst quality into Nigeria. We are producing the best quality oil, we are consuming the worst quality oil because instead of refining it in Warri, Calabar and Kaduna, we kept them idle by importing the abandoned oil from abroad”. Since the discovery of oil, the Nigerian nation has depended too heavily on the capital intensive oil sector which contributes 20 percent to the GDP, 95 percent of the foreign exchange and 65 percent of budgetary revenue (Sunday Tribune, July 1, 2007:9). Nigeria is thus a mono-cultural dependent capitalist economy in a permanent crisis of various sorts, including micro and macro economic instability as a result of a systematic implementation of Brettonwood economic policies contained in the so-called NEEDS document.

Government is very rich, but our people are poor because of economic policies of government and unless we pursue industrialization the free market economy cannot help us. Unless we allow government to be the leader of the economy, the private sector cannot succeed. Some people are saying that the private sector is the engine of the economy; yes that is correct only where there is viable, feasible and effective private sector like in industrialized countries such as Japan, USA, France, Britain, etc. In Nigeria, there is no viable private sector. The only significant private sectors in this country are UAC, Cadbury, Guinness, but all of these are owned by foreigners. In this country, we need government to lead the economy. Unless we energise the economy by government, we can never make it.

## Conclusion

If a country is seeking rapid development to escape the grips of poverty, oil is certainly not a blessing. Oil-dependent states have performed worse in terms of economic growth and development than non-oil states in recent years. The number of people living in abject poverty in big oil-producing states like Nigeria, Venezuela and Angola increased dramatically over the last 30 years. In short, oil exports as a revenue source for development does not seem to work. Most countries that have come on line in the last 20 years are exhibiting increased poverty. Worst of all, the oil industry itself is capital intensive, requiring a lot of money and few highly skilled labourers. For countries lacking both, the only source is abroad. The arrival of foreign oil companies and massive international loans creates the perfect rent-seeking environment that quickly embosses itself at every level of nation's political economy, creating a virtual flea market for corruption, patronage and inequality. In fact, most oil-dependent countries rank near the bottom in the World Bank Voice and Accountability Index. The only panacea to Dutch Disease is diversified the economy away from oil and any oil-dependent country that fail to do so will collapse economically and politically.

Finally, commercial oil extraction has repeatedly been a source of conflict. All too often, the economic benefits accrue to small business or government elites while an array of burden-expropriation of land, disruption of traditional ways of life, environmental devastation etc, are imposed on local communities, protest and resistance are typically met with repression (Renner, 2002:58).

These dynamics have played out in different ways in a number of countries.

In Columbia, oil money and drug trafficking have fuelled and complicated the ongoing civil war since the 1980s (Guaqueta, 2003, p.101).

In Angola, from the late 1980s to 2002, the government used oil money to battle against UNITA rebels that financed themselves through illicit diamond sales (Gamba, 2000, p.108).

In Sudan, the discovery of oil was a major factor in re-igniting the civil war between Sudan's central government and the south. Until peace agreement was signed, the government used scorched earth strategy to depopulate and control oil rich areas (Christian Aid, 2001, p.98).

In Nigeria's Niger-Delta per capita income remains below $1 a day despite great oil wealth. Militias in the Delta have increasingly resorted to kidnappings and violence in their opposition to oil production that benefits primarily foreign oil companies and corrupt government officials (Peel, 2005:106).

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