Dutch Disease Syndrome: The Nigeria's Resource Trap Sickness, Easy to Catch, Harmful to the System and Difficult to Cure

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Author's contribution

The sole author designed, analyzed, interpreted and prepared the manuscript.

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ABSTRACT

This study examines the economy of Dutch disease syndrome in Nigeria from 1970 – 1985. The paper argues that the discovery of oil in 1970 opened-up windows of opportunities for the country, as a result of high inflow of petrodollar surpluses. The paradoxical effect is this, after reaching its peak period, the surpluses decline steadily and the revenue it generated when prices were high tends to cause "Dutch Disease". The result of this study establishes the existence of resource curse in the Nigeria's economy system. Findings of this study shows that the non-support of tradable sector, corruption, mismanagement, lack of diversification of export base and the non-oil sectors like agriculture, industries and mining, affected the country’s economic base. Thus, it was easy for Nigerians to catch the high oil prices, the decline in the oil boom transformed into a harmful poverty disease and it has now become very difficult to cure despite so many efforts. This shows that, there is a paradox of scarcity amidst plenty. This paper adopts the historical research method which relies on qualitative approach of data analysis. The paper draws conclusion to the fact that, oil discovery in Nigeria is a curse rather than a blessing.

Keywords: Dutch disease syndrome; paradox; poverty; Nigeria economy and resource curse.

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1. INTRODUCTION

Before the commercialization of oil in the 1970s, agricultural production was the mainstay of the Nigeria’s economy, the major agricultural export products include: cocoa, cotton, palm-oil, palm-kernel and groundnuts. These products constituted the major exports for Nigeria [1]. The period of 1970 in the history of Nigeria, presents a golden era where Nigeria would have been among the world super powers in terms of economic strength. This period presents an opportunity which disappeared in a thick smoke. Nigeria is fortunate that the country is richly endowed with natural resources, most especially crude oil. The discovery of crude oil and the market bubble of early 1970s led to expansion in its production and subsequently a boom in the resource sector. The boom brought fundamental structural changes that affected major sectors of the economy. Furthermore, the boom created more wealth for Nigeria such that the socio-economic life of the country was transformed into investment and patterns that favoured foreign goods and services. Quite unfortunate was the fact that the oil boom exposed the economy to the effects of global economic crisis. Again, the euphoria of the newfound wealth prompted the government into unprecedented fiscal recklessness that encouraged corruption, indolence and poor implementation of macroeconomic policies [2].

The Dutch disease syndrome or the natural resources curse provides, amongst many, a plausible explanation; but the explanation it provides can only be profitably utilized when understood within the context of the political-economy realities of Nigeria [3]. According to Edo, there are several fundamental theories that explain structural change, but the Nigerian scenario appears to fit more into the Dutch disease model of structural change [4]. The symptom of the Dutch disease is the same with the Nigeria disease. Unlike the Dutch disease which had recovered quickly and returned to the path of economic growth and Development as a result of diversification, the Nigeria disease is yet to be recovered. The cure to the Nigeria’s disease is clearly the diversification of the various sectors of the economy. Instead of diversification, Nigeria governments are rather induced into corruption and wasteful spending, weak investments, nonchalant attitude towards reinvesting the excess income from their booming single sector thereby, creating a decline or total collapse of economic activities in other sectors of the economies [5]. Thus this mismanagement shows that, keeping an average Nigerian from being corrupt is like keeping a goat from eating yam [6]. Nigeria has witnessed cocoon of economic crisis since the discovery of crude oil [7]. Thus, it becomes very paramount to historically investigate this subject matter by way of subjecting the Nigeria’s problem into serious academic scrutiny.

2. UNDERSTANDING OF DUTCH DISEASE IN NETHERLAND, LESSON FOR NIGERIA

Dutch disease is a term that is well-known to economists and development practitioners. But it is also a concept that is often conflated with “resource curse” [8]. Dutch disease is generally associated with mineral resources, the analytical framework of Dutch disease is equally applicable to a wealth increase that results from large inflows of foreign currency, capital inflows as well as a non-extractive export boom, such as one associated with the displacement of older industry by technologically more advanced activities [9]. In the case of Nigeria, it was the displacement of the agriculture sector to oil and gas sector. Ramírez-Cendrero and Wirth posited that Dutch disease is arguably the hallmark of the natural “Resource Curse” phenomenon. Dutch disease is a scenario that can occur in small countries with an important resource extraction sector. The large-scale expansion of this sector generates large export revenues that are exchanged in domestic currency [10]. This demand appreciates the domestic currency, causing domestic goods to become expensive compared to foreign goods. Consequently, the country’s international competitiveness suffers, hampering its exports of other goods and services [11].

Dutch disease has to do with the Netherlands’ economic problems after having discovered large natural gas deposits in the Slochteren gas fields. Netherlands witnessed a marked contraction in its manufacturing sector and a resultant increase in its unemployment rate [12]. The appreciation of the Dutch guilder that followed the discovery of natural gas deposits within the country’s jurisdiction in the Groningen province of the North Sea in the late 1950s and early 1960s, stood to reason for: the appreciation of the currency that followed the gas export boom which reduced the profitability of manufacturing and service exports [13]. As a result, the country initiated a rapid exploitation of the natural
resource quickly, becoming a net exporter of natural gas and experienced a huge increase in revenues. Consequently, national wealth and overall general welfare increased. However, amid the beneficial results of the natural gas-based export boom, Netherland witnessed several negative effects as well. First, the country's manufacturing sector declined throughout the 1960s and into the 1970s [14]. Secondly, manufacturing employment declined steadily during the same period. For example, in 1964 Netherlands had 1,823,000 workers in industry but by 1986 the number had fallen to 1,381,000, a 25% reduction in industry jobs [15]. Hence, the fears of dire consequences for Dutch manufacturing shows, the problem proved short lived. From the late 1960s onwards, exports of goods and services have increased from less than 40% of GDP to nearly 60%, a high ratio by international standards for a country with 16 million inhabitants. The fears of de-industrialization did not materialize far from it but the name stuck [16]. It is encouraging to know that Netherland recovered from the so-called disease that bears their name "Dutch Disease" fairly quickly by turning to the wind of diversification.

3. ECONOMY OF NIGERIA AT THE EVE OF 1970

Before 1970, Nigeria's economy depended largely on the agricultural sector. Agriculture serves as an engine room to foster economic growth and development in the country. Nigeria is blessed with a fertile soil as well as a favourable weather and cool climatic condition that support the production of different food and cash crops in the four regions of the country. Majority of the farmers have annexed and taken advantage of these natural endowments by going into cash crops farming. For example, the Western region became the major producer of Cocoa and Coffee, Mid-West Rubber, Eastern region Oil Palm and Palm Kernel, and Northern region Ground-nut and Cotton. Since the agricultural economy was an offspring of colonial agriculture, successes were recorded in terms of production of cash crop, agricultural raw-materials for industries, export earnings and jobs opportunities for millions of Nigerians [17]. According to Nweke, 80% of the total population was engaged in agricultural production, by producing crops such as: yams, cassava, plantain, rice, beans, sugar cane, citrus fruits, cocoa, oil-palm produce, groundnuts, rubber, cotton and timber as raw materials for local industries and exports [18].

Agriculture provided 95% of the food needed to feed Nigerians and employed over 70%-80% of the population. For example, in the 1960, it provided about 80% of the total export earning, in 1962 it accounted for about ₦229.9 million or 82% of the nation's total value of export and in 1964 a total of ₦356.4 million was realized which represent 85% of the country's total export for that year [19]. Ekundare opined that, in 1962/63 fiscal year, agriculture accounted for approximately 65% of Gross Domestic Product (GDP) and 63% in 1966/67 fiscal year. These agricultural products included forestry and fishing [20]. Adani emphasized that out of ₦2493.4 million of GDP in 1960, mining and quarrying contributed a mere 1.2%, manufacturing and craft contributed less than 5%, utilities 0.5% and the rest was from agriculture. Agriculture has always been the most important single activity in the Nigeria’s economy [21]. Example of agricultural production between 1960 and 1969 show a fairly stable agricultural production sector, not without little fluctuations and stagnations. Tabular illustration of the agricultural economy of Nigeria from 1960-1969 is shown in Table 1.

4. THE DISCOVERY OF CRUDE OIL IN NIGERIA

Like the Netherland, Nigeria discovered crude oil in the Niger-Delta. The search for Petroleum in Nigeria started in 1908 at Araromi area of the present Ondo State by a German Company known as Bitumen Corporation [22]. The Bitumen Corporation drilled 14 wells around Lagos in 1908. It reported a prospect for oil in Nigeria and had the hope of extending the scope of its activities [23]. However, it ceased exploration as a result of the outbreak of World War I, which broke out in 1914-1918. In 1937, the Shell ‘D’ Arcy, which later became Shell B.P Petroleum Development Company of Nigeria Limited, entered the oil exploration scene [24]. In that same year, prospecting licence was granted to Shell ‘D’ Arcy Exploration Parties. However, the outbreak of World War II forced the company to suspend activities in Nigeria in 1941, but resumed activities again in 1946 following the end of WWII [25]. In 1955, Mobil Exploration Nigeria Incorporated, obtained concession over the whole of the former Northern Nigeria region of the country [26]. This company also carried out some geological work by drilling three deep
wells in the former Western region and abandoned the concession in 1961 [27]. The geological survey was in line with general British oil policy, which was determined in 1904 that oil exploration concessions in the British Empire should preferably be granted to companies registered in Britain or its colonies, the 1907 Ordinance made the search for oil in Nigeria a British monopoly [28]. Section 15 of the Ordinance further specified that all members of the directorate of these companies be British subjects. This principle was retained in the 1914 Mineral Oils Ordinance, which applied to all areas in the newly amalgamated, Nigeria, and its 1925, 1950 and 1958 amendments [29].

In 1961, the Federal Government of Nigeria issued ten oil prospecting licences on the continent shelf to five companies. Each licence covered an area of 2,560 square kilometres and was subject to the payment of N1 million. More off-shore wells were been drilled by other companies such as Elf, Mobil, Agip, Texaco, etc) [30]. Fogene opined that the first Cargo crude oil left Nigeria in February 1958, when production stood at 6,000 barrels per day with revenue accounted for about N122 million. This contributed 0.08% to the national revenue. As a result of Shell’s success in the mid-1950s and thereafter, other companies, notably, Mobil, Gulf (Chevron), Agip, Safrap, (later Elf), Tenneco (later Texaco), Philips Great Basins Texaco Overseas and Union, joined Shell in prospecting for oil. The number of both international and local companies prospecting for Nigerian oil increased tremendously over time [31]. The end of the Biafran war in 1970 coincided with the rise in the world oil price. Nigeria was able to reap instant riches from its oil production. Nigeria joined the Organisation of Petroleum Exporting Countries (OPEC) in 1971 and established the Nigerian National Petroleum Company (NNPC) in 1977 [32]. Table 2 illustrate with evidence an increase of oil production and revenue from 1958 to 1974.

Table 2 of the petroleum sector’s contribution to Nigerian government is arrange according to the fiscal year, federal government current revenue as at the time period, revenue from petroleum and share of petroleum in total revenue by percentage. Taking a cursory investigation of the table signifies that, there is increase in crude oil product from 1973. Petroleum became the dominant sources of the national revenue. This dominant role of oil has pushed the agriculture sector aside into the shadow of no return.

5. FROM AGRICULTURE TO OIL BOOM; THE NIGERIA DISEASE

As mentioned above, Nigeria became a major net oil exporter in 1970, and in 1973, came the first oil boom shocks. In the wake of the 1973 Arab-Israeli war, crude oil prices skyrocketed from about $3 a barrel at the beginning of 1973 to more than $12 a barrel globally in 1974 [33]. The increase was due to the aftermath of the 1973 Yom Kippur War. Arab states placed an embargo on oil as retaliation for U.S and some European countries support for Israel. In just a few months, the price of petrol quadrupled, sending the global economy into turmoil [34]. The decision to implement the oil embargo was decided in a resolution of the Arab Ministers of Oil Conference held in Kuwait on 17th October, 1973 [35]. A second shocks came in 1979, as a result of events in Iran and Iraq, the price of oil rose from $19 a barrel in April 1979 to $38 in early 1981, globally [36]. Nigeria, being a member of OPEC, became an exporter of coveted high- (bonny light) and medium-grade crude oil. The oil price shocks of 1973-74 and 1979 resulted in a large transfer of wealth to Nigeria. Public expenditure increased greatly, as did the country's access to international capital markets [37]. The production of crude oil in Nigeria thus rose from 1,876 barrels in 1958 to 395,843,000 barrels in 1970. By 1975 it has risen to 660,404,000 barrels, the highest output was recorded in 1979 at 845,464,000 barrels, [38] and declined in 1980 to 753,404,000 barrel.

These periods, could be seen to represent the oil boom period in Nigeria, both in production, exports and earning [39]. According to Siollum, during this period Nigeria exports more than one million barrels of crude oil a day to the United State (representing nearly 50% of Nigeria’s daily crude oil production) [40]. Ayittey reemphasized that Nigeria earned over $100 million a day from crude oil exports, [41] yet Nigeria per capita income declined [42]. Illustration of this is seen in Table 3.

With the increase in crude oil production, agricultural production declined. Onimode stated that just as OPEC oil price hikes gushed billions of fortuitous ‘petrodollars’ from booming exports sales of petroleum, so did agricultural export earnings fell systematically into relative insignificance. Though the reduction in
agricultural export earnings were noticeable as early as 1965 to 1969, especially during the civil war, while oil export started in 1958, the agricultural decline became a veritable depression in the mid-seventies [43].

Table 1. Major agricultural production from 1960 to 1969, ('000 metric tons and '000 heads)

<table>
<thead>
<tr>
<th>Years</th>
<th>Cocoa</th>
<th>Coffee</th>
<th>Cotton</th>
<th>Groundnuts</th>
<th>Cattle</th>
<th>Maize</th>
<th>Palm-Kernel</th>
<th>Palm-Oil</th>
<th>Rice</th>
<th>Wheat</th>
<th>Revenue</th>
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<tr>
<td>1960</td>
<td>189.2</td>
<td>--</td>
<td>30</td>
<td>1150</td>
<td>--</td>
<td>1143</td>
<td>430</td>
<td>552</td>
<td>360</td>
<td>--</td>
<td>576,151</td>
</tr>
<tr>
<td>1961</td>
<td>193.9</td>
<td>--</td>
<td>52</td>
<td>1245</td>
<td>--</td>
<td>900</td>
<td>437.1</td>
<td>541</td>
<td>340</td>
<td>--</td>
<td>570,605</td>
</tr>
<tr>
<td>1962</td>
<td>178.8</td>
<td>--</td>
<td>29</td>
<td>1515</td>
<td>--</td>
<td>1118</td>
<td>368</td>
<td>509</td>
<td>350</td>
<td>--</td>
<td>456,400</td>
</tr>
<tr>
<td>1963</td>
<td>219.6</td>
<td>--</td>
<td>49</td>
<td>1393</td>
<td>--</td>
<td>1105</td>
<td>420.3</td>
<td>510</td>
<td>330</td>
<td>--</td>
<td>456,400</td>
</tr>
<tr>
<td>1964</td>
<td>298.3</td>
<td>--</td>
<td>44</td>
<td>1251</td>
<td>--</td>
<td>1130</td>
<td>407.9</td>
<td>515</td>
<td>400</td>
<td>--</td>
<td>420,300</td>
</tr>
<tr>
<td>1965</td>
<td>184.6</td>
<td>--</td>
<td>44</td>
<td>1687</td>
<td>--</td>
<td>914</td>
<td>456.4</td>
<td>530</td>
<td>350</td>
<td>--</td>
<td>421,700</td>
</tr>
<tr>
<td>1966</td>
<td>267.2</td>
<td>--</td>
<td>52</td>
<td>1693</td>
<td>--</td>
<td>707</td>
<td>456.4</td>
<td>551</td>
<td>200</td>
<td>--</td>
<td>241,200</td>
</tr>
<tr>
<td>1967</td>
<td>238</td>
<td>--</td>
<td>27</td>
<td>1558</td>
<td>--</td>
<td>688</td>
<td>421</td>
<td>320</td>
<td>301</td>
<td>--</td>
<td>214,500</td>
</tr>
<tr>
<td>1968</td>
<td>191.8</td>
<td>--</td>
<td>56</td>
<td>1813</td>
<td>--</td>
<td>816</td>
<td>241</td>
<td>336</td>
<td>275</td>
<td>--</td>
<td>255,000</td>
</tr>
<tr>
<td>1969</td>
<td>220.8</td>
<td>--</td>
<td>92</td>
<td>1846</td>
<td>--</td>
<td>910</td>
<td>214</td>
<td>336</td>
<td>282</td>
<td>--</td>
<td>724,000</td>
</tr>
</tbody>
</table>

Table 2. Petroleum Sector's Contribution to Nigerian Government

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fed. Govt Current Revenue</th>
<th>Revenue from Petroleum</th>
<th>Share of Petroleum in Total Revenue %</th>
<th>Fiscal Year</th>
<th>Fed. Govt Current Revenue</th>
<th>Revenue from Petroleum</th>
<th>Share of Petroleum in Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958/59</td>
<td>154,632</td>
<td>122</td>
<td>0.08</td>
<td>1974/75</td>
<td>5,177,370</td>
<td>4,63,816</td>
<td>80.81</td>
</tr>
<tr>
<td>1959/60</td>
<td>177,648</td>
<td>1,776</td>
<td>1.00</td>
<td>1975/76</td>
<td>5,861,600</td>
<td>4,61,700</td>
<td>78.70</td>
</tr>
<tr>
<td>1960/61</td>
<td>223,700</td>
<td>2,452</td>
<td>1.10</td>
<td>1976/77</td>
<td>7,070,400</td>
<td>5,965,500</td>
<td>74.70</td>
</tr>
<tr>
<td>1961/62</td>
<td>228,962</td>
<td>17,070</td>
<td>7.46</td>
<td>1977/78</td>
<td>8,358,900</td>
<td>5,965,500</td>
<td>71.40</td>
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<tr>
<td>1962/63</td>
<td>231,638</td>
<td>16,936</td>
<td>7.31</td>
<td>1978/79</td>
<td>7,252,400</td>
<td>4,809,200</td>
<td>66.30</td>
</tr>
<tr>
<td>1963/64</td>
<td>249,152</td>
<td>10,060</td>
<td>4.04</td>
<td>1979/80</td>
<td>12,273,400</td>
<td>10,100,400</td>
<td>82.30</td>
</tr>
<tr>
<td>1964/65</td>
<td>299,132</td>
<td>16,084</td>
<td>5.38</td>
<td>1980/81</td>
<td>15,813,100</td>
<td>4,936,900</td>
<td>31.20</td>
</tr>
<tr>
<td>1966/67</td>
<td>321,870</td>
<td>29,175</td>
<td>9.06</td>
<td>1981/82</td>
<td>10,143,900</td>
<td>8,847,800</td>
<td>67.50</td>
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<tr>
<td>1967/68</td>
<td>339,196</td>
<td>44,976</td>
<td>18.26</td>
<td>1982/83</td>
<td>10,811,400</td>
<td>7,253,000</td>
<td>67.00</td>
</tr>
<tr>
<td>1968/69</td>
<td>300,176</td>
<td>41,884</td>
<td>13.95</td>
<td>1983/84</td>
<td>11,738,500</td>
<td>8,209,700</td>
<td>69.93</td>
</tr>
<tr>
<td>1969/70</td>
<td>300,176</td>
<td>41,884</td>
<td>13.95</td>
<td>1983/84</td>
<td>11,738,500</td>
<td>8,209,700</td>
<td>69.93</td>
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<td>1970/71</td>
<td>299,986</td>
<td>29,582</td>
<td>13.95</td>
<td>1984/85</td>
<td>15,041,800</td>
<td>10,975,100</td>
<td>72.5</td>
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<tr>
<td>1971/72</td>
<td>435,908</td>
<td>75,444</td>
<td>17.31</td>
<td>1985/86</td>
<td>12,302,000</td>
<td>8,107,300</td>
<td>65.90</td>
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<td>1973/74</td>
<td>1,410,811</td>
<td>720,185</td>
<td>52.46</td>
<td>1977/78</td>
<td>7,046</td>
<td>108</td>
<td>94</td>
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<tr>
<td>1974/75</td>
<td>1,389,911</td>
<td>576,151</td>
<td>41.45</td>
<td>1978/79</td>
<td>6,033</td>
<td>118</td>
<td>100</td>
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<tr>
<td>1975/76</td>
<td>2,171,370</td>
<td>1,549,383</td>
<td>71.36</td>
<td>1979/80</td>
<td>10,034</td>
<td>174</td>
<td>108</td>
</tr>
</tbody>
</table>

Table 3. Petroleum Production and Revenue (1973-1979)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of crude petroleum production (million b/d)</th>
<th>Index of crude petroleum exports (million naira)</th>
<th>Index of volume of crude petroleum exports (million b/d)</th>
<th>Index of volume of crude petroleum export Price (naira)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>115</td>
<td>1,933</td>
<td>116</td>
<td>33</td>
</tr>
<tr>
<td>1974</td>
<td>126</td>
<td>5,665</td>
<td>128</td>
<td>94</td>
</tr>
<tr>
<td>1975</td>
<td>100</td>
<td>4,593</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1976</td>
<td>116</td>
<td>5,894</td>
<td>116</td>
<td>108</td>
</tr>
<tr>
<td>1977</td>
<td>117</td>
<td>7,046</td>
<td>120</td>
<td>122</td>
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<tr>
<td>1978</td>
<td>106</td>
<td>6,033</td>
<td>108</td>
<td>118</td>
</tr>
<tr>
<td>1979</td>
<td>129</td>
<td>10,034</td>
<td>130</td>
<td>174</td>
</tr>
</tbody>
</table>


Key b/d=barrels per day.
Paul Collier also examined the Nigeria situational problem that the economy of Nigeria in the 1970s created a paradox. According to him, as oil revenues built up, the country's other exports, such as peanuts and cocoa, became unprofitable, and production rapidly collapsed [44]. The loss of these agricultural activities hurt the farmers who had produced them [45]. However, Paul Collier's analysis is presented in such a way that, the resource exports such as oil in Nigeria cause the country's currency to rise in value against other currencies. This makes the country's other export activities most especially agricultural cash crops to become uncompetitive [46].

Thus, according to the World Bank policy research report of 1994 stated paradoxically clear that, positive terms-of-trade shocks were often as costly as negative ones. A handful of countries had faltering growth despite a better endowed environment [47]. The windfall financed wasteful current expenditure, ill-advised investment projects, and capital flight. The main problem with the windfall is that governments increased spending as if the higher revenues were permanent. And once increased, government spending is difficult to reduce [48]. The above analysis is inclined to the observation of Claude Ake, who argued that depending on primary product is dangerous because primary products are subject to price fluctuation and have high tendency of diminishing return [49]. A comparative analysis of Nigeria and Indonesia provide a clearer example of the Nigeria disease. Indonesia presents a startling contrast to Nigeria. In 1965 Indonesia's GDP per capita was lower than Nigeria's. Indonesia relied on oil as much as Nigeria did. Who could have predicted then that in 1990 Indonesia's GDP would be three times that of Nigeria? [50] Evidence of "Dutch disease" emerged during the period of 1970 to 1985, as agricultural exports earning and other tradable sector declined due to the lack of diversification. Following the collapse of oil prices and the rise in real interest rates, Nigeria experienced a high rising rate of unhealthy inflation, strict rationing of foreign exchange, and the possibility of debt rescheduling [51]. Between 1970 and 1976 total farm output in Nigeria fell by -0.2 per cent [52]. These changes in sector reflected the drastic declined in the agricultural sector and increased in the oil and gas sector. Table 4 above illustrate this.

The indication of the new oil prosperity include the phenomenal rise of GDP from N 49.4 billion in 1970-71 to N14.4 billion in 1974-75, and of gross international reserves from barely US$222 million in 1970, to US $5203 million in 1976; oil and total non-oil export of N7969.2 million and N704.3 million, respectively, in 1977, the drastic rise in the terms of trade from 96 in 1960 to 322 in 1976, relative to 1970 base-year, and the average annual growth rate of GDP from 3.1% during 1960-70 to 7.4% in 1970-76 [53]. Ironically over the period of 1970-78, real food output per capita declined by 5.1% per annum; total food output has also been a failure. Food imports have risen drastically; in 1977 total food imports stood at N790 million (almost 11% of total import), while in 1965 the bill was N46.4 million (8.8% of all imported commodities). The dependence of Nigeria on externally produced stables has grown markedly since 1972. In 1980, the federal government spent N1.5 billion on imported cereals alone. Furthermore, the staple imports have been subject to the galloping inflation of the 1970s, which in 1978 was running at 16% per annum [54]. The structural change was further encouraged by Nigeria's external borrowing in the 1970s and 1980s on the basis of her creditworthiness. The external borrowing was used mainly to finance importation of goods and services that tended to have a crowding-out effect on other productive sectors of the economy. Between 1982 and 1984, the government made panic responses to the problem of high importation by introducing austerity and counter-trade measures aimed at stemming expenditure on imports and conserving foreign exchange for more productive use in the manufacturing sector [55]. The high rate of inflation, with retail food prices jumping from 164.4 in 1970, to 591.5 in 1977 for the lower income group, was induced by the combination

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of oil boom and post war demand. By 1973, the risen share of food import from these sources had reached 87.1% [56].

6. POLITICAL ECONOMY OF OIL BOOM

The political economy of oil boom in Nigeria is perhaps made even more distinctive by the sluggish performance of agriculture, more specifically the collapse of export production, the stagnation of food production, and spiralling food import [57]. The country abandoned its traditionally agricultural-based economy and adopted a dangerously polarized oil-dominated economy that is extremely susceptible to fluctuations in oil prices. Nigeria became almost totally dependent on earning from its crude oil exports which accounted for over 90% of its foreign exchange earnings [58]. Despite producing the overwhelming majority of Nigeria’s wealth, the inhabitants of the oil communities do not have the political and economic control of their resources. Nigeria’s crude oil wealth paradoxically became an impediment to its development, as it incentivized the country’s military to seize and retain political power [59].

The discovery of large deposits of lucrative crude oil reinforce desire to maintain a united Nigeria, and to strengthen the powers of the central government in order to obtain and maintain control of earnings from crude oil exports. The control of oil proceeds subsequently weakened and discouraged the economic prowess and financial autonomy of each region, turning them into little more than beggar subsidiaries of the federal government, totally holding to, and dependant on remittance from the federal military government [60].

In a bite to control the oil exports earning, the federal government passed the 1970 law that in effect gave all mineral right in Nigeria to the federal government. Revenues were then in theory distributed throughout the country but in practice, much oil revenue flowed into government coffers, accounting for more than 80% of government revenue. The states could not raise their own revenue, but had to rely upon hand-outs from the central pot, the amount of which corresponded to the population in the states [61]. The synthesis of this has always been a struggle for survival. Fierce competition inevitable developed since from oil discovery among politicians, state governments, organizations, and the various ethnic groups to capture the central pot or at least gain access to it. Politics has often been seen as a way of gaining access to fantastic wealth in the Nigeria context [62].

According to Meredith, oil-producing countries such as Nigeria, Gabon, Congo-Brazzaville, Algeria and Libya reaped fortunes from oil bonanza. But the Nigerian example showed how quickly oil wealth could be dissipated. For a brief period its finances were transformed, with revenues soaring from $4 billion to $26 billion. But such riches set off a massive spending spree [63]. Ayttey also argued that Nigeria produced 2 million barrels of oil worth $30 to $40 million each day. But for years, most of the river of cash has flowed to military government that have broken promises to spend fixed percentages of it to bring electricity, clean water, village clinics and schools to the oil belt [64]. Instead Nigerians government engaged in grandiose projects of little or not important to the country for example, $27.25 million went to medical equipment for Aso Rock Clinic; $3.85 million to the army for purchase of ceremonial uniforms; 323.35 million to the Ministry of Defence: $59.72 million for security; $25.49 million to defence attaches in Nigerian embassies abroad. And also the Ajaokuta Steel Plant received $1.473 billion [65]. Watts further expressed that, by the mid-1970s luxury manufacturing seemed to fill the shelves of every store; high fidelity equipment imports increased from N1.5 million in 1973 to N15 million in 1976. In the same year Nigeria imported 216,000 motorcycles and scooters at a cost of N67 million. Cars imports, boosted by state subsidized low-interest loans for government employees, reached the 100,000 mark by the mid-1970s. Coupled with the Udoji wages, the cement armageddon fiasco, the large scale hotel construction, the world festival of Art and African Culture (FESTAC), which cost in the order of N140 million [66]. All these were grandiose wasteful spending’s. The impact of the oil boom on the Nigerian economy and society must ultimately be situated in relation to the internationalization of capital and internal mode of capital accumulation. However, the oil boom came too soon and too quickly. Watts puts it very concise that the federal military government proved ineffective at managing the wealth, and unable to use it to significantly increase Nigerians’ living standards [67]. This is so because Nigerians military and their civilians’ counterpart are like a bucket full of holes that can only hold a certain amount of water for a certain amount of time. Pouring in more water makes little sense as it will all drain away [68]. In a nutshell, Yusufu Bala Usman in his own words
wrapped the Nigeria disease sickness by stating that:

The ruinous inflation is, in fact, the only thing the Nigerian producers gets from the “oil boom…” the farmers in these parts say “Nairan na ba ta da albarka” meaning, this naira has no blessing, no weight! The petro-naira has not blessed them with essentials of existence; rather its abundance is part of the process of denying them the benefits of what the produce. They continue in their poverty [69].

7. CONCLUSION

This paper has critically discussed some of the economic lessons that can be drawn from the experience of natural-resource-rich countries around the world, most especially Netherland and Nigeria. The paradoxical discourse situate the 15 years (1970-1985) of Nigeria’s history as the most baffling event in the history of the country. What clearly seems like hunger and poverty amidst abundant, gives so much concern to the mind. Nigeria has witnessed heavy rise in oil export earnings, but it is a matter of bewilderment to many people why Nigeria, despite its enormous human and material resources, continues to groan in economic crisis and poverty. It is quit unfortunate that how can so much money and such high hopes engender such chaos. It clearly shows that Nigeria is a poor country because her leaders tend to have the same mistaken view of how to run the country [70]. Corruption has eaten deep into the fabric of the country’s wealth. Politically, corruption constitutes a handicap to institution of governance. In effect, corruption thrives where institutions checks and accountability are lacking [71]. Thus, the oil boom in Nigeria is/was a curse not a blessing to the country!

8. SOME POLICY RECOMMENDATIONS

The solution or cure to Nigeria's disease problem is to declare a state of emergency on political and economic corruption in the country by adopting the Chinese example in fighting corruption. Corruption is really ravaging the socio-economic growth and development of the country. It is only when corruption is tackled and taken care of, that diversification can take place. Diversification of the economics of Nigeria can only happen in a free corrupt environment. The concept of diversification entails a lot more than people can imagine. It involves building and connecting all the spheres of a country’s economic sectors in a free corrupt and secure environment. Diversification is capital and labour intensive, it involves great deal of capital, human labour power, mechanical power and resources for Nigeria to be diversified. Nigeria seems to meet the entire requirement but corruption hinders’ the smooth flow of this processes. If only corruption is tackle with strong institutional framework, diversification can take place in Nigeria and monies that was/is channelled to private pockets can be utilize in building and diversifying a strong Nigeria’s economic, Nigeria will come out of the resource sickness trap.

DISCLAIMER

The products used for this research are commonly and predominantly use products in our area of research and country. There is absolutely no conflict of interest between the authors and producers of the products because we do not intend to use these products as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the producing company rather it was funded by personal efforts of the authors.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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