

Oil: The Hindrance to the Economic Diversification in Nigeria

Nathan Udoinyang¹

¹*Department of Economics, Ignatius Ajuru University of Education, Port Harcourt, Nigeria.*

Abstract

Since 1956 when oil was discovered in Nigeria, thousands of barrels has been produced, refineries has been established in the country which has made oil the major such of sustenance of the country's economy. This paper term to show the relationship between oil and the Nigeria economy, the positive contribution of oil to Nigeria economy which are increase in national income, major source of foreign exchange, provision of employment opportunity, increase in the standard of living, provision of infrastructural facilities, economic growth; show the negative effect of oil on Nigeria economy which has made the country a monomania economy, change the people sense of value, and reasoning, cause political instability, laziness and how oil has hindered the economic diversification of the country in terms of negligence of agricultural sector, uneven development among other sector of the economy, rural urban draft, increase in corruption and illegal activities. The paper thus concludes that government of Nigeria need to bottleneck all the negative effect oil has impacted to the economy of Nigeria in order to make her a great nation and also provides possible recommendation in order to diversify the economy of Nigeria.

Introduction

Nigeria is one of the third world nations that is highly endowed with a maximum crude oil production capacity of 2.5 million barrels per day, Nigeria is ranked as Africa's largest producer of oil and the sixth largest oil producing country in the world. Before 1956 when oil was discovered in Nigeria, she has been an agrarian nation producing and exporting agricultural product such as cash crops and food crops for it survival and sustenance but since the commercial production of oil in Nigeria, other sector of the economy has been neglected thou the government of Nigeria has been making effort on how to diversify the economy. Various development plans has been carried out such as the First National Development Plan (1962-1968), the Second Development Plan (1970-1974), Third Development Plan (1975-1980), Fourth Development Plan (1981-1985) etc. all these development plans is aimed at improving and diversifying the country's economy.

This paper is divided into five part as follows: part one is the introduction, while part two examine oil and the Nigerian economy, part three focuses on the positive effect of oil on Nigeria economy, part four talks about the negative effect of oil on the Nigeria economy, while part five examine how oil has hindered the economic diversification of Nigeria. The final part concludes and provides possible recommendation on how to diversify the economy.

Oil and the Nigerian Economy

According to Cambridge Dictionary oil is “a thick liquid that comes from petroleum, used as fuel and for making parts of machines move easily”.

Oil can also be defined as a large class of vicious liquids that are typically very slippery and greasy which are composed of glycosides that are flammable, do not mix with water, and include animal and vegetable fats as well as substance of mineral or synthetic origin.

Types of Oil

- 1) Very light oils
- 2) Light oils
- 3) Medium oils
- 4) Heavy fuel oils

➤ Very Light Oils

They tend to be very volatile, evaporates within few days which in turn evaporates their toxicity levels. This include Jet fuel, Gasoline, Kerosene, light virgin Naphtha, Heavy Virgin Naphtha, petroleum ether, petroleum spirit and petroleum Naphtha

➤ Light Oils

They are both moderately volatile and toxic which include grade 1 and 2 fuel oils, diesel fuel oils as well as most domestic fuel oils.

➤ Medium Oils

These are most common types of crude oil. They generally have low volatility and higher viscosity than light oils which leads to higher toxicity and greater environmental impact during cleanups.

➤ Heavy Fuel Oils

These are the most viscous and least volatile crude oils as well as most toxic. They include the heaviest grade 3, 4, 5 and 6 fuel oils along with heavy marine fuels.

From the above explanation of the different types of oil VISCOSITY refers to the oils ability to flow. Higher viscosity oils do not flow as easily and therefore take more energy and effort to pump from the ground.

TOXICITY refers to how poisonous and harmful the oil is to the environment, wildlife, and humans during the extraction and refinement process.

VOLATILITY refers to how quickly and easily the oil evaporates into the air. Higher volatility oils need additional process to control their environment during extraction to ensure that as little oil as possible is lost. (www.plainsmanmfg.com).

Nigeria produce the light and heavy oil, the lighter is around 36gravity and the heavier, 20 – 25 gravity. This light and heavy oil comes from the DELTA BASIN.

Oil is one of the natural resources that have high value and demand in Nigeria and the world at large.

Oil was discovered in Niger in year 1956 in OLOBIRI then Rivers State now in the present Bayelsa state by shell. In 1958 shell started oil exportation from Olobiri field at the rate of 5,100 Barrels per day. The local demand for oil increase and was met by imports in order to meet up this demand locally and also to create employment opportunities the government of Nigeria establish the Port Harcourt Refinery in 1965 in ALESA ELEME LOCAL GOVERNMENT AREA OF RIVERS STATE and this refinery was producing 35,000 barrels per day.

Shell sole concession right over the country to exploit oil was reviewed after Nigeria gained independence and right was given to some oil companies like Mobil, Gulf, Agip, Safrap (ELF), Taxaco/Chevron were all allowed to join the exploration of oil in both the onshore and offshore areas of Nigeria.

The first offshore was struck by Gulf Oil Company in OKAN the then BENDEL state now Edo State in 1964.

As the demand for oil increase, in order for the Federal Government of Nigeria to meet up with this demand the WARRI Refinery was establish which is located in EKPA COMMUNITY OF UVWIE LOCAL GOVERNMENT AREA OF DELTA STATE Nigeria in 1978 to produce 100,000 barrels of Crude Oil per day but later in 1987 produce 125,000 barrels per day.

In 1989 another refinery was built in Kaduna which is located in CHIKUN LOCAL GOVERNMENT AREA OF KADUNA STATE. Due to the increase in the demand for oil, this refinery was producing 110,000 barrels per day.

Since the discovery of oil in Nigeria, the country has been exploring thousands and millions of barrels of crude oil up till date. Before the discovery of oil in Nigeria, does it mean that she has not been producing any other commodity or natural resources for her survival?

The answer is no. Nigeria is a country that is higher bless by God with diversity of natural resources and you will be surprise to know that each state in Nigeria is bless with one or two natural resources which she can exploit and export to other countries of the world.

Nigeria economy is heavily dependent on the oil sector which according to international monetary Fund (IMF) account for over 95% of export earnings and about 40% of government revenues. (Wikipedia.org)

Nigeria is the leading country in Africa when it comes to oil export and 8th in the world but up till date, the country is still regarded as a developing country why because corruption has eaten it system of government. The question now is all these revenue that is generated from the oil she produce what has it been used for and why will Nigeria still be regarded as a developing country despite the huge amount of money she has been generating from oil exploitation daily? This has become a food for thought for all Nigerians.

Nigeria government and its country as a whole depend on oil for survival up to the extent that out of the 36 states and the federal capital territory, not more than 7 States can stand on it own without the revenue generated from oil been allocated to them. These oil is been produce by states in the Niger Delta region of the country which has led to the negligence of other Natural Resources in other region and states of the country since the discovery of oil.

Due to this negligence, it has led to the hindrance of economy diversification of other sector of the economy in the country thereby making the country to operate a mono-economy which has been the major dalliance of economy growth and development in the country.

Positive Effect of Oil to Nigeria Economy

Oil has contributed immensely to the growth and development of Nigeria economy despite some setback which the country may be facing. Below are some of the positive contributions of oil to Nigeria economy:

- 1) **Increase in National Income:** Since the discovery of oil in Nigeria, her national income has increase drastically as a result of the revenue generated from oil.
- 2) **Major Foreign Exchange:** Since 1958 when Nigeria produces her first commercial oil, oil has become a major commodity for her foreign exchange.
- 3) **Provision of Employment Opportunity:** The oil industries in Nigeria have created thousands of employment for unskilled, semiskilled and skilled labor since its inception.
- 4) **Increase in Standard of Living:** As a result of oil discovery and the establishment of oil industries, the standard of living of the people in Nigeria has increase either directly or indirectly in the sense that even if not all it citizens is working in the oil industries but in

one way or the other those working in these industries will use the money earn to buy from those that are not working in the oil industry.

- 5) **Provision of Infrastructural Facilities:** Infrastructural facilities like good road, electricity, hospital, schools etc. has increase as a result of the revenue generated from oil which has also lead to the establishment of Niger Delta Development Commission which is in charge of the affairs of all the states producing oil in Niger Delta Region in the country and also ensuring infrastructural development in this region.
- 6) **Economic Growth:** Another positive effect of oil to Nigeria is that since it discovery, oil has led to the growth of her economy which during the era of former president Dr. Goodluck Jonathan Nigeria was rated the largest growing economy in Africa.
- 7) Entertainment and Tourist industries has grown/improve tremendously as a result of the money generated from the sales of petroleum product is been allocated to them. Former president Dr. Goodluck Jonathan gave Millions of Naira to the entertainment industry in order to improve their performance.

Some of the fund used in funding Calabar carnival which is regarded as he largest street carnival in Africa is gotten from the revenue she generate from oil.

- 8) Other Sectors like the education, health, agriculture, youth and sports ministry has all benefited from the revenue generated from oil. Some of the revenue generated from the sells of oil product is used to buy fertilizer for small and medium scale farmers, establishment of higher institutions, combating the outbreak of disease and also used in sponsoring athlete that will be representing the country in football and other athletics competitions.

Negative Effect of Oil to Nigeria Economy

Despite the positive contribution of oil to Nigeria economy, it also have some negative effects as it is said everything that have an advantage also have disadvantage. Some of these negative effects are:

- 1) **Monomania Economy:** Oil has drove Nigeria economy to a monomania economy, agriculture which was the major sustenance of the country before the discovery of oil has been neglected even up to the extent that she import food from other nations to feed her citizen if not for the intervention of president Muhammadu Buhari that closed the border of the country in order to encourage production of locally made good and also discourage the consumption of foreign made goods.

The discovery of oil has made the country to focus its attention on the oil sector thereby paying little attention to other sector of the economy which has made her to become a mono-economy as this cannot lead any nation to growth and development because for growth and development to take place in a country all or most of the sector of the economy must be growing and not only one sector.

- 2) **Oil has Charged the People Sense of Value and Reasoning in Nigeria:** Those people that are working in the oil industries are more valued and respected than their counterpart.

Those living in the non-oil producing state believe that as long as you are living in the oil producing state (Niger Delta), you are working in the oil industries therefore you have enough money which is not true. Because of this believe, the prices of goods and service has been increase in the oil producing states than their counterpart which has also lead to the increase in the cost of living in this region as a whole.

- 3) Oil and it wealth has brought social vices such as corruption, nepotism, Robbery, kidnapping, armed robbery, military etc which was not in existence before the discovery of oil in the country.
- 4) The exploration of oil in the Niger Delta region has caused soil, water and air pollution in the region like the Ogonis tribe in Rivers State up till date of this publication is still suffering from soil, water and air pollution as a result of oil exploration.
- 5) **Political Instability:** The discovery of oil has led to chaos in the political atmosphere of Nigeria such as civil war, frequent coups, counter coups, change of government that she has been experiencing all had oil undertone.
- 6) **Laziness:** Majority of the youth in Niger Delta don't want to work anymore because they believe that their community has oil and also since there is oil company in their community, the company will be paying them for oil exploration, land, water air pollution and other damages so therefore the need of working or looking for job is of no use which has made them lazy that's way Mr. President Muhammadu Buhari said that Nigeria youth are *Lazy*.

Oil: The Hindrance to Nigeria Economic Diversification

Since the commercial production of oil in Nigeria, it has become a major hindrance and stumbling block to the diversification of her economy.

Below are some of the ways by which oil has become a hindrance to Nigeria economic diversification.

- 1) **Negligence of Agricultural Sector:** The agricultural sector has been experiencing major setback as a result of the commercial production of oil in Nigeria which has led to the abandonment of some agricultural products and companies in the country thereby leading to shortage in food production.

Nigeria has been producing and exporting food and cash crops like groundnut, yam, cocoa, cotton, rubber etc. in large quantities but today she cannot even produce enough for the consumption of it citizens, not to talk of exporting them which is a result of the discovery of oil.

The rivers Basin Authorities in Nigeria is not effective and efficient like it used to be before the discovery of oil because the government has divert it attention from the agricultural sector to the oil sector which has been a major challenge facing the country's economy and has become a stumbling block to economic diversification.

- 2) **Inequitable Development among Other Sector of the Economy:** The different sector that made up the economy of Nigeria is declining as a result of the commercial production of oil. The agricultural sector is seriously facing the problem of inadequate man power to work on it farm land because all or most of the youth want to work in the oil industries.

Same thing applied to the educational sector, students don't want to study their book anymore they believe in abdulistic mentality, Godfatherism, man know man and political connection which was not like this before oil discovery. They believe that at the end of their studies, they will pay money which is gotten from the oil sector either directly or indirectly to find their way out to the oil industries or to politics thereby killing the educational sector which will greatly affect other sector development because education is regarded as the mother of all sector of the economy and also the bedrock to development. The oil sector is growing more than other sector of the economy which is not supposed to be so, because as the oil sector is growing while other sector remains stagnant it will be a major threat to the diversification of the economy of the country.

- 3) **Rural Urban Drift:** Oil industry is a leading factor that has influence rural urban drift because majority of the labor force in the rural areas will move to where this oil industry is concentrated in order to gain employment. By the time they do so the rural areas which has more abundance of natural resources and raw materials that are supposed to be explored by these citizens which will bring about economy diversification will be neglected, thereby leaving the resources and raw materials to be a waste which if given proper attention to and use properly can lead to economy diversification in the country.

Like the Igarra's and Okpe's in Edo State is highly blessed with rocks, limestone and granite but because of the rural urban drift these communities is facing has led to neglect of this resources both by the government and citizens of these communities.

- 4) **Increase in Corruption:** Before the discovery of oil in Nigeria, she has been a country that is highly respected by develop nations of the world because of the high calibers of men and women of integrity she has but today the reserve is the case why?

Nigeria was an agrarian nation before oil discovery, all or majority of it citizen was involve in agricultural activities in order to earn a living and also believe in hardworking, the level of corruption then was at it minimum because you earn according to what you produce or exchange with others but now since the discovery of oil Nigeria has been experiencing series of corrupt practices like money laundering, diversion of public fund for personal use, personalization of community/state own resources to individual owned resources etc. As all these continue to increase day by day as a result of the huge amount of money realize from the oil industry which is generated to the 36 states of the federation including the federal capital territory that is while majority of the people in Nigeria want to go into politics in order to acquire political power so that they can use this power to steal the wealth of the nation that is supposed to be used for the development and diversification of her economy for their own selfish interest which is one of the major hindrance to economy diversification.

- 5) **Increase in Illegal Activities:** The level of illegal activities either directly or indirectly has increase since the commercial exploration of oil which has led to hindrance to economic diversification in the country. Such illegal activities like militancy, kidnapping, oil bonkery, smuggling, pipeline vandalization etc has all increase as a result of oil discovery. All these illegal activities affect the economy at large and also constitute to the hindrance of economy diversification in the country.
- 6) When a staff or managing director (MD) of a non – oil producing industries is been kidnapped and been killed or paid a huge amount of money as ransom it may affect the company or reduce it production and expansion capacity depending on the type of company which will affect the economy activities in the country. Bonkery activities which lead to environmental pollution like land, air and water pollution will affect the lands which would have been used for agricultural purpose or other purpose which in one way or the other no matter how small there contribution to the economy is, will one day lead to economy diversification but as a result of all these illegal activities that is involved in the oil sector, has hindered the economic diversification of Nigeria.

Recommendation

Findings from this research indicate that there is a strong relationship between oil and the Nigeria economy. In order to prevent oil, it industries and the activities associated to it from been a hindrance to economic diversification, government should:

- 1) Give more attention to the agricultural sector, health, education etc. both in terms of finance, equipment and manpower.
- 2) Ensure comprehensive development plans among all sector of the economy.
- 3) Curtail the activities of Rural – Urban drift by establishing industries that will be in line with the resources of this rural areas, provide recreational facilities and establish higher institutions in these rural areas so as to bring development that will be equal to that of the urban areas.
- 4) Fight against corruption with all it effort and power. This fight against corruption should be a fight for all not just for the government alone.
- 5) Checkmate all the activities associated in the oil industry in order to curtail illegal activities going on in the industry.
- 6) Educate the people of Nigeria mostly the youth that they can survive and make a living from other sector of the economy other than the oil industries.

Conclusion

The major sustenance of Nigeria economy is oil as it constitutes a total of about 86% of its export revenue. Despite the major role oil have been playing in Nigeria economy, it positive contribution to the economy, it also have some negative effect to the economy which the government need to look into it at all cost in order to bottleneck this effect.

If all these negative effect started above is been taking care of and bottle neck, Nigeria will be great and will be like other oil producing nations that is becoming the center of attraction in the world at large.

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