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Nigeria: A Land Sinking in Oil (A Perspectives Paper)
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Abstract

Prior to 1973, Nigeria’s largely agricultural economy was sustained by 90% of its population, its subsistence farmers. Since then, Nigeria has suffered a case of Dutch Disease where the dependence on oil has crowded out the agricultural sector from the market. Rather than responding to the needs of the population, the Nigerian government has focused on the interests of the profitable Nigerian National Petroleum Corporation (NNPC). Despite Nigeria’s great GDP growth earning the title of an “emerging economy,” its population’s standard of living has deteriorated. In this paper, I argue that the shift from oil to small-scale farming would allow Nigeria to establish an economy resilient in the face of price fluctuations, employ its comparative advantage in agricultural capital and labor force, and make the government directly accountable to the people.

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An American investor embarks on a quest to Nigeria on behalf of Exxon Mobil. Sipping a complimentary glass of chardonnay in a first-class seat, he glances out the airplane window to see a land bulging with black gold, a fortune in his eyes. But below the airplane, beneath the attractive oil exterior, stands a Nigerian child, bones nearly popping out of his flesh, his eyes hungry, exhausted, his emaciated body aged from excruciating manual labor. Instead of the oil-financed chardonnay glass, he holds in his hand a plow, helping to grow crops for his tribe. But who is helping him? Not the government, not the foreign investors, not the oil wells. Nigeria’s $340 billion in oil profits, mask the severe poverty of the people, the 70% of the population living under $1 a day (Gary, 2003; Ogwumike, 2008).

The impoverished Nigerian population, composed mainly of farmers who, prior to 1973, were the backbone of Nigeria’s largely agricultural economy, have suffered dire living conditions because of the nation’s oil-dominated economy. Since 1973, Nigeria has transformed into a petro-state where oil accounts for 88.6% of government revenue, 98% of export earnings, and 49.6% of GDP as of 2005 (Ogwumike, 2008). As a result of this oil dependence, Nigeria has suffered the “Dutch Disease:” by increasing Nigeria’s exchange rate, the petroleum industry has made the agricultural and manufacturing sectors uncompetitive, consequently crowding out the two sectors from the market (Ross, 2003). Moreover, despite oil price decreases, the Nigerian government has refused to devalue the naira for fear of inflation, making imported crops cheaper than domestic crops (“Cold Comfort Farm,” 2000). Because the Nigerian farmers are unable to profit from their domestic crops, the poverty rate has increased from 28% in 1980, to 66% in 1996 (Gary, 2003). In Nigeria, an economy based on oil and a government profiting from oil does not sustain a population dependent on agriculture.

Rather, it is essential for Nigeria’s economy to incorporate its farmers into the market by ending its dependency on oil in order to make room for agricultural exports. In this paper, I analyze two conventional mechanisms of Western modernization that can be implemented in the process of reviving the agricultural industry: industrialization and marketization. The Western example has demonstrated that industrialization centralizes power in large
corporations, which enjoy economies-of-scale that drive down production costs. While agricultural progress and industrialization have gone hand-in-hand in the Western model, the first Western mechanism of industrialization would further empower Nigerian corporations, which already drive public policy, thus suppressing Nigerian farmers. On the other hand, the second mechanism, marketization, that is the removal of price controls, tariffs, and subsidies, would facilitate the competitiveness of Nigerian farmers in the global market against industrial powerhouses such as the United States. I contend that the shift from oil to small-scale farming would allow Nigeria to establish an economy resilient in the face of price fluctuations, employ its comparative advantage in agricultural capital and labor force, and make the government directly accountable to the people.

**Stabilizing the Economy**

Agriculture would protect the Nigerian economy from the volatile price fluctuations of oil that make the economy unstable. As a result of the price fluctuations, Nigeria has experienced unsteady GDP growth, as high as 6.75% growth in the 1970s and as low as 1.33% just a decade later (Oluba, 2010). In the 1980s, the collapse of the world oil market not only drastically reduced Nigeria’s GDP growth, but also buried the economy under $30 billion of external debt and $22.2 billion of internal debt by the end of the decade (Dibua, 2008). These price fluctuations do not result from Adam Smith’s free market forces. Rather they are the outcomes of a politicized, cartel-driven oil industry: the Organization of Petroleum Exporting Countries (OPEC), centered in the Middle East, regulates the supply and prices of global oil based on both economic and political factors. By depending on oil exports and being part of this organization, Nigeria sacrifices its economic sovereignty to these Middle Eastern oil giants. Despite this oil mono-cultural economy, Nigerian subsistence farmers, composing 70% of the population, grow a variety of crops to meet the different nutritional needs of their family such as grains, fruits, and vegetables, so price fluctuations of any one crop is cushioned by the other crops in the market (Ugochuku, 2008). Yet how can small farmers send their diversified crops to the world market? Dr. Abubakar Bukoli Saraki, governor of Kwara State in Nigeria, categorizes Uzodinma Usman Obafemi as the typical Nigerian farmer who lacks access to this world market. During good harvests when Obafemi is able to grow a surplus, he is forced “to sell it cheap at the village market or [his crops] go to waste” (Saraki, 2005). The Nigerian government must intervene to help farmers such as Obafemi, not only to exploit the country’s profitable crops, but to sustain the lives of these citizens, merely struggling to feed their families.

While the oil industry hurts other economic sectors such as agriculture and manufacturing, agriculture actually strengthens other sectors. Through the multiplier effect, agriculture builds up the income of farmers like Obafemi who can then spend money in other industries, thereby building up these other economic sectors (Ross, 2003). Agriculture makes the manufacturing industry self-sufficient since Nigerian companies do not have to depend on imports for raw materials such as rubber; instead, they can use domestically produced input materials from Nigerian farms free of the import tariffs and transportation costs imposed by foreign companies. While the rubber imports ultimately benefit the foreign country where the
rubber was produced, domestic rubber benefits the Nigerian economy. In contrast, oil concentrates power and money at the top, with the Nigerian National Petroleum Corporation (NNPC) and the government. Consequently, Obafemi does not have the money to spend in other industries; his children who have fled to the city searching for work in the manufacturing industry can no longer find jobs, worsening his family’s already destitute lives and increasing the country’s dependency on oil, since the other economic sectors are no longer competitive (Saraki, 2005).

Oil is not a sustainable foundation for the economy; not only does it economically cripple the agricultural sector, but it also environmentally harms the land. Moreover, its reserves are being depleted rapidly. For example, gas flaring is used around oil wells to prevent pipes from over-pressurizing; these emitted gasses contain more than 250 toxic chemicals. As a result, 100% of crops are destroyed within a 200-meter radius of the flaring, 45% within 600 meters, and 10% within one kilometer (Ugochukwu, 2008). The oil reserves run out themselves, at a depletion rate of 2.81%, meaning that at the current drilling rate, the reserves will exhausted in just 35.55 years (Oluba, 2010). Local farming, on the other hand, employs environmentally beneficial practices that do not use artificial chemicals such as pesticides and do not deplete the soil with mass production of any single crop.

**Comparative Advantage in Agricultural Labor and Niche Crops**

With a population of 140 million and 79 million hectares of arable land, less than half of which has been used, Nigeria possesses the ideal conditions for a booming agricultural sector (Ogbonnaya, 2010). In the 1970s, before oil monopolized the economy, Nigeria dominated the world market for groundnuts, palm oil, and cocoa. Beyond these main commodity crops, Northern Nigeria is also home to sorghum, millet, and cowpeas, while Southern Nigeria supports the growth of tree and root crops such as cassava, yams, and rubber (Watts, 1987). The biodiversity of Nigerian farms is key to its competitiveness in the world market. By taking advantage of niche crops, that is crops that are indigenous to the land and are primarily produced by Nigerian farms, Nigerian farmers will enjoy constant global demand in a small market with limited competing crops. This global demand is inelastic, so consumers will continue to buy these crops despite changes in prices; for example, cassava is highly sought by European firms for the production of ethanol, and these firms will continue to buy cassava from Nigeria even if other crop prices drop since Nigeria is one of the only cassava-producing nations (Maritz, 2008). Accordingly, small Nigerian farmers do not have to compete against industrialized, mass produced crops. In other words, Obafemi’s small family farm is not pitted against a U.S. corn conglomeration.

Yet oil has prevented farmers from realizing their potential profitability, and in fact, drove many of them off their land. During the oil boom, many small farmers left their land and traveled to the cities to try to get a piece of the massive oil profit. Whereas in 1963, 80% of the Nigerian population lived in the countryside, in 1991 this number dropped to two-thirds of the population ("Cold Comfort Farm," 2000). As a result, food production decreased while poverty increased. Most of the Nigerian people who migrated from rural to urban areas did not profit
from the oil. Rather they suffered unemployment, high prices for domestic goods, and poor living conditions in midst of a domestic food supply too small to sustain the population. This urban flight leaves farmers like Obafemi working single-handedly to sustain his farm, abandoned by his children who have gone to the city searching for ‘profitable jobs’ (Saraki, 2005). Yet who must feed the urban settlers, who must feed these children? It is Obafemi and his fellow farmers: the people most relied on for survival, yet the ones least assisted.

Making the Government Accountable

Why has the government not addressed the needs of these farmers, failing to fulfill its end of the social contract where the citizens cede their sovereignty in return for protection from poverty? The answer lies in the government’s dependence on the highly concentrated oil industry for profit. The NNPC is vertically integrated, meaning that it exclusively controls “oil exploration, production, refining, pipelines, storage chemicals, marketing, and petrochemicals” (Gary, 2003). Rather than training the Nigerian people for the highly skilled jobs in the oil industry, empowering the local population, the NNPC predominately hires trained foreign workers, composing 70% of the oil labor force (Edemhanria, 2010). Consequently, the Nigerian people, such as Obafemi’s children searching for these profitable jobs, do not actually benefit from the wealth of their land. Why has the government not stepped in and broken up the company’s monopoly over the oil industry, just as the U.S. government broke up the Rockefeller Standard Oil monopoly in 1911? In contrast to the United States’ pluralism, far from perfect in itself, where the people drive public policy, Nigeria follows a corporatist model where the Nigerian government is mainly concerned with the corporations’ views. Essentially, the corporations become part of the government; the NNPC, lacking its own board of directors until 2002, exemplifies a Nigerian corporation predominately controlled by the government for almost 20 years (Gary, 2003).

Despite Nigeria’s status as a democracy, the peoples’ interests are not reflected in public policy. Since oil provides revenue for the government, though not any services from that revenue for the citizenry, the government does not need to tax the people, and therefore does not have to be accountable to the people about what it does with the public funds. Oil has trapped the nation into a vicious cycle where the government invests in NNPC to profit from the petroleum and then uses this profit again to fund NNPC, completely alienating the rest of the population while stuffing its own pockets with oil funds.

Because the government directly profits from oil, Nigeria is a classified as a rentier state. Government officials and corporations both engage in the ruthless quest for oil profits, or “rents,” in a zero-sum game where only one party wins, while the rest lose completely (Ogwumike, 2008). The Nigerian people lose, the corporations win: this is Nigeria. Without having to tax the people, the Nigerian government is unwilling to provide social welfare programs for the people. In reality, what is oil funding? Not health care, not social security, not electricity, not even basic food and shelter. What is it funding? Corruption, political turmoil, economic instability. In 2010, Nigeria was ranked 134th out of 178 countries in the Corruption Perceptions Index conducted annually by Transparency International, the lower the ranking, the
more corrupt the country (Akosile, 2010). For example, in the 1990s, the Nigerian dictator, Abacha, stole $4 billion of government funds, 90% of which came from oil revenues. The greatest level of corruption, though, occurs at the local government level where officials divert federal funds from agriculture. For instance during the oil boom, the federal government allocated 13% of Nigeria’s GDP toward agriculture, but the states diverted most of these funds, spending only 5% of the GDP on the farmers (Gary, 18). Clearly, the government is not accountable to the millions of starving people, to Obafemi who is struggling to feed his family, at 60 years old forced to work the farm alone without his children (Saraki, 2005); it is accountable to a lifeless, black liquid. As long as oil is the backbone of the economy, Obafemi cannot force the government to respond to his needs because he is not paying taxes, he is not impacting the country’s GDP; as far as economic statistics go, he is dead weight to the country’s “progress.” Obafemi is powerless.

Tools for Agricultural Progress: Industrialization vs. Marketization

Because of such a corporatist system and injustice to the farmers, Nigeria should not industrialize, further consolidating power in big corporations and the government, producing high yields of single commodities. Industrializing agriculture with pesticides, fertilizers, and massive irrigation systems will only replace one oppressive petroleum company with another oppressive agricultural company. Subsistence farming, on the other hand, will redistribute funds from the top power giants to the bottom, the farmers.

Global marketization will also diffuse the concentrated power and make Nigerian crops profitable in the world market; eliminating Nigerian price controls and subsidized commodities from developed nations will benefit Nigerian farmers with a competitive and level trading environment. If the Nigerian government plans the economy through price controls or tariffs, it possesses non-transparent, unaccountable control over public funds since it sets the rules of trade. However, in a free market system, the government is subject to market prices, market supply, and market demand; it must follow clear economic rules to earn its pay. In an agricultural-based economy, the government would be accountable to the farmers who are producing the exportable commodities, the farmers who now produce the revenue that runs the country and therefore the salaries of the government officials.

However, for Nigerian crops to be profitable in the world market, developed nations such as the United States, would also have to remove subsidies, if possible, and certainly tariffs from their own agricultural policies. The United States’ Farm Bill provides subsidies for mass-produced corn and soybeans and as Marcia Clemmitt, former editor and chief of Medicine and Health notes, thus “encouraging developing countries to favor U.S. produced food at below market prices” over their own locally produced food. While the Nigerian government cannot realistically demand that a first world nation reform its agricultural policy, it can wield more influence through the World Trade Organization (WTO) in coordination with other developing nations. However, past WTO initiatives such as the Doha Round, begun in 2001, failed to force developed nations to remove subsidies; the Doha Round conferences ultimately ceased in 2008 because of the global economic crisis. Yet if Nigeria begins increasing its niche crop exports into
the world market, it will also increase its bargaining power that will influence developed nations to remove the subsidies. Nigeria will maximize accountability and profitability in a free global market for agriculture.

Critical of marketization’s ability to solve Nigeria’s poverty and economic instability, Jeremiah Dibua, professor at Morgan State University, presents the unsuccessful Structural Adjustment Program (SAP) in Nigeria, as proof of marketization’s failure. Implemented in 1986 by the World Bank and International Monetary Fund (IMF), the SAP addressed the weakening agricultural sector composed of suffering farmers such as Obafemi, in face of oil reliance. The program aimed to “enhance agricultural production, raise rural incomes, and make regional mix of crop production more efficient” through “devaluation of the currency and liberalization of its agricultural policy.” At first, the price of cocoa beans enormously increased by almost a factor of 27, from September 1986 to January 1989; however, the price plummeted by 286% per ton by May 1989 (Dibua, 2008). Consequently, the SAP ruined small farmers who had borrowed large sums of money for increased cocoa production and ended up bankrupt and buried in debt after the price drop. Without further examining the cause of the cocoa price fluctuation, Dibua plausibly supports his claim that “devaluation, deregulation and liberalization” do not benefit the Nigerian people.

Yet Dibua fails to consider the flaws in the enforcement of the SAP in Nigeria. Firstly, the foreign investors were the ones who initially profited from the cocoa price boom rather than the actual farmers. Suspicously, the foreign countries, the homes of these investors, in the World Bank and the IMF were the ones that encouraged the SAP. Once these foreign merchants lost confidence in Nigeria’s currency, the investors pulled money out of the Nigerian market causing the price of cocoa to drop drastically, plunging the country into inflation (Dibua, 2008). Were the World Bank and IMF aiming to benefit Obafemi and his family, or were they trying to thicken their investors’ already filled wallets? Ultimately, these international organizations enforced the SAP based on the engrained mentality of European modernization: free trade, fast machines, big companies, success that only reaches the top economic sector. Because the Nigerian government did not gradually remove trade barriers, many Nigerian farmers concentrated their efforts on growing cocoa during the price increase. As a result, Nigerian farmers were in jeopardy once the price of cocoa beans dropped. Similarly, Boris Yeltin’s Shock Therapy program to liberalize Russia’s planned economy rapidly in 1992 destroyed Russia’s economy and caused massive inflation primarily because the Russian people were uneducated about market forces. Had the Nigerian government eased the farmers into a free market system, encouraging diversified, subsistence farming, the farmers would not have been as vulnerable to the price fluctuations.

The Indonesian Model

Gradually transitioning into such an agricultural free trade environment, Indonesia’s government has not only strengthened its agricultural sector, but has also decreased the country’s oil dependency through public policy aimed at non-oil sectors. Indonesia’s example proves that Nigeria too can decrease reliability on oil through public policy. Like Nigeria,
Indonesia experienced a rapid oil boom in the 1960s and 1970s resulting in a weakened agricultural sector. However, the Indonesian government successfully increased its citizens’ standard of living by investing in the agricultural sector and universal primary education, increasing manufactured exports, promoting a “competitive exchange rate,” and controlling deficit spending. By the 1990s, Indonesia’s real income increased four times while Nigeria’s remained unchanged. While just four decades earlier, Indonesia’s infant mortality rate was higher than Nigeria’s, by 2000, Indonesia’s infant mortality rate was one third that of Nigeria’s. Although Indonesia did not decrease oil drilling, it has grown less dependent on oil since the 1990s, while Nigeria has become more dependent. Consequently, Indonesian farmers’ incomes increased by 65% from 1962 to 1984, while Nigerian farmers’ incomes decreased by 15% (Ross, 2003). Like Indonesia, Nigeria is fully capable of redistributing wealth to its people, assisting Obafemi and his family while stabilizing the economy.

Recent Reforms

Nigeria’s 2010 administration under Goodluck Jonathan, has begun to address the weak agricultural sector. Dr. Abba Sayyadi Ruma, the Minister of Agriculture and Water Resources, has proposed the THISDAY program to strengthen the agricultural sector by “commercializing agriculture” and turning Nigeria into an “agro-powerhouse.” Similar to past agricultural initiatives such as Operation Feed the Nation (1976-1980) and the Green Revolution in 1980, the program encourages industrializing agriculture, posing the risk of consolidating agricultural corporations. However, the program also proposes the creation of “stop shop centers,” where small farmers will have access to agricultural inputs such as fertilizers, animal feeds, and seedlings (Ogbonnaya, 2010). Such centers should also be the site of trading posts where farmers can export their crops, modeled after the city of Ibadan in Southwestern Nigeria, the center of trade for cocoa, cassava, and cotton (FIBSU, 2010). Unlike the protectionist initiatives of Operation Feed the Nation and Green Revolution, which restricted Nigeria’s agricultural trade, THISDAY encourages a liberalized agricultural policy with decreased price controls and tariffs. The program can benefit farmers by providing easy access to the global market through the trading posts and education programs about free market forces.

The International Response

Even with recent national initiatives, the majority of the Nigerian population still suffers from poverty. Rather than targeting this desperate condition of the people, international forces have focused their attention on Nigeria’s supposedly prospering oil industry. The IMF has gold-coated Nigeria’s status as the “third fasting growing economy” with 7% GDP growth, a superficial assessment of the country’s development through the eyes of the wealthy corporations and government officials. But the 19.7% unemployment rate in 2009, the 60% of the population below the poverty line in 2010, the suffering farmers: this is a side of Nigeria that the international arena has buried below a surface of lies of oil profitability (Oluba, 2010). When one fifth of the United States’ oil is imported from Nigeria, no wonder Washington classifies
Nigeria as an “emerging market,” no wonder the United States focuses on its vested energy interests rather than the deteriorating conditions of the farmers (“Nigeria: the New Era of Energy is Coming,” 2009). The Exxon Mobil American investor did not look into the eyes of the Nigerian child; he looked at the dollar signs promised by the oil well.

Conclusion

I have argued that a Nigerian economy predominately based on small-scale agriculture rather than oil will empower the people, stabilize the economy, and force the government to address the needs of the agricultural population. That is not to say that the economy should completely shun oil revenue. Rather, by maintaining a solid petroleum industry and manufacturing industry in the long term, the nation will build a resilient economy that employs various sectors of the population. However, in the short term, emphasis should be placed on recovering the agricultural industry to rapidly incorporate the majority of the population into the market, by such process temporarily decreasing the relative importance of the oil sector. Once a sizable subsistence farming industry re-emerges, reforms to strengthen the petroleum and manufacturing industries can follow (to a reasonable extent without reverting to the monocultural past). These reforms can include oil industry training programs for the Nigerian people in order to shift to a domestic labor supply in the oil sector from the currently pre-trained foreign labor force. The ultimate goal is to connect the government and economy to the citizens.

Of course, clear challenges stand in the way of this transformation. Firstly, how will Nigerian farmers be able to access the world market? Even strategically placed trading posts may be insufficient in a world market dominated by developed agro-power houses such as the United States. Secondly, will the World Trade Organization have enough power to force developed nations to reduce subsidies to make room for these developing farmers? Finally, the toughest hurdle, can a Western-led world move beyond the “recipe” for modernization, where the main ingredient is industrialization? Will international organizations allow Nigeria to develop an economy based on the so-called “primitive” system of subsistence farming? These challenges are difficult to address because they require a change in mindset of what progress truly means: the improvement in the life of the people rather than an improvement in machines.

In order to stabilize Nigeria’s economy and raise the population’s standard of living, thereby turning Nigeria into a reliable trading partner, the world must see beyond Nigeria’s gold coating, beyond its oil pyrric victory, where the prizes of GDP growth and a thriving export market conceal the country’s ultimate defeat: poverty, government corruption, and economic instability. The Exxon Mobil American investor must look beyond the oil wells, into the face of the Nigerian child, through the eyes of Obafemi.
References


