

Physical and socio
economic
characteristics of
nigeria economics
essay



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Starting from 1914 when Nigeria was created until the end of 1960 when Nigeria got her independence, and until the end of the first decade after independence. Nigerian economy has been agro-based. Agriculture has been the main source of income for the economy. During 1914-1959 when Nigeria was still being colonized by the British, it was stated that Nigeria was being exploited for its agricultural products. The country was known for the production of some main agricultural products like groundnut and cotton (produced in the North), cocoa (produced in the West), and Palm oil (produced in the East, which includes the Niger-Delta region). About 70 percent of the entire population was engaged in one form of Agriculture of the other. During the colonial era, railroads, roads and harbors were developed and market for consumer goods emerged as well with agricultural marketing board playing the role of NNPC today .

Exploration of oil in commercial quantity started in 1956 but did not play any major role until the early 1970s. According to Robinson`s report, in the early 1960s, revenue from oil accounted for less than 10 per cent of Nigeria`s revenue base which can be seen in 1963 and 1964 where oil revenues were only 4. 1 per cent and 5. 9 per cent respectively of the total revenue of the country. This means that Nigerian economy was formally not oil based, the majority of the country`s revenue during this period was from Agriculture, and more than 70 per cent of the people were employed in this sector. However, after the Nigerian civil war in 1970, the yield of oil began to increase and the dominance of agriculture in the country`s economy began to decline. Agriculture sector brought more than 50 percent of Nigeria

national income before the discovery of oil but has now fallen to a dismal 20 percent .

According to the UN Food and Agriculture Organization 1987 estimate, there were 12. 2 million cattle, 13. 2 million sheep, 26. 0 million goats, 1. 3 million pigs, 700, 000 donkeys, 250, 000 horses, and 18, 000 camels, mostly in northern Nigeria, and owned mostly by rural dwellers rather than by commercial companies. Fisheries output ranged from 600, 000 to 700, 000 tons annually in the 1970s. Estimates indicate that the output had fallen to 120, 000 tons of fish per year by 1990.

The presidency of president Obasanjo from 1999 gave life back to the agriculture sector which now grows at a steady 7. 5 percent annually and contributed to 41 percent of gross domestic product. This push was as result of new mechanized farming techniques alongside the relocation of some ex-Zimbabwean white farmers in Nigeria .

3. 2 Discovery of Crude Oil in Nigeria

The discovery of oil in Nigeria to a large extent altered the nation's economic landscape with its concomitant political consequences. As earlier as 1908, various oil explorations had started in Nigeria but it was not until 1958 that crude oil became officially a source of foreign exchange earner for Nigeria. Oloibiri in the present Bayelsa state of Niger Delta region was where oil was explored first in commercial quantity. Within this time, there was a daily output of 6000 barrel of crude oil. Let us note that all the oil exploration was at this stage being carried out by foreign companies such as Shell

Petroleum Development Company (SPDC), Mobil, and Agip etc. It is crucial <https://assignbuster.com/physical-and-socio-economic-characteristics-of-nigeria-economics-essay/>

also to emphasize that it was only crude oil extraction that was taking place within this period as the capacity of refining the crude oil was not in place.

The impact of the oil exploration as a source of government's income, at this time was not much as agriculture retained the primary source of national income. As Robinson pointed out, in the early 1960s, revenue from oil accounted for less than 10% of Nigeria's revenue base. This assertion becomes undoubtedly clear when it is considered that the period in question was the early stage of major exploration activities. We have noted earlier that prior to discovery of oil, agriculture was the main base of the nation's economy as well as employing the most number of workers in the labour market.

However the prospect of large deposit and role oil would occupy in the Nigerian economy became evident starting from the early 1970s. The Nigeria civil war coincided with the rise in the world oil price, and Nigeria was able to reap instant riches from its oil production. Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971 and established the Nigerian National Petroleum Company (NNPC) in 1977; a state owned and controlled company which is a major player in both the upstream and downstream sectors. From an insignificant 4. 1% of the early 1960s, revenue from oil climbed to 98% within the first half of 1980 before dropping to 83. 5% within the year 2000 and 85% in 2007.

Notwithstanding the endemic problems of civil unrest, political instability, border disputes, corruption and poor governance, international oil companies have always seen Nigeria as an attractive area for upstream investment. A

number or reasons account for this among which are the quality of Nigerian Oil which is almost free of sulphur and the fact that Nigeria is well located in supplying oil markets in North America. The United State of America is currently the leading importing country of Nigerian oil. The Niger Delta, the Anambra Basin, the Benue Trough, the Chad Basin and the Benin Basin are where most of the oil exploration has taken place. The Niger Delta which includes the continental shelf and which makes up most of the proven and possible reserves retains the most prospective basin. Virtually all oil production from the earliest exploration time to current mining time has been concentrated in this basin.

3. 3 Natural Gas

Natural gas is another confirmed fossil fuel Nigeria has in abundance. Unlike crude oil, its exploration has not peaked but it is estimated that Nigeria has around 3. 5 trillion meters of gas reserves both oil and non oil related. Through the establishment of Nigeria Liquid Natural gas (NLNG), Nigeria has started an active exploration of natural gas as another major source of exchange earner. In fact it is being projected to be the major source of exchange earner for the nation above oil in few years. As in the case of crude oil, over 60% of the confirmed reserve is within the east of the Niger Delta. It is the of the world`s 7th largest confirmed gas reserve and largest in Africa. The biggest challenge in the gas sector is the damage to the environment through gas flaring. In Niger Delta flaring of gas is a constant phenomenon and occurs in all oil exploration locations in Nigeria. See some examples in figure 2 below. When crude oil is brought to the surface, the gas released in that process is called associated gas. Oil companies claim that <https://assignbuster.com/physical-and-socio-economic-characteristics-of-nigeria-economics-essay/>

this associated gas is flared for safety reasons because there are not infrastructures on the ground to bring it to the market. In developed countries, this practice has been curbed partly due to the recent rise in Natural gas prices.

Figure 2: Gas flaring in Farmlands near an oil well in Niger Delta

3. 4 Other Natural Resources

Nigeria is equally endowed with other natural resources such as tin, iron, ore, coal, limestone, bitumen, lead and zinc. They have been confirmed to be in commercial quantities and have the potential of making significant impact on the nation's exchange earning. Exploration of these aforementioned resources has not been maximally effective. A number of reasons account for either absolute neglect or under performance in commercially maximizing the potential of these resources. The resultant low share of these solid minerals in the nation's GDP which is within 1% can be attributed to over dependence on oil and the underdeveloped nature of the sector, resulting from inadequate and inefficient policies for mineral exploration development.

However there is a renewed effort by the Nigerian government to reposition the mining industry. In that direction, Ministry of Solid Mineral Development was recently created to oversee and review the activities and proffer a more profitable way of harnessing the enormous wealth in the mining industry. For a long time, mining has been on an informal level and illegally carried out.

This denies the government the relevant rents and endangers the environment as mining activities were not regulated.

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3. 5 Effects of Oil, Gas and other Exploration Activities on Nigeria's

Economy

The immediate effect of oil on the nation's economy was an increase in the national income. The rise in world demand of oil in early 1970s increased the nation's oil revenue. With this increase in the national income, the government embarked on a number of projects and took some steps to direct and plan economic growth and development. There was a progressive expansion of education with a view to reducing illiteracy and provide the necessary skills and labour for development. Nine additional universities were created in the 1970s and another sixteen in the 1980s in addition to five already in place in a bid to prepare the nation manpower for the envisaged economic development.

There was equally massive investment in the construction industry. Construction of road networks to link up the cities and rural areas were possible through the revenue accruable from the oil. In the major cities, there were big investments in construction of both residential housing and government offices as well as communication networks. Hydroelectric dams were built for electricity generation and secondary industries such as automobile assembly plants were established to create more employment opportunities for the growing population.

In a bid to position the industrial future of the country, there was a huge investment in steel industry such as Ajaokuta Steel Industry. This was established with a view to providing the local industries with the necessary tools needed for industrialization. The articulation was that for any economy

to grow, steel industry is a condition that must be met. Hence, even against the advice of the World Bank, the Nigerian government proceeded with the help of the Russians in establishing the steel industry.

However, the effects of oil discovery are not all pleasant. One of the major tragedies of oil discovery in Nigeria is the collapse of the agricultural sector. There was, with the discovery of oil and a gradual dismantling of agricultural industry. Pre-oil Nigeria's economy was powered by agriculture. According to Ugochukwu and Ertel, despite the rapid growth of oil industry during 1970s, agriculture still accounts for 40% of GDP and provides employment, both formal and informal, for a large majority of the population.

Exploration activities have been a major contributor in the environmental pollution and degradation since discovery of oil in Nigeria. Most of the areas hosting oil extraction activities are generally polluted hence making life difficult for both human and aquatic species. Gas flaring has been a source of concern to the environmentalists. For a long time until recently over 60% of gas production is flared. This obviously contributes in no small measure in the global warming.

There is the problem of social injustice in the sense that the Niger Delta region which hosts all the oil exploration activities is backward in terms of social and infrastructural developments. This has led to is the continuing civil conflict in a quest to address what is perceived as an injustice. The Movement for the Emancipation of the Niger Delta (MEND) began a wave of attacks and kidnappings of foreign oil workers in early 2006, knocking out close to a quarter of Nigeria's oil output in a matter of weeks.

Continued bombings of oil pipelines and abductions of oil workers by armed gangs in the creeks, these activities have cut Nigeria's crude oil output sharply over the past three years.

Many foreigners have been kidnapped since MEND began its attacks. Most hostages are later released unharmed, but oil production has dropped below 2 million barrels per day, compared to 2.4 million bpd before the attacks and a potential 3 million bpd.

The unrest has forced oil giants such as Royal Dutch Shell, ExxonMobil and Chevron to move all but their most essential foreign staff out of the region, while the drop in oil output has eaten into Nigeria's foreign earnings, compounding the effects of the global economic slowdown. The Igbo effort to secede from Nigeria, which led to the 1967-70 civil wars, was deeply rooted in ethnic tensions and Nigeria's colonial past; but the rebellion was encouraged by the presence of oil, and hence the belief that independence would be economically beneficial for the Igbo people.