



SCHOOL OF ECONOMICS AND MANAGEMENT

Bachelor Programme in Economy and Society

Nigeria's Black Gold: Unravelling the Power of Oil

A Case Study on the Impact of Oil Resources on the Nigerian Economy

By

Alice Vångell

vangellalice@gmail.com

Abstract

This thesis investigates how holdings of petroleum influence economic development in the case of Nigeria. The country experienced rapid and substantial economic growth, in terms of GDP, in close proximity to its discovery of oil. Therefore, by applying an explanatory qualitative case study with semi-structured interviews, the thesis investigates the relationship between oil and its effect on the country's growth. The main findings are that the revenue gained from the oil industry is the primary driver of economic growth over the past five to six decades. However, oil has also generated negative societal effects, such as corruption, conflicts and economic instability. The conclusion reached is that the oil resources and industry have contributed to economic growth, in GDP, by generating major export revenue. However, it has impeded development in the country as a whole.

Keywords: *Economic Development, Oil, Nigeria, Resource Curse*

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Table of Content:

1 Introduction.....	1
1.1 Motivation.....	1
1.2 Aim and Research Question.....	2
1.3 Outline of Thesis.....	2
2 Background.....	2
2.1 Nigerian Oil Reserves.....	2
2.2 Nigeria's Economic Status.....	3
2.3 Governance in Nigeria and its Implication for Managing Oil Resources.....	4
3 Literature Review & Theoretical Approach.....	5
3.1 Previous research.....	5
3.1.1 Resource curse.....	5
3.1.2 Rentier State.....	9
3.1.3 Falling and Fluctuations in Oil Prices.....	11
3.1.4 Oil Prices and Economic Growth in Oil-Exporting Countries.....	12
3.1.5 The Future of Oil.....	16
3.2 Theoretical Approach.....	19
4 Method.....	21
4.1 Research Design.....	21
4.2 Data Collection.....	21
5 Empirical analysis.....	24
5.1 Results.....	24
5.1.1 Oil Relative to Economic Growth.....	25
5.1.2 Oil and Impact on the Economy:.....	26
5.1.3 Consequences of the Oil Exploitation.....	28
5.2 Discussion.....	31
6 Conclusion.....	33
Reference list:.....	34
Appendices.....	41

1 Introduction

1.1 Motivation

Economic growth is an essential factor for achieving prosperity, reducing poverty, improving socioeconomic progress, and developing the overall standard of living within an economy. The country Nigeria, situated on the western coast of Africa, has historically been one of the poorer countries in the world with slow economic growth (Collier, 2007). However, its economy has experienced substantial economic growth in the past decades, now making it the greatest African economy in terms of Gross Domestic Product (henceforth GDP). However, the growth per capita has been very modest, and there is now a notable share of the Nigerian population living in poverty. The World Bank Group (2022) finds that in 2019, 40 per cent of the Nigerian population lived below the country's poverty line, which Sasu (2022) defines as living on less than 334 US dollars per year. Additionally, there is no indication that this trend is about to change, instead, it is projected that the share of inhabitants living in poverty is to rise (World Bank, 2023). Thus, it is presumably in the interest of both the Nigerian people and the Nigerian policymakers to improve living standards. The Department of International Development in the UK (2008) finds that throughout history, economic growth is by far the most efficient way to reduce poverty. Hence, it is of high relevance to investigate the topic of Nigeria's economic growth to gain an understanding of how it is currently functioning. Also, to better understand what areas can be improved for more efficient and inclusive growth.

Furthermore, Nigeria possesses notable reserves of petroleum, making it the 15th greatest oil producer in the world (British Petroleum, 2022). The industry now dominates the exporting sector by accounting for more than 95 per cent of the total exports, and it generates a notable share of the country's GDP (Akinlo, 2012). Thus, such holdings could be beneficial for the domestic economy and facilitate rapid growth. However, on the contrary, Nigeria's oil might have contributed to a more unstable and volatile economy because of the country's high dependence on the oil industry (Collier, 2007). Collier (2007) claims that once Nigeria began extracting oil, other export industries within the agricultural sector, such as cocoa and peanuts, became unprofitable in comparison, and were therefore neglected and rapidly collapsed. Additionally, there has been an increase in internal conflicts related to natural resources in the past 30 years (Blench, 2004), something which generally disrupts economic progress (World

Banks, 2018). Taken these aspects together it is thus relevant to address the topic of how Nigeria's oil resources affect the country from several perspectives, to better understand its overall impact on the economy. By doing so policymakers can obtain a better understanding of how the country ought to relate to its resources for maximised benefit.

1.2 Aim and Research Question

The aim of this thesis is to investigate the impact Nigeria's reserves and industry of oil have on their economic development, measured in terms of GDP. This is primarily done by conducting semi-structured interviews. Further, the thesis seeks to explore several aspects of Nigerian society that are influenced by the oil industry, with the goal to obtain a holistic view of the overall impact on the economy. Additionally, it intends to explore the theory of the 'Resource Curse' in relation to Nigeria, to better understand if their natural resources are an advantage to their economy, or if the oil, on the contrary, is obstructing the country's development. The thesis contributes to and improves current knowledge in the field of Nigeria and its oil, by providing an understanding of the main issues and benefits related to it. This is done by answering the following research question: '*How do Nigeria's petroleum reserves and industry affect its economic development?*'.

1.3 Outline of Thesis

The thesis is divided into six sections, where the following provides some general background about Nigeria and its oil. Section 3 discusses previous research relevant to the topic of this thesis. Section 4 describes the method and how it has been conducted. Section 5 presents the empirical findings and discusses the theoretical approach relative to the result. Section 6 concludes.

2 Background

2.1 Nigerian Oil Reserves

In 1956, substantial reserves of petroleum were discovered in Oloibiri, located in Bayelsa State in the south of Nigeria. The area is within the Niger Delta Region which is where all productive oil exploration and oil exploiting activities are taking place (Fatubarin, 2015). In 1958, the full production of oil began, inevitably affecting Nigeria's economic dynamics and structure (Obi, 2010). In 1961, the revenues from oil as a share of GDP accounted for 0.9 per cent, in 2000 the share had increased to 47.72 per cent (Akinlo, 2012). In line with this, the export of crude oil has

substantially increased in relation to the total amount of Nigeria's exports. In 1961 oil accounted for 6.65 per cent of total exports, while in 2009, it had reached a share of 96.73 per cent (Akinlo, 2012). Additionally, revenue from the oil industry accounts for more than 80 per cent of the total governmental revenue (Okonofua, Atikpo, Lasisi, Ajibade & Idowu, 2023). The development has led, according to Fatubarin (2015), to the Nigerian economy being heavily dependent on the oil sector. Therefore, it is evident that the discovery and commercial production of crude oil has had a major impact on the Nigerian economy.

An implication of the British colonisation of Nigeria is that the British oil companies Shell and British Petroleum (BP) were granted an oil exploration licence in 1938. This implied that the companies held a monopoly over oil exploration in the entire territory of Nigeria (Frynas, Beck & Mellahi, 2000). Resultantly, at the time of the major petroleum findings in 1956, Shell and BP had almost absolute control over the oil resources in the country. However, in 1959, the oil exploration monopoly was abolished, leading to the entrance of other oil companies into the market (Obi, 2010). The next year, 1960, Nigeria was granted full independence from Great Britain. Despite these two factors, BP and Shell retained their control over the Nigerian oil industry, whilst the state had very limited insight (Frynas, Beck & Mellahi, 2000).

In 1971, Nigeria became a member of the Organisation of Petroleum Exporting Countries (henceforth OPEC). The organisation works to secure a stable oil market by unifying petroleum policies between the member states, hence allowing for efficient and regular production of petroleum (OPEC, 2023). Joining the OPEC implied that the Nigerian state strengthened their control over the country's gas and oil resources. However, Shell still holds a dominant position as the biggest oil company operating in Nigeria (Frynas, Beck & Mellahi, 2000). Furthermore, Nigeria has the second largest reserves of crude oil when considering the African continent (Our World in Data, 2021b), whilst being the number one producer and exporter (Our World in Data, 2021a).

2.2 Nigeria's Economic Status

20 years ago, Nigeria was considered to be one of the very poorest countries in the world (Collier, 2007). However, the country has experienced substantial economic growth in the past decades, as GDP increased by 394.9 per cent from 1970 to 2020 (Our World in Data, 2022a). As

a result, in 2020 Nigeria was Africa's greatest economy with a GDP of 493.92 billion US dollars. However, although the country has improved its economic position, the GDP per capita does not follow the same pattern of substantial growth, but is instead fairly modest. From 1970 to 2020 the GDP per capita increased by 34.4 per cent (Our World in Data, 2022b). This paradoxical growth trend, where the notable country growth fails to transmit into per capita growth, is largely explained by the country's highly inadequate governance (Dauda, 2017), which will be further discussed in the thesis.

2.3 Governance in Nigeria and its Implication for Managing Oil Resources

Nigeria as a country is argued by Akinola and Yagboyaju (2019) to underperform in the sense that there is a high level of corruption, socioeconomic instability, and weak macroeconomic management. They find that the Nigerian state fails to handle contemporary challenges, as they lack the capacity to implement efficient strategies that address the country's issues related to corruption, sustained development, and human rights. Similarly, Cypher and Dietz (2009) note that the country has failed to properly commit to one path of development, thereby largely limiting the development of the country. Moreover, there are no indications that the country is initiating any structural transformation or economic reform to improve the situation. Akinola and Yagboyaju (2019) argue that this performance can be traced back to both current and historical failures in the country's leadership. After obtaining independence in 1960, Nigeria adopted a parliamentary system where the government held a democratic and federal character. Akinola and Yagboyaju (2019) note that resources and power were mostly decentralised, hence implying that subnational units were relatively independent, and to a great extent self-financing. Although fairly functional, this government was overthrown by the military in 1966 as a consequence of the political violence taking place after a controversial election result in 1965 (Akinola & Yagboyaju, 2019). Resultantly, the parliamentary system was replaced with a presidential system highly influenced by the military (Akinola & Yagboyaju, 2019). Since then, despite different political leaderships, almost all leaders have seen politics as a way of maintaining their interests and economic power rather than operating in the interest of the public (Akinola & Yagboyaju, 2019). So, although the oil revenue implies great development opportunities, the extensive corruption implies that this income primarily goes to the elite of the country, thus only benefiting a small share of the people (Akinola & Yagboyaju, 2019).

Moreover, the structure of the state, where the military has held great influence over politics, has distorted the federal arrangements and mitigated the efficiency of the governance (Akinola & Yagboyaju, 2019). This governmental inefficiency is primarily a result of state incapacity (Akinola & Yagboyaju, 2019). This term is defined by the World Bank (1997) as the competencies of a governmental organisation and the public representatives, together with the efficiency in the policy process. The fact that the military has held substantial power over politics has resulted in inexperienced leaders not necessarily possessing the required knowledge for laying a proper foundation for successful governance (Akinola & Yagboyaju, 2019). This development has been enabled through handpicked candidates for the political parties, which should have been selected through elections. Consequently, this pattern has allowed electoral corruption to become the norm in the country (Akinola & Yagboyaju, 2019).

Taken together, Nigerian governance is seemingly characterised by failing leadership and state incapacity, leaving them unable and/or unwilling to address their contemporary issues. Additionally, it seems to lack the relevant competence and willpower to successfully manage the immense oil wealth to benefit the country and its people. By posing the questions '*In what way do you think the governance of Nigeria affects the outcome of the oil resources and its impact on the economy and society at large?*' and '*How do you think the country should manage the oil industry for a better outcome?*' in the collection of primary data (section 4.2.1), this topic will be further investigated and analysed.

3 Literature Review & Theoretical Approach

3.1 Previous research

3.1.1 Resource curse

The theory of the resource curse describes a paradoxical relationship between the abundance of natural resources and slowed economic growth. Auty (1993) found that natural assets seemed to distort the economy to the extent that they became a curse for the country. Similarly, Sachs and Warner (1995) studied 97 countries, all at the time developing, between the years 1971-1989 where their GDP growth was measured relative to their exports of natural resources. They found that countries with high levels of resource-based exports tend to grow slower compared to countries with lower levels of resource exports. They point to the examples of the 'Asian Tigers',

(Hong Kong, Taiwan, South Korea and Singapore), which all grew rapidly and substantially from the 1960s, despite their lack of natural resources. Around 1955, the Asian Tigers had economic performances very similar to the Sub-Saharan countries, that being a poor economic performance (Paldam, 2003). However, while the Asian tigers experienced immense growth, the oil-rich countries Nigeria, Mexico and Venezuela experienced no such growth trend but instead went bankrupt (Sachs & Warner, 1995). This is a confusing development, as the possession and export of natural resources should imply increased wealth over imports, hence is expected to positively impact growth and investment rates (Sachs & Warner, 1995).

More recently, however, Lederman and Maloney (2006) and Van der Ploeg (2011) question the theory that resource-abundant developing countries necessarily grow slower than developing countries that are not abundant in resources. Thus, in contrast to Auty (1993) and Sachs and Warner (1995), Lederman and Maloney (2006) and Van der Ploeg (2011) argue that holdings of natural resources can be good for economic growth and development. This is especially true if combined with investments in technological capacities, good management and strong macroeconomic institutions (Lederman & Maloney, 2006; Van der Ploeg, 2011). Further, they claim that it is the choice of each country how to use their resources. If a country chooses to use outdated technology, make few investments in the industry, and use the revenue inefficiently, the country wastes its resources (Acemoglu & Robinson, 2006; Van der Ploeg, 2011). On the contrary, if a resource-rich country chooses to make investments in skill training, the creation of more productive technologies and promote strong institutions which use the revenue from the resource activities efficiently, a country can benefit by growing both rapidly and rich (Lederman & Maloney, 2006; Van der Ploeg, 2011; Caselli & Cunningham, 2009). Moreover, Lederman and Maloney (2006) find a relationship between a country's economic growth rate and its abundance of natural resources to depend on the level of human capital in the country. Additionally, they find a positive relationship between natural resources and the level of income. Hence, Lederman and Maloney (2006) question the previous thought of the resource curse by arguing that it is neither a blessing nor a curse to hold natural resources. Instead, some resource-rich countries simply perform poorly whilst others succeed better. This in turn is highly dependent on the country's choices and actions regarding investments, exploitation process, and creation of strong institutions that manage oil revenues efficiently.

Moving the focus to another perspective of the resource curse, namely the direct effect resource wealth has on political and social aspects, and thereby indirectly on the economy. While several resources, including petroleum and high-value minerals, can be linked to civil conflicts, petroleum is the only resource that consistently correlates with weak institutions and less democracy (Ross, 2015; Le Billon, 2012). Moreover, oil tends to increase corruption, trigger conflicts in middle- and low-income countries as well as enable authoritarian rulers (Ross, 2015; Andersen & Aslaksen, 2013; Collier, 2007). In addition, the higher the level of oil income, the more durable autocratic governments tend to be (Ross, 2015; Miller, 2012; Treisman, 2015). Also, the higher the oil revenue, the less likely that a country will transition to a democracy (Miller, 2012; Treisman, 2015). High revenue from natural resources also allows authoritarian regimes to ward off rebellious threats and democratic pressure, and to endure the threats if it takes place (Ross, 2015; Wright, Frantz & Geddes, 2015).

Furthermore, another aspect mentioned by Ross (2015) is how oil dependence, meaning oil exports as a share of total GDP, is much more likely to occur in poorer countries as they tend to be too impoverished to afford and consume all the petroleum they produce. Therefore, such countries, of which Nigeria is an example, generally export more than they presumably would with better economic performance. This dependence on oil can in turn affect the country's vulnerability to external shocks and hence affect its economic stability (Ross, 2015).

Additionally, holdings of natural resources are seemingly linked to the onset and continuation of civil war, however, the location of oil extraction is an important factor in the likelihood of civil conflicts (Ross, 2015). Both Ross (2015) and Lujala (2010) note that when oil is found and extracted onshore it is a greater risk that the country experiences conflicts, compared to when it is found offshore. Also, if the conflicts take place close to petroleum-rich areas, they tend to become more serious and durable (Ross, 2015; Lujala, 2010; Lujala, 2009).

Furthermore, petroleum seems to be the natural resource with the largest negative impact on the effectiveness of governmental bureaucracy, the ability to uphold the rule of law, and the state's capacity to stimulate economic growth (Besley & Persson, 2010; Ross, 2015; Beblawi, 1987). Nevertheless, Ross (2015) also finds that natural resources can have a positive impact on

economic performance but it depends on the quality of governmental institutions. However, initially having bad institutions tends to trigger a resource curse, and that in turn stimulates low-quality institutions to remain (Ross, 2015; Van der Ploeg, 2011). For instance, it can be seen that obtaining high revenue from resources does not incentivise a high taxation level, thereby leaving the government vulnerable to both rent-seeking (manipulation of public policy to obtain economic benefits) and fluctuations in resource revenue (Beblawi, 1987). In turn, this tends to lead to difficulties in developing sustained economic policies (Ross, 2015; Beblawi, 1987). Moreover, oil wealth is seen to weaken institutions further if the government has a strong link to or big role in the oil industry (Luong & Weinthal, 2010). Additionally, if institutions are initially prone to corruption, resource wealth tends to lower total revenue. If they instead are less prone to corruption, total revenue generally increases, and it is more likely to occur in autocracies than democracies (Ross, 2015). In summary, the findings indicate that natural resources, especially petroleum, can have a major impact on society. However, the extent of the impact depends on the type of governance, strength of institutions, and location of the oil explanation.

In light of Nigeria's economic development in the past decades and its current economic situation, Collier (2007) claims that the country is trapped in a resource curse; the country's holdings of petroleum have limited its economic development. Collier (2007) argues that the considerable focus on the oil industry after the discovery of petroleum crowded out other industries that were or had the potential to grow to great export activities, and thus enhance growth. Additionally, Nigerian governance has not been optimal in relation to its resources, for instance, it has been found unnecessary with high taxation levels because of the high revenue received from the oil exports (Collier, 2007). Resultantly, Nigeria's tax relative to GDP ratio is the lowest in the world, at 6 per cent (Oyelarna-Oyeyinka, 2022). This low taxation level has led to little interest and attention from citizens to where public spending is being directed, consequently facilitating corruption (Collier, 2007). This has in turn led to substantial governmental investments in projects that have been both unprofitable and wasteful, as the decision-making largely permeates by corruption (Salisu, 2000). Resultantly, public investments have not necessarily contributed to growth, despite existing economic resources. Lastly, Blench (2005) finds that the presence and extraction of oil have triggered conflicts in the country, especially in the Niger Delta Region where the reserves are located. According to Olbi (2010),

the Nigerian people experience dissatisfaction regarding the unequal distribution of the benefits gained from the oil industry. Hence triggered conflicts between the people and the oil companies and/ or those benefiting from the oil resources. These conflicts in themselves obstruct growth, as resources are used to solve the conflicts instead of being directed to projects fostering development (World Bank, 2018). Another aspect is attacks against oil stations. For instance, an attack in the early 2000s resulted in a shutdown of 25-40 per cent of the country's production and export of oil, consequently leading to a notable decrease in oil revenue (Olbi, 2010). Taking the aspects together, one could argue that Nigeria is in this paradoxical situation where its natural resources have obstructed growth instead of stimulating it. Moreover, certain questions will be posed to the interviewees of this thesis to further explore the existence and impact of a resource curse in Nigeria.

3.1.2 Rentier State

The theory of a 'rentier state' indicates a relationship between political-economic outcomes and natural resource abundance, where the abundance causes governmental institutions to become weak and greedy. A rentier state is in turn defined as an economy which relies on, and obtains, a substantial share of its total revenues from external rents (Beblawi, 1987). Moreover, some trends have been noted in the relationship between rentier states and their development. First, a rentier state is generally autonomous, since its abundance of natural resources makes it less dependent on taxation to generate public assets (Akanni, 2007; Ross, 2001, Beblawi; 1987). Additionally, the social structure of a rentier state tends to ward off democratic opposition and repress its population (Ross, 2001). Also, rentier states where political institutions fail to uphold the rule of law, struggle with widespread corruption, and have malfunctioning bureaucracy, lead to failed economic growth in oil exporting countries, despite substantial oil revenue (Akanni, 2007). Continuing the thought of institutions, scholars agree that economic institutions play a vital role in economic growth and long-run development as they influence investments in technology, human and physical capital, and production (Akanni, 2007; Siddiqui & Ahmed, 2013). Further, they claim that the difference between countries' economic performance can be linked to differences in their economic institutions. Moreover, the structure of economic institutions is largely determined by the political power in a country. This power is in turn determined by political institutions as well as the allocation of existing resources (Akanni, 2007;

Acemoglu, Johnson & Robinson, 2004). Yet, people that do not theoretically hold political power can hold such power in practice by, for instance, using the military to enforce their interests on society. The scholars agree that this is often enabled through access to great economic resources, which then allows these people to affect the political institutions for their own benefit. As the political institutions and their allocation of public spending influence economic institutions, they thereby also greatly affect the economic performance of the country (Akanni, 2007; Acemoglu, Johnson & Robinson, 2004; Siddiqui & Ahmed, 2013). Resultantly, the government and holders of political power in rentier states abundant in natural resources, largely determine whether the resources and their generation of wealth are beneficial or not for the country.

One final thought is the ‘rentier mentality’ discussed among scholars such as Yates (2015) and Hertog (2020). The idea suggests that economies deriving their rent from oil eventually create a specific mentality in society which induces their economic behaviour. The state of these economies does not receive wealth and income as a result of work, investment or sacrifices, but instead, as a consequence of luck and timing, implying that the work-reward causation does not hold (Hertog, 2020; Yates, 2015; Levins, 2013). Resultantly, people are less willing to work hard as they are aware that the most efficient way to gain wealth is to access oil rents (Yates, 2015; Beblawi, 1987). Additionally, the ones obtaining this oil wealth are more prone to protect their resources and economic position rather than making investments to improve basic socioeconomic conditions in the country at large (Beblawi, 1987). Consequently, the rentier mentality generally affects the economic progress of the country negatively and tends to trigger corruption (Yates, 2015).

Considering Nigeria, the country can be defined as a rentier state as it fulfils the criteria discussed by Beblawi (1987) (see section 3.2). For instance, the country’s economy is largely dependent on oil, as oil revenue makes up approximately 50 per cent of the country’s total GDP and more than 95 per cent of the total export revenue (Akinlo, 2012). Also, Adogamhe (2009) finds that a fairly small share of the Nigerian population is involved in the oil industry and that the Nigerian government is the main receiver of the oil rent. Additionally, the rentier mentality is argued by Adogamhe (2009), Sala-i-Martin and Subramanian (2008) and Agbo and Okoli (2017) to be found in Nigeria, as there have been tendencies among the people to aim to obtain a share

of the oil revenue rather than through earnings from employment. Taking these aspects together it is evident that Nigeria has created an economy largely dependent on its oil industry, the external rents from oil, and have developed a rentier mentality. Hence Nigeria is seemingly an example of a rentier state.

3.1.3 Falling and Fluctuations in Oil Prices

The US Energy Information Administration (EIA) (2022) explains the fluctuations in oil prices to mainly be determined by the global demand and supply of oil. For instance, as economies grow there is a rise in the demand for energy and fuels, which causes global oil prices to increase (EIA, 2022). Moreover, geopolitical events, such as war or conflicts, along with natural disasters or severe weather can disrupt the production of crude oil, and consequently the supply. This can in turn affect the oil prices as well as cause uncertainty regarding future supply and/or demand, thus generating further price volatility (EIA, 2022). The fact that oil prices are highly volatile is arguably because of their inelasticity, implying that there is no obvious product to replace it in the short term, thus the demand for oil does not change radically although prices fluctuate (EIA, 2022).

Although all oil-producing countries and private companies affect the global oil price by deciding their output of production, one major determinant of oil prices is OPEC. As of 2020, OPEC controlled 36 per cent of the global production of crude oil and its members collectively controlled 71 per cent of the global crude oil reserves (EIA, 2022). Thus, as OPEC largely influences the production level of its member countries, it can affect global oil prices by decreasing or increasing production targets (EIA, 2023a). Moreover, member countries are not obliged to produce according to the target production level set by OPEC, hence oil prices can be influenced by the member countries being reluctant to produce accordingly. Nevertheless, there has historically been a strong relationship between global oil prices increasing as OPEC's targets have been reduced (EIA, 2023a). On another note, most of the global oil reserves can be found in countries with political instability or in regions where oil production has been disrupted due to political incidents. Historically, some shocks in oil prices have taken place simultaneously with political events, such as the Iranian revolution, causing disruption in the oil supply and increasing oil prices (EIA, 2022).

3.1.4 Oil Prices and Economic Growth in Oil-Exporting Countries

The relationship between changes in oil prices and their effects on economic activity has been a widely researched topic. Especially since the 1970s recession in the US when a shock in oil prices was argued to cause economic stagnation, inflation and slowed productivity (Kilian, 2014). It is commonly agreed that fluctuations in oil prices affect oil-exporting countries to a greater extent than oil-importing countries (Abdelmoula & Abdelsalam, 2020; Sadeghi, 2017; Alekhina & Yoshino, 2018). As the former tend to be heavily dependent on oil revenue, fluctuating oil prices can thus directly affect the government budget and thereby public spending (Vohra, 2017; El-Anshasy, Mohaddes & Nugent, 2017; Alekhina & Yoshino, 2018). Moreover, increasing oil prices generally lead to economic growth, creates major investment possibilities in the entire economy and increases GDP in both the long and short run (Vohra, 2017). Likewise, Bjørnland (2009) claims that oil-exporting countries' economies tend to be stimulated by higher oil prices, as it increases the country's wealth and demand. More specifically he finds that as oil prices increase there is an immediate rise in oil-related stock returns. Stock prices will rise once the cash flow increases in oil-related companies, which will affect both consumption and investment through increasing wealth among stockholders (Bjørnland, 2009). Thereby stocks and asset prices can function as a mechanism to transmit wealth within an oil-exporting country.

Furthermore, countries with high exports of oil will experience an increase in governmental resources as oil prices increase (Sadeghi, 2017; Abdelmoula & Abdelsalam, 2020). Therefore, the amount of public spending, funding and investment are closely linked to oil revenue, hence fiscal and monetary policies are greatly influenced by fluctuations in oil prices (Abdelmoula & Abdelsalam, 2020; Alekhina & Yoshino, 2018; Saddiqui, Jawad, Naz, Shabbir & Niazi, 2018). As a consequence, how the government spends and relates to the oil revenue is what determines differences in economic performance between countries (Anshasy, 2009).

However, both Abdelmoula and Abdelsalam (2020) and Vohra (2017) argue that falling oil prices pose a great problem as a government cannot immediately cut down on public spending to avoid a budget deficit. Resultantly, fluctuations in oil prices tend to cause instability in macroeconomic components, for instance in inflation, economic output and unemployment rates (Abdelmoula &

Abdelsalam, 2020; Alekhina & Yoshino, 2018). In line with this, Vohra (2017) finds that the oil-producing and exporting countries Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, and the United Arab Emirates all economically benefited from increasing oil prices in the period 2000-2007. However, their economic development was greatly affected by the volatile and falling oil prices that followed. Although the six countries were somewhat differently affected by the 2008 fall in oil prices, they all experienced an abrupt decline in GDP between 2008 and 2009 (Vohra, 2017). Additionally, all countries incurred budget deficits which consequently affected the economic stability and caused a notable decrease in social spending and subsidies, thereby directly affecting their citizens (Vohra, 2017).

Although oil revenue in itself can create growth, El-Anshasy, Mohaddes and Nugent (2017) note that it can also create a problem for long-run growth due to its high volatility, as it can cause great fluctuations in government spending. Van Eyden, Difeto, Gupta and Wohar (2019) claim that oil is the natural resource where price swings are the largest, hence generating great uncertainty regarding the level of oil-related revenue. It is thus essential that governments enforce appropriate institutions and political management to ensure that domestic spendings are less dependent on oil revenue (El-Anshasy, Mohaddes & Nugent, 2017). Not all countries are equally affected by changes in oil prices, since implementing measures to minimise the impact of fluctuations can create greater economic stability (Berument, Ceylan & Dogan, 2010; Vohra, 2017). For instance, saving governmental revenue in times of high oil prices can protect the country from an unstable economic situation by absorbing future fluctuations in oil prices (Vohra, 2017). Norway is brought up as an example of an oil-exporting country that has managed to keep its economy stable despite volatile oil prices. This has been possible through a democratic political system where the government is accountable and institutions are solid (El-Anshasy, Mohaddes & Nugent, 2017). Additionally, the creation of the Norwegian Government Pension Fund is another aspect of the success of Norway. The intention of the fund is to manage the oil wealth in the long run by stabilising the volatility of revenue from the oil industry and enabling an even distribution of government spending. Also, it functions as a financial reserve and a saving plan in the long term, thus enabling current and future generations to profit from the wealth of oil (Norges Bank Investment Management, 2019).

Furthermore, the oil industry is more capital intensive than labour intensive. Thus, focusing on directing public spending to job training and education in regions and sectors where there is a greater demand for labour, can generate decreasing unemployment levels (Vohra, 2017). Creating more employment opportunities is also necessary for political and social stability as well as diversifying the economy beyond the oil industry. Lastly, Vohra (2017) notes that creating strong institutions can create better oversight in the petroleum sector which could enable better responses to fluctuating oil prices. Continuing on the thought of institutions, there is a positive relationship between institutional quality and GDP growth (Abdelmoula & Abdelsalam, 2020; Acemoglu, Johnson & Robinson, 2004). Oil price fluctuations are found to negatively affect GDP growth, but the effect becomes smaller with higher-quality institutions (Abdelmoula & Abdelsalam, 2020). In this context, the scholars define institutional quality based on government stability, investment profile, socioeconomic situation, corruption, conflicts, bureaucratic quality et cetera. They argue that reliable and high-quality institutions are important to minimise the effects of oil price uncertainty and to stabilise the economy despite fluctuations.

In addition, although volatility in oil prices disrupts economic growth, implementing expansionary monetary policies can to some extent counter the negative effects (Saddiqui et al. 2018; Van Eyden et al. 2019). Van Eyden et al. (2019) found that the negative relationship between oil price volatility and economic activity weakened after World War II compared to the pre-war trends when looking at 17 OECD countries. This is mainly a result of more responsive monetary management within these countries. On a similar note, Anshasy (2009) and Saddiqui et al. (2018) claim that fiscal policy has an important role in handling oil shocks. For instance, how public expenditures are composed and financed along with fiscal policy response to oil price shocks. She notes that decreasing public spending should be avoided, although found necessary in times of budget deficits, as it slows growth. Additionally, countries with initially higher public investments as a share of GDP better manage oil shocks, although do not benefit as much from oil booms (Anshasy, 2009). Thus she claims that governments in oil-abundant countries should carefully consider and make appropriate investment policies in times of great economic performance. Lastly, scholars have found that increased wealth from natural resources might generate extreme external borrowing at times when the resource market booms, as the resource holdings function as a guarantee for public loans (Havro & Santiso, 2008; Ampofo, Jinhua,

Bosah, Ayimadu, & Senadzo, 2021). This tends to increase both the strength and short-run popularity of the incumbent government, however, causes greater long-term economic risk for the country. In this regard, Nigeria is brought up as an example, where budget deficits have been funded by foreign borrowing in times of resource booms, now resulting in high levels of external debt (Ampofo et al. 2021).

Continuing looking at Nigeria; historically the agricultural sector has constituted the core of the Nigerian economy, but was largely neglected after the discovery of crude oil (Lawal & Oluwatoyin, 2011). Instead, oil came to be the most prioritised sector, resultantly Nigeria is today a highly oil-dependent economy, rated the most dependent among the world's top twenty oil-dependent countries (Omeje, 2006; Akinlo, 2012). Consequently, this makes the Nigerian economy highly vulnerable to both external shocks and fluctuations in the oil market. This became evident in 2015 when oil prices fell and the Nigerian economy experienced its slowest economic growth in over a decade (Adeola & Evans, 2017). Thus, the scholars claim that although the oil industry generates a large share of the country's revenue, it might be a disadvantage for Nigeria's economy because of the low economic diversification it has caused.

Moreover, Nigeria is, and has been, highly reliant on its oil revenue, not only is it the foundation of the government budget but it also determines the allocation of capital within the country. Hence, as oil prices swing, it immediately affects the budget and in turn government spending (Nwanna & Eyedayi, 2016; Akalpler & Bukar, 2018). Consequently, the scholars agree that the instability of oil prices has a negative impact on the Nigerian growth, whilst oil prices have a positive relationship to growth. Thus, as prices increases it positively affects growth. The previous literature stresses the importance of appropriate institutions and political management in countries highly dependent on oil to economically benefit from it despite price fluctuations. This is something Akinola and Yagboyaju (2019) claim Nigeria is lacking and is instead characterised by weak macroeconomic management and governmental inefficiency as a result of state incapacity. Consequently, it is shown that as prices fall, Nigeria experiences a rise in macroeconomic crisis which affects the country's unemployment level, resulting in an unemployment level of 55.7 per cent in 2020 (Raifu & Aminu, 2022). Additionally, Nigeria experiences a failing leadership that is seemingly unable and/ or unwilling to address domestic

contemporary issues such as unemployment and mainly uses politics as a way of maintaining its own interests and economic power (Akinola & Yagboyaju, 2019). Resultantly, one can argue that Nigeria's dependence on oil revenue along with lacking leadership, institutions and policies, largely contributes to its economic vulnerability as oil prices fluctuate.

In the data collection through interviews, questions will be posed that aim to further investigate the effect of fluctuating oil prices on the Nigerian economy and society, along with questions that will look into the diversification of the economy.

3.1.5 The Future of Oil

Oil is argued by Connolly and O'Rourke (2003) to be the most controversial commodity globally, and its future is a highly debated topic. On the one hand, the use of oil ought to decrease to prevent further climate change, on the other hand, there is an increasing global demand for energy (Hughes & Rudolph, 2011). Considering the first aspect, all stages in the oil process; production, refining, transportation and consumption have a major impact on the environment. Among several environmental effects, oil poses great risks for ecosystems, is one of the primary contributors to the constantly increasing levels of carbon dioxide, and pollutes the air (Connolly & O'Rourke, 2003; Kartha, Lazarus & Tempest, 2016). Consequently, there are global efforts, such as the Paris Agreement 2015, to prevent further climate change. Hence, diminishing the global use of oil is one major aspect of achieving this (United Nations Environment Programme, 2020). However, countries that are highly dependent on oil for their economic performance are argued by Al-Sarihi and Mason (2020) as well as Tolba and Saab (2009) to be very vulnerable to these global measures aiming to reduce oil consumption. Not only can it imply immediate economic losses but also threaten the structure of the countries which have built their economic and political capacity around their oil industry. Therefore, decreasing the use of oil would imply major structural and economic changes in oil-exporting countries (Al-Sarihi & Mason, 2020; International Energy Agency, 2018; Abdelmoula & Abdelsalam, 2020).

Moving focus to the other aspect; increasing energy demand. Numbers from Our World in Data (2022c) show that for the year 2021, oil made up for around one third of the global energy

consumption, implying that it alone is the largest source of energy. Thus, oil has a vital role in ensuring global energy security, hence as the demand for energy increases, so is the demand for oil (Hughes & Rudolph, 2011; Kartha, Lazarus & Tempest, 2016; Salimi & Amidpour, 2022). Nevertheless, Mayorga Alba (2010) finds that the demand for oil is increasing whilst production is declining, although there is no indication that oil reserves are running out anytime soon. One implication, however, is that the future extraction of petroleum will largely differ from how oil is produced today (Mayorga Alba, 2010; Davis & Gold, 2007).

Historically, crude oil has been fairly easy to extract, this has, however, changed and it is now both more difficult and costly to produce (Hughes & Rudolph, 2011). One reason is that there have been increasing and more extensive environmental regulations in developed countries in relation to oil, which consequently affects the industry (Lynch, 2003). Another reason is a decline in onshore oil production as a result of increasing resource nationalism, where people and countries want to control the natural resources located within their territory (Hughes & Rudolph, 2011; Chakrabarti (ed.), 2005).

However, Bremmer and Johnston (2009) do not share this idea, instead argue that resource nationalism is diminishing because oil prices have declined over a sustained period. Consequently, international oil companies can thus afford to selectively choose what regulatory conditions and fiscal terms they are to accept from host governments, thereby regaining influence over the oil industry. In between these ideas, Arbatli (2018) argues that because of great price fluctuations in the oil sectors, the extent of state control over resources will always vary. Nevertheless, as of today, it seems that resource nationalism is increasing (Arbatli 2018; Hughes & Rudolph, 2011). This implies that oil companies are not given permission to drill to the same extent as before in some oil-producing countries, and must thus exploit new locations to maintain production levels (Hughes & Rudolph, 2011). Mayorga Alba (2010) shares this idea and finds that future exploitation will take place in more fragile and technically difficult areas. For instance, the exploitation of crude oil has moved to the Arctic and into deepwater locations offshore in attempts to find new oil reserves. However, this greatly increases both the costs and increases the environmental and social risks associated (Hughes & Rudolph, 2011; Mayorga

Alba, 2010). For instance, in the case of Nigeria, the EIA (2023b) finds that domestic oil production is now dependent on offshore areas to maintain their conventional oil production.

On another note, the global energy structure is rapidly changing, the world is in a stage attempting to move away from fossil fuels and transition to renewable energy (Lincoln, 2005; Fattouh, Poudineh & West, 2019; Salimi & Amidpour, 2022). However, the pace of the transition is somewhat difficult to determine as some regions, e.g. Europe, are changing fairly rapidly, whilst the global transformation is highly uncertain. Although it is almost certain that the share of renewable energy sources will increase in the global energy mix, the future demand for different energy sources is difficult to predict (International Energy Agency, 2017; Fattouh, Poudineh & West, 2019). This in turn causes a high degree of uncertainty in oil-exporting countries (Fattouh, Poudineh & West, 2019). Oil-producing countries with confirmed reserves-to-production ratios (the number of years the resources will last with the current consumption rate) for decades ahead face the dilemma of exploiting their reserves or risk losing export revenues if following the transition (Fattouh, Poudineh & West, 2019). Moreover, in the short term investments in renewable energy could stimulate export revenue, however, it is not suitable in the long term. Instead, the most efficient way for oil-exporting countries to protect the economy in the proceeding energy transition is economic and revenue diversification (Fattouh, Poudineh & West, 2019; Karanfil & Omgba, 2023). During the diversification the oil sector will continue to have an important part in the economy, nevertheless, as the process of diversification proceeds the oil industry's importance will decline (Fattouh, Poudineh & West, 2019). Also, whether oil-exporting countries succeeded in diversifying their economies or not will affect the progress of the energy transition globally, adding additional complexity and uncertainty to the future demand for different energy sources (Fattouh, Poudineh & West, 2019).

The findings presented in previous literature; the reduction of global oil consumption due to environmental actions and the energy transition will influence the Nigerian economy (Behmiri & Pires Manso, 2013; Waziri, Hassan & Kouhy, 2018). It is noted that the energy transition and increasing demand for renewable energy from net energy-importing countries negatively affect the oil and gas exports of Nigeria, and will continue to do so as the transition proceeds (Waziri, Hassan & Kouhy, 2018). The scholars claim that this will cause the Nigerian revenue to

significantly decrease and thereby generate harmful effects on the economy. Thus, Waziri, Hassan and Kouhy (2018) argue that Nigeria should not continue to exploit their remaining oil and gas resources, but instead look to develop more sustainable sources which can generate future export revenue. Hence, the scholars are reaching the same conclusion as Fattouh, Poudineh and West (2019) and Karanfil and Omgba (2023), that diversifying an oil-dependent economy is essential for coping with the future challenges related to oil. How this can and should be done for specifically Nigeria will be discussed in the interviews and thereafter presented in the empirical analysis.

3.2 Theoretical Approach

This section provides a more detailed explanation of the fundamentals of the two theories Resource Curse and Rentier State. It solely focuses on the essence of the theories, not considering previous studies relative to the theories.

The theory of the ‘resource curse’ states that countries that are abundant in natural non-renewable resources tend to have a somewhat paradoxical relationship between the resources and the country’s economic development. That being, countries with natural resources as their primary export and that make up a notable share of the country’s GDP, generally have a lower growth rate than countries without holdings of natural resources (Sachs & Warner, 1995). The theory also states that resource-abundant countries tend to experience governments which fail to efficiently acknowledge the needs of the public (Ross, 2015). Additionally, it is suggested that the resource curse triggers conflicts, authoritarian regimes and low economic stability, all aspects negatively impacting the long-run economic progress of the country (Ross, 2015). Thus, the paradox is that natural resources abundant countries should theoretically benefit from their resources through a rise in wealth, yet tend to have the opposite effect by experiencing economic stagnation or even a decline in economic progress (Collier, 2007).

The theory of a ‘rentier state’ suggests a causal relationship between political-economic outcomes and natural resource abundance, where the abundance causes state institutions to become weak and predatory (Smith & Waldner, 2013). Therefore, whether resource abundance is a benefit or a disadvantage is primarily dependent on the institutions of a country (Smith &

Waldner, 2013). The theory suggests certain criteria that must be ‘fulfilled’ for a nation to be defined as a rentier state. Firstly, a rentier state is an economy which relies on and obtains a substantial share of its total revenues from external rents (Beblawi, 1987). This is in turn defined by Mahdavy (1970) as rentals that are paid by foreign governments, organisations or individuals to a given country. In this context, Beblawi (1987) also mentions that the production of this rent is centred around a very limited share of the population, whilst the outcome (wealth) is utilised by the entire society. Additionally, this external rent is directed directly to the leaders of the state. Hence, as the government becomes the main recipient of the rents, they have an important role in the distribution of wealth, and this greatly affects the government’s position in society (Beblawi, 1987). However, this structure implies that a small fraction of society obtains great economic power, which the scholar argues can allow them to seize strong political power, alternatively greatly influence the political elite. Lastly, when defining a rentier state, Beblawi (1987) argues that there is no economy that is purely a rentier state, instead a rentier state is one that is heavily dependent on external rents, something which is subjective to everyone.

The theory of the rentier state is seemingly similar to that of the resource curse, however, should not be mixed up. Whilst the theory of the resource curse finds the revenue from natural resources to cause economic stagnation, increase the likeliness of civil war and generate authoritarianism, the theory of rentier states focuses on the instability of state institutions (Smith & Waldner, 2013). This in turn is one of the preconditions for the resource curse to come true, or at least enables it to take place. Thereby Smith and Waldner (2013) claim that without the theory of the rentier state, the theory of the resource curse, in turn, lacks a theoretical foundation. Thus, for the resource curse to occur, it is somewhat dependent on the existence of a rentier state (Smith & Waldner, 2013).

Furthermore, for the purpose of this thesis, the theory of the resource curse is the primary approach applied. However, as the theory of the rentier state is argued to provide a foundation for the resource curse to occur, it is included with the intention to provide a background for the emergence of a resource curse. Moreover, specific questions, such as ‘*Do you believe Nigeria has been cursed by having natural resources?*’ and ‘*In what way do you primarily find them to*

be cursed?' is posed in the collection of primary data (interviews) to further explore if the theory of the resource curse is applicable to the case of Nigeria.

4 Method

4.1 Research Design

This thesis applies an explanatory case study approach to answer the posed research question. Yin (2009) claims that a case study is suitable when intending to answer questions of 'how' and 'why', along with the aim of analysing a phenomenon thoroughly and in-depth. Additionally, he finds that case studies are a common method used in economics, where the structure of an industry and/or the economy of a country or region is investigated. Yin (2009) argues that case studies are useful in such situations as investigators gain a holistic understanding of a complex phenomenon and retain meaningful components of a real-life event. In addition to this, a case study is a relevant method if the study considers a contemporary activity and when the researcher has little or no control over the event (Yin, 2009). Taking these aspects into account, an explanatory case study approach through the collection of qualitative data is appropriate for the purpose of this thesis. Resultantly, the thesis studies qualitative information gained through semi-structured interviews and secondary sources from pre-existing research within the field. Analysing the information obtained has in turn allowed for a deep understanding of the topic.

4.2 Data Collection

This thesis considers both primary and secondary data to explore the effects and implications of oil resources on the Nigerian economy. The data collection began by searching for qualitative data in academic articles, reports and books (secondary sources) to gain a solid foundation of knowledge within the field. Once gained an understanding of the topic, and identified the most essential aspects relative to the purpose of this thesis, the interview questions were constructed. The intention when formulating the questions was to gain an understanding of how various aspects of Nigerian society are affected by the oil resources. Also, some questions were designed with the intention to explore whether the theory of the resource curse is applicable to the case of Nigeria. Thereafter, a list of desired interviewees was constructed, and later contacted. Ultimately, five interviews were held. The following sections will further discuss aspects of the primary and secondary sources.

4.2.1 Semi-Structured Interviews

To answer the research question this thesis applies a qualitative research design, by using semi-structured interviews, which function as the primary sources of the thesis. The reason for choosing semi-structured interviews instead of purely structured interviews is that semi-structured allow for follow-up questions that come up during the interview process and are formulated depending on an answer given by an interviewee (Bryman & Bell, 2017). This does allow for further exploration of different perspectives and areas of which the interviewees are specialised or have particular knowledge. Hence, the interviews somewhat differ, although the overall theme is the same throughout all interviews (Bryman & Bell, 2017). Additionally, the interview questions are designed to be open-ended as it allows for further depth and discussion of the studied phenomenon, compared to closed questions (Bryman & Bell, 2017).

All interviewees are born and have grown up in Nigeria, hence have a proper understanding of the implications and effects the oil resources have for the common man in Nigeria. In regards to the professional background and knowledge, there is great diversity among the participants. Thus, interviewing participants from different areas of expertise allowed for a deeper understanding of the topic due to the different perspectives that were provided and discussed. For instance, interviewee 1 works as an infrastructure economist at the World Bank Group and has great insight into the Nigerian energy sector. On the contrary, interviewee 3 is a biologist working for the Cross River State Forestry Commission, thus employed by the Nigerian government. She has a great understanding of the impact the oil industry has on the environment along with the governmental approach to it.

The process of attaining interviews began by sending out approximately 30 emails and 12 messages on LinkedIn to desired interview candidates. It was initially difficult to both obtain answers as well as people willing to participate in an interview. However, during the first interview, the snowball effect was applied, hence the interviewee was asked to recommend and provide contact details of additional people to interview with knowledge relevant to this thesis. This led to four additional interviews. The interviews were conducted between the 19th of April 2023 and the 20th of May 2023. The interviews were held either over Zoom or Google Meet and

lasted between 45 and 60 minutes, mainly depending on the number of follow-up questions that arose during the interviews. One interview was conducted over email.

4.2.2 Secondary Sources

In addition to the interviews, secondary data is collected from reports, books, and academic articles, as there is an extensive amount of pre-existing research within the field. The primary reason for using secondary sources was to cover perspectives and areas of information that were not obtained from the primary data (interviews). The secondary data was gathered by using the search tools Google Scholar and LUBsearch and employing keywords such as *Nigeria, oil, resource curse, and economic development*. In the end, around 70-80 secondary sources have been used which are presented in section 3.1 (Previous Research) and some later discussed in section 5 (Empirical Analysis).

4.2.3 Data Analysis

Four interviews were held online via either Zoom or Google Meet. However, one interview was conducted over email, as found more convenient for the interviewee. For the interviews held virtually face-to-face, notes were taken on the computer simultaneously as the interviews were carried out. These interviews were also audio taped with the purpose of listening through once analysing the answers, if found necessary. The answers are presented and discussed in section 5.

4.2.4 Limitations

In regards to the interviews, it turned out to be more difficult to obtain the desired amount of interviewees within the scope of this thesis than initially expected. Resultantly, not as many perspectives were covered as originally thought and desired, such as the perspective of oil companies. Nevertheless, applying the snowball effect was an efficient method to attain additional interviews. However, it did to some extent result in a fairly homogenous set of interviewees, consequently, the information provided was in some regards rather similar.

Furthermore, one risk when applying a case study approach is that of biases. Firstly, when conducting interviews the answers provided are generally subjective to the interviewees' personal ideas and thoughts. Thus the primary information obtained does not necessarily present the truth,

but the perceptions of the interviewees. Secondly, the thesis is also affected by researcher biases, in the sense that the information obtained from secondary sources can have influenced the design and approach of the interview questions.

When observing economic growth, GDP was used as the variable measuring progress. However, this measurement does not provide a specified picture of development within a country. For instance, GDP does not show what sectors in the economy that have contributed to the growth nor to what extent. Thus, in the context of this thesis, if looking solely at GDP, one cannot determine for sure how much the oil sector has contributed to Nigeria's economic growth, and what contribution other sectors have had. Additionally, GDP indicates the economic development of an entire country, thus growth can be very unevenly distributed between regions without showing. Lastly, the measurement does not demonstrate how growth is distributed among the population, thus development can take place, yet only benefit certain groups in society. Hence if growth generates economic inequalities it is not shown in GDP. Taken together one could argue that GDP is a reasonable measurement to obtain an idea of the overall economic development, whilst insufficient for more detailed knowledge. For the purpose of this thesis, GDP is observed to obtain a general understanding of the economic development for the period Nigeria has produced oil, and resultantly attain an approximate understanding of their relationship. However, it is therefore essential to further investigate the development of other sectors to obtain a more detailed idea of the impact oil has had on growth in society at large.

5 Empirical analysis

The following section intends to provide an empirical foundation to answer the research question '*How do Nigeria's petroleum reserves and industry affect its economic development?*'. This is done by presenting as well as analytically discussing the qualitative findings from the interviews and previous studies (section 3.1). In addition, the discussion will be done in relation to the theory of the resource curse presented in section 3.2.1.

5.1 Results

This section presents the results obtained from the primary sources (interviews). The section is divided into three sub-sections, where the first presents *oil relative to economic growth*, the

second; *oil and its impact on the economy at large*, and lastly; *consequences of the oil exploitation*.

5.1.1 Oil Relative to Economic Growth

In 1956 reserves of crude oil were first discovered in Nigeria. Two years later the commercial production of oil commenced, something which consequently came to affect not only the economic structure of the country but society at large (interviewee 1). Since the 1970s the Nigerian economy has seen substantial growth, 394.9 per cent (Our World in Data, 2022a). Interviewee 1 states that Nigeria is the fastest growing economy in Africa, and together with interviewees 2, 3, 4 and 5 he claims that the primary driver of this growth is the oil industry. Nevertheless, interviewee 1 argues that if looking beyond GDP and non-oil-related growth, there is a different side to the successful growth story. He states that “*Generally, oil wealth has not translated to shared prosperity to the big population*”. Instead, economic inequality has largely increased in the country, especially since the 1970s (interviewee 4). Moreover, interviewee 4 is of the belief that Nigeria’s oil wealth is the primary reason for increased inequality, as it has enabled some people in society to become very economically wealthy. However, prior to the 1970s interviewee 4 claims that the oil industry was, to a greater extent than today, beneficial for the Nigerian population at large, as the government invested more in the public. For instance, between 1960 up to late 1970s Western education expanded in the country (interviewee 4), and the government offered free education in primary and secondary schools (interviewee 5). Interviewee 4 also claims that in this period the healthcare sector received greater funding and consequently expanded, hence becoming accessible to a larger share of the population. Along with this, Nigeria experienced an increase in the share of the middle class relative to the whole population (interviewee 4).

However, these tendencies and public investments came to an end in the late 1970s. During this period (around 1960 and late 1970) the Nigerian oil market experienced a boom where the oil output from the country exploded (interviewee 3). This enabled the Nigerian government to take massive loans with the potential of oil wealth as a guarantee, resultantly generating high levels of external debt (interviewees 3 & 4). As oil prices crashed in the early 1980s, Nigeria was heavily in debt and unable to repay its loan due to the substantially lower revenue received from oil than

expected (interviewee 3). Consequently, international pressure from the World Bank and International Monetary Fund to pay back debt increased (interviewee 4). This in turn directly affected public investments and spending, which immediately went down. For instance, the quality of the school system largely deteriorated and within the public sector salaries were occasionally not paid out to employees (interviewee 4).

5.1.2 Oil and Impact on the Economy:

Another implication of the major revenue generated from oil is the stagnation and in some cases even decline of development in other sectors in the Nigerian economy (interviewees 1, 2, 3, & 4). Prior to the commenced production of oil, the agricultural sector was the primary contributor to Nigerian GDP and employed a substantial share of the population (interviewee 2). However, this sector was especially neglected once the oil industry started to expand. Interviewee 2 says that the country “*hardly exports anything apart from the oil*”. Consequently, the oil sector is today the foundation of the Nigerian economy, and the country is highly dependent on its revenue. Thus, the production of oil has contributed to economic growth. However, it has not stimulated development for the economy at large, as the expansion of other sectors has stagnated (interviewee 3). This in turn has resulted in Nigeria being one of the world’s least diversified economies (interviewee 3). For this reason, interviewee 5 is of the belief that Nigeria would have been better off without its oil.

Furthermore, another aspect of the major impact of oil on the Nigerian economy is in regards to the government budget. Interviewee 2 says “... *the Nigerian government does not think beyond the oil revenue*”. The revenue constitutes the foundation of the entire budget, as it is calculated and determined based on expected future oil prices (interviewees 1, 2 & 3). Interviewee 3 states that “*Whatever development we intend to do in the country is forecasted based on the oil pricing*”, thus the revenue from oil directly determines the allocation of capital within the country. The fact that oil is so highly integrated and fundamental in the Nigerian economy implies that as the oil market booms, the government revenue increases, hence enabling additional public spending, investments or savings. On the contrary, in times of oil shocks or drastically declining prices, it immediately affects the budget by causing a deficit. Inevitably, this causes a decline in the economic growth rate, economic instability and triggers increasing

inflation rates (interviewee 2). One example is when the Covid-19 pandemic began, and global oil prices sharply declined. As the Nigerian budget was calculated based on a substantially higher oil price, the decline forced the finance minister to revise the budget and lowered it by 6.9 billion dollars, which greatly affected public spending (interviewee 1). Thus, not only does declining oil prices directly affect the budget, but also the development of the country and prospects for Nigerian citizens.

5.1.2.3 Diversification

Nigeria should arguably aim to diversify its economy to cope with the long-run development of oil. In relation to this, interviewee 2 states “*Every regime has talked about it [diversification] but have not really done anything about it*”. However, interviewee 1 states that the government has made some effort over the past two years to develop an energy transition plan, thereby intending to move towards a more sustainable path. Nevertheless, interviewee 2 argues that the government only has its own interest in mind. Thus, as long as the oil industry is economically beneficial for them and the elite of the country, investments in the industry will remain the primary focus. For instance, the Dangote Refinery, which will be Africa’s largest oil refinery, is currently developed in Nigeria. Although it is uncertain how much oil that will be consumed in the near future, and if Nigeria is going to need that much refinery capacity, the Nigerian government has made substantial investments in the refinery (interviewee 1). One reason for this is that although Nigeria has the greatest drilling production in Africa, they have not had the capacity to refine crude oil within the country. Thus, the crude oil is exported to refineries abroad, and thereafter the refined oil is imported back to Nigeria for a higher price than what it was exported for. Consequently, this implies a loss of revenue for the government (interviewees 1 & 3). Such loss incentivises investments in a domestic refinery that will allow greater economic benefit for the politicians. This causes a contradiction if aiming to follow an energy transition, yet heavily investing in the future of oil production. Also, it does not seem to be a direction Nigeria should take if wanting to decrease its oil dependence and vulnerability.

Furthermore, interviewee 2 states that Nigeria is going to “*face major difficulties in the future*“ if they do not diversify its economy, as it will be greatly affected if the global demand for oil decreases. However, around 2015 the government of that time instructed the Central Bank of

Nigeria (CBN) to develop programmes targeting the country's imports. Thus, CBN imposed foreign exchange restrictions on a number of commodities that could be produced domestically, in an attempt to stimulate the agricultural sector (interviewees 2 & 4). The initiative together with subsidies and loans to farmers was seemingly successful. The production of some commodities, especially rice, increased notably and is now almost exclusively produced in Nigeria (interviewee 4). Moreover, the interviewee stresses that it is essential that such programmes are not only temporary but instead consistent over time to actually stimulate the agricultural sector in the long run. However, although the CBN's programme is a proper effort to diversify the economy, interviewee 2 states that the other sectors that have been overlooked, such as manufacturing, infrastructure, and health care, are not experiencing any development. Hence, although there are some attempts to diversify the economy, greater efforts and additional sectors should be addressed for it to decrease the country's overall vulnerability (interviewee 2).

5.1.3 Consequences of the Oil Exploitation

5.1.3.1 Conflicts

In regards to conflicts, interviewee 4 states that after oil was discovered in Nigeria it intensified conflicts in the country, which have piled up since. This is especially the case in the southern part of the country and the Niger Delta Region, where the oil is extracted (interviewee 2). There are several reasons for this development, one being resource control (interviewee 2). The communities where the oil is extracted feel that they should have more control and influence over the production, as it is taking place on their land, and obtain a greater share of the revenue gained from it. Additionally, the unequal distribution of oil wealth is causing frustration among the people living in these communities. Whilst the drilling companies and political elite greatly benefit, the communities are not properly compensated (interviewee 3). This is somewhat connected with another reason for the conflicts; environmental degradation in the areas of drilling. Interviewee 2 states that a large share of the population in these areas are farmers and fishermen, thus highly dependent on nature for their income. As the extraction of oil tends to generate spills in the soil and pollute rivers and streams in the nearby areas, oil production generally threatens the livelihood of these people (interviewee 3). Additionally, the drilling companies generally do not take responsibility for the environmental effects their production cause. Instead, the companies often find ways to disobey the law, e.g. by using bribes to overlook

the issues, in an effort to avoid taking responsibility (interviewee 3). Also, the communities generally do not have enough capital to clean it up themselves (interviewee 3). As a result, the regions where oil is exploited tend to experience a negative impact on their environment, which in turn affects the inhabitants. Moreover, another aspect that has triggered conflicts is the lack of overall development in the country at large, especially in rural areas (interviewee 2). The oil industry has generated immense revenue for Nigeria since its discovery, however, there has almost not been any development for the people over these years (interviewee 2). Interviewee 3 states that the communities are underdeveloped, many people do not have access to electricity, infrastructure is very poor, malnutrition is a widespread issue, and the average Nigerian experiences severe economic hardship. This lack of development despite the great wealth has consequently caused frustration, which in turn has triggered conflicts.

Furthermore, the conflicts have both direct and indirect effects on the economy. Firstly, the conflicts have contributed to illegal oil activities, where crude oil is stolen and taken to illegal refineries and later sold. Consequently causing a loss of revenue for the government (interviewee 1). Secondly, there is an issue of vandalism of pipelines which pass through the communities (interviewee 5). First, it implies a direct loss of revenue for the oil companies and government. Second, the government has paid off the leaders of the ‘vandalising’ groups, in efforts to stop these actions (interviewee 2). This capital could otherwise be spent on public investments. Lastly, there are occasionally attacks against oil stations and oil infrastructure, which reduce production capacity or cause total shutdowns, hence generating a notable drop in oil revenue (interviewee 5). Thus the conflicts negatively affect the economy, but it is worth mentioning that it also contributes to overall insecurity in the country. For instance, there has been an increase in the number of kidnaps, where some can be directly linked to the conflicts (interviewee 4).

5.1.3.2 Corruption

“Good leadership can build the country, Nigeria has not really had that.” (interviewee 3). This statement seems to be an appropriate explanation of the governmental situation in Nigeria. There is a strong agreement among all interviewees, that there is extensive and widespread corruption in the country, to the extent that corruption now is a norm. It is also widely agreed that corruption is the root of many of the greatest contemporary issues in the country, and the origin of

corruption is greatly related to the oil. As the production of oil began, a drastic increase in governmental revenue followed. Interviewee 1 states that the government consequently experienced such an upswing in the amount of capital available, that they simply did not know how to use it. Resultantly, this led to inefficient spending and investments, mainly benefiting a small share of people. However, interviewee 3 argues that not too much blame should be given to the government that was managing the rapidly developing oil industry. The politicians were in a completely new situation, were inexperienced and lacked relevant competence on how to use the resources to build the country and its economy (interviewee 3). Nevertheless, the administration of oil wealth has remained inefficient and almost exclusively benefits the elite (interviewee 3). That corruption has managed to become so extensive is largely because of the history of political instability and the great influence of the military. Leaders have lacked experience and used politics as a way of remaining in power or in an influential position, for their own economic benefit. The politicians are seemingly not in power because of their competence but because of electoral corruption and the mentality of *'I scratch your back you scratch mine'* (interviewee 2).

Moreover, it is essential for a government to know how to invest and use public assets for it to have a positive impact on development. However, this is not the case in Nigeria where the leaders do not necessarily possess the required competence (interviewee 3). This has led to malfunctioning institutions, weak bureaucracy and lack of public investments. For instance, people need to purchase power generators because the electricity in the country is so underdeveloped and unreliable. Also, there is enough revenue coming from the oil industry to provide free education in the country, but the leaders simply do not invest in the people (interviewee 4). Similarly, Interviewee 5 states that around 80 per cent of the oil revenue only benefits 1 per cent of the country. Resultantly, the development of almost all other sectors than oil is now lagging behind, and the average Nigerian is experiencing very poor living conditions, mainly as a result of corruption.

5.1.3.3 Brain drain

One additional aspect that has been an indirect effect of the oil industry, is that of a brain drain. Young Nigerians tend to leave the country, *"They try to find a way to leave, not because they want but because there is nothing to do in Nigeria"* (interviewee 4). This is also true for highly educated individuals. Seemingly because of the difficulties of obtaining employment due to very

high unemployment levels, and because skilled workers are not paid sufficiently (interviewee 2). Interviewee 2 also discusses that skilled workers can receive three to four times as high a salary abroad compared to Nigeria. Consequently, as skilled inhabitants migrate it results in losses of human capital. It could be useful for Nigerian society to keep this competence within the country to develop other sectors of the economy and break the pattern of insufficient governance (interviewee 2).

5.2 Discussion

This section discusses the results from the interviews in relation to the secondary sources and the resource curse theory.

The findings indicate that the holdings and industry of oil greatly stimulated rapid and substantial growth in terms of GDP in Nigeria over the past five-six decades, by generating notable export revenue. From that perspective, Nigeria has not been cursed by its natural resources. However, if looking beyond GDP and growth related to oil, it can be argued that Nigeria experiences a resource curse. Although the country generates major revenue, the results indicate that the main issue seems to be inefficient institutions and extensive corruption, which obstructs development for the country and the people at large. Thus the result seems to apply to the findings by Van der Ploeg (2011) and Lederman and Maloney (2006), that oil in itself has not cursed the country, but the choices and management by the governance have.

Moreover, oil is in some regards a curse rather than a blessing due to the country's reliance on it. The result indicates that Nigeria ought to diversify its economy to minimise its oil dependence, which is in line with the previous literature by Fattouh, Poudineh & West (2019) and Karanfil & Omgba (2023). Further, diversification seems especially important now, considering the future of oil, with climate change and an energy transition. Firstly, net importing countries have an increasing demand for renewable energy, and secondly, there are global efforts to decrease the use of oil to prevent further environmental degradation. The result shows that such development will affect Nigeria by direct economic losses through reduced revenue, and disturb the societal structure which is built around the oil industry. These findings are strongly in line with the findings by Behmiri and Pires Manso (2013) and Waziri, Hassan and Kouhy (2018). Considering

the future, the result suggests that Nigeria should not invest in further exploitation of oil resources, to maintain their production capacity, but invest in other sectors which can successfully generate export revenue. Furthermore, diversifying the economy would also make the Nigerian economy less vulnerable to fluctuating oil prices. As for today, the structure of the economy leaves them rather exposed to volatile and unpredictable prices.

Additionally, the results show that oil resources have triggered conflicts, stimulated and intensified corruption, enabled high levels of external borrowing which has led to substantial debt, and contributed to a brain drain. These results largely confirm previous studies. For instance, the findings by Havro and Santiso (2008) and Ampofo et al. (2021) indicated that oil booms tend to generate substantial increases in external governmental borrowing, which has largely been the case in Nigeria. Also, Ross (2015) noted that oil-related conflicts tend to be more severe and durable when oil is extracted onshore. This is seemingly applicable to the case of Nigeria, where the conflicts in the Niger Delta Region have been ongoing since the early 1990s and do not seem to end in the near future. Nevertheless, the fundamental reason for Nigeria's oil to be a curse rather than a blessing can be traced to the country's history of poor governance. The leaders of Nigeria have for decades neglected investments in the public sector, failed to enforce strong institutions and lacked proper macroeconomic management. This is seemingly because the leaders' primary interests have been to benefit themselves and enforce their interests, rather than the interests of the country. This is a prime example of a resource curse as described by Ross (2015) and Collier (2007).

Furthermore, although the results presented in this thesis are specific to Nigeria, they can provide insight and guidance in a greater context. For instance, policymakers in countries with fairly similar conditions, in terms of natural resources, can gain an understanding of the risks associated with their resources if not managed appropriately. Also, it can provide a better insight into how such countries should relate to their resources for maximising the benefit for society at large.

6 Conclusion

The thesis aimed to investigate the impact Nigeria's oil has on the country's economic development, by answering the research question '*How do Nigeria's petroleum reserves and industry affect its economic development?*'. Also, it intended to explore how the Nigerian society at large has been influenced by the oil industry, to better understand if the theory of the resource curse applies to the country or not. The topic is of relevance to better understand how oil has affected Nigeria's notable growth, and why this growth has not translated to the population at large. This can contribute to a better understanding, for e.g. policymakers, of what areas should be improved for more efficient and inclusive growth. The main findings of this thesis are that the oil resources and industry have largely contributed to Nigeria's economic growth over the past five-six decades, by generating major export revenue. However, the country has to a fairly large extent been cursed by its oil as well, as the overall development in the country has stagnated. The primary reason seems to be inadequate governance and extensive corruption. Thus, the oil itself is not a curse, but rather the consequence of it, corruption, conflicts, and economic instability, combined with the choices and actions of the governments.

The oil resources have evidently stimulated Nigeria's economic growth (in GDP). However, for future research, it seems important to consider and incorporate the environmental costs into the calculation. Although Nigeria is not the largest consumer of oil in the world, its industry contributes to global climate change. Thus, the use of oil globally indirectly affects the Nigerian environment and climate. The consequences will, if not in the near term, inevitably become a cost for future generations. Presumably, further pressure will be put on the healthcare sector, as a result of the health issues following environmental degradation. Also, climate change can disrupt the societal structure and livelihoods of the population. To cope with such changes investment in technologies, research and development, and infrastructure will likely rise, thereby increasing governmental costs. Another aspect for future research is to study *what* and *how* Nigeria should do to change their societal and economic structure to maximise the benefits of its oil resources. How should they address their issues related to oil, to turn their resources into a blessing rather than a curse?

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Appendices

Appendix 1. Preliminary interview questions

Warm up

→ Explain the aim of the thesis and research question.

→ tell me a little bit about your background, who are you, what is your profession, and what is your connection to Nigeria?

Economic development:

1. It can be seen that Nigeria has experienced substantial growth in the past decades, what do you believe is the primary driver of this?
 - a. How have the Nigerian people experienced this growth, in terms of living standards?
2. How do fluctuations in oil prices impact Nigeria's economic stability and development?
 - a. Do you have any insight into the diversification of the Nigerian economy?
 - b. Is the government trying to diversify?
 - c. What are their strategies?

Resource curse:

3. Do you believe Nigeria has been cursed by having natural resources?
 - a. In what way do you primarily find them to be cursed? Slowed economic growth, conflicts, corruption etc?
4. What other sectors in society do you believe have been neglected but could have flourished if it weren't for the findings of oil?

Oil:

5. Overall, how would you say that Nigeria's oil resources affect its economic development?
 - a. Is it primarily a positive or negative effect?
 - b. How do you think the country should relate/govern the oil industry for a better outcome?
 - c. Hypothetically, do you believe the economic development would have been better/worse without their oil resources?
6. In what way do you think the governance of Nigeria affects the outcome of the oil resources and its impact on the economy and society at large?
7. Considering the evolution of fossil fuels and the aim to diminish the global dependence on oil, how do you believe that will affect the economic progress of Nigeria, as it is their greatest export?
 - a. How do you think they should best adapt to it?

8. What are the biggest challenges the oil industry in Nigeria faces? What are the biggest challenges Nigeria faces in relation to its oil?

General Questions Nigeria:

9. What is the general attitude to the governance of Nigeria among the people?
10. Is the oil industry at large a benefit for the people?
 - a. What is the general attitude among the people towards the oil industry?
11. How is the economic inequality in the country? Has it improved or worsened in the past decades?
12. How would you describe the situation living in Nigeria? What is it mainly characterised by?
 - a. Are there conflicts? Corruption? Inequality? Economic stability? Easy or difficult to obtain employment?

Appendix 2. Schedule of interviews

Who	Date of interview	How
Interviewee 1; Infrastructure Economist	19th April 2023	Google Meet
Interviewee 2; Energy Policy Analyst	24th April 2023	Google Meet
Interviewee 3; Biologist	26th April 2023	Google Meet
Interviewee 4; Senior Lecturer, Human Rights	27th April 2023	Zoom
Interviewee 5; Oil and Gas Economist	20th May 2023	Email