Nigeria’s “Resource Curse”: Oil as Impediment to True Federalism

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Nigeria’s politics has been defined by considerable ethnic heterogeneity – and abundant ethnic conflict. Since reaching independence in 1960, Nigeria has been host to several ongoing civil conflicts often drawn along ethnic and regional lines. This has occurred despite several attempts at regional power-sharing mechanisms through various systems of federalism. This paper will argue that the dismantling and failure of true federalism in Nigeria is due to its’ plentiful oil resources. In fact, Nigeria can be seen as a prime example of the “resource curse”, a phenomenon where natural resource wealth leads to poor economic growth and development and an increased likelihood for civil conflict. Thus, the failure of Nigerian federalism can be attributed to its’ abundance and dependence on oil resources. While oil resources are not themselves a sufficient explanation of Nigeria’s ethnic conflict, they have hindered the practice of ‘true’ federalism and have posed a significant challenge to democratic transition.

To explain this argument, this paper will first define federalism and explain the creation and practice of federalism in Nigeria. It will then correlate the rise in ethnic conflict and the deconstruction of federalism with oil abundance by examining the political economy of oil in Nigeria. Finally, this paper will illustrate oil-generated ethnic conflict by examining both rent-seeking political violence in Nigeria as a whole and the Niger Delta crisis. Critical examination of the effects of oil will show that resource abundance has not only weakened the Nigerian economy but also warped the federal system.

Federalism is a system of governance in which the central government shares power with regional governments[1]. Neither level of government, regional or federal, is subordinate to the other in legal authority. Often, a federal solution has been sought as a way to integrate diverse elements in a heterogeneous society into a united nation while maintaining their independent ethnic identities[2]. Democratic governance in true federalism combines economic freedom with political freedom and features four distinct characteristics. Firstly, no section of the political constituency suffers from unequal national wealth distribution. Secondly, power is shared equally so that there is no disadvantaged region in the political process. The regions and the federal government possess an equal share of public policy making power. Furthermore, to benefit equally from national wealth, all the federal regions share all of the responsibilities equitably in the creation of national income. In essence, each region is responsible for building its productive capacity, regardless of what natural resources they may possess. Finally, tyranny of majority rule cannot be created to suppress or disenfranchise the minority population[3]. Nigeria’s federal system, however, does not display the above four traits; rather, the nation’s political regime is characterized by inequality, centralized power, repression and conflict. This perversion of federalism can be attributed to both historic developments and oil resource dependence.

Nigeria’s federal system was created during British colonial rule and reinforced constitutionally after independence[4]. Historically, Nigeria itself was an artificial creation by British colonial rule. In 1914, the British amalgamated the Colony of Lagos and the Protectorate of Southern Nigeria into one territory ruled by one governor, despite a myriad of ethnic, linguistic and territorial differences[5]. The governor at this time, Sir Frederick Lugard, also implemented a separate developmental policy between the North and the South regions.[6] At the time of this merger, the South lacked a sense of common territorial cohesion, while the North had been a colonial political identity for decades with a high degree of political identity[7]. Naturally, the differences between the two colonies’ political development made unity difficult. Thus, while Nigeria was officially a united nation, Sir Lugard continued to rule the North and the South as two separate entities until 1947.[8] This ensured that colonial institutions created and reinforced historical, cultural, linguistic and religious differences between the two territories. This created a legacy of regional cleavages that have had lasting impacts on the contemporary political system in Nigeria. Moreover, as stated above, federalism in Nigeria is also a product of colonial rule. Federal power sharing arrangements were first introduced in 1954, when colonial governors introduced an anomalous federal system of government: three regional governments, the East, North and the West, and a central government based in Lagos[9]. Each of these regions is also dominated by one of the largest ethnic groups – the Igbo in the East, the Hausa-Fulani in the North, and the Yoruba in the West[10]. This political domination by the three ethnic groups still exists today, where the electoral assembly has been dominated by a tripod cleavage of the three majority groups and supported by a plethora of ethnic minorities representing the ethnic diversity of Nigeria.[11] Since independence, postcolonial Nigeria has an explicitly federal constitution, which is seen as the only guarantee of "unity within diversity"[12]. A federal constitution was seen as a way to regulate political conflict along ethnic lines by devolving constitutional authority to different regional areas. In Nigeria, the constitution was a legal superstructure within which various ethnic groups would seek access to state power with a view to controlling or limiting its exercise.[13] This was seen as instrumental in forging national unity out of a diverse society while still preserving the unique social and ethnic identities in each region. As an example of this: by 1995 the number of regions had increased from three to thirty-six.[14]

Despite the adoption of a federal constitution, Nigeria's political system has been and continues to be marked by little cohesion, military coups and civil conflict. 'True' federalism and democratic governance has yet to emerge in Nigeria; rather, the federal system can largely be seen as a failed experiment. Since independence, Nigeria has undergone six federal constitutions, eleven different national administrations and experienced a diversity of regimes from democratic pluralism to military dictatorships.[15] However, while colonial legacies have undoubtedly laid the foundations of ethnic divisions, empirical evidence shows that ethnic diversity in itself is not a sufficient condition to create civil and ethnic conflict.[16] This failure to eradicate (or even mitigate) ethnic and regional conflict can be explained further by examining how the Nigerian variant of federalism does not depict true federalism. To explain the rise and persistence of violent and nondemocratic military dictatorships and ethnic conflict, one must, this is to say, examine the effect of Nigeria's oil economy. An exploration of the natural resource curse in the Nigerian context shows that oil resource wealth has led to the distortion of true federalism — causing poor socioeconomic growth and development and increased ethnic conflict.

Nigeria is the largest oil producer in sub-Saharan Africa, receiving over 300 billion US dollars in oil revenue over the last twenty-five years[17]. However, despite this natural resource wealth, Nigeria retains increasingly high levels of absolute poverty and high income inequality. In empirical terms, Nigeria is the world's fifteenth poorest nation[18]. Between 1970 and 2000, the poverty rate – or the share of the population subsiding on $1 US a day – climbed from 36% to 70%. Similarly, equitable income distribution declined sharply from 1970 to 2000. By 2000, the top 2 percent of the population received the same income as the entire bottom 55 percent of citizens[19].

These developmental downturns in Nigeria coincided with the discovery of oil. Nigeria's current form of redistributive, top-down fiscal federalism can be attributed to the discovery of oil. Prior to this discovery, regions retained the majority of their resource income through the 'principle of derivation'. In the First Republic of Nigeria, federating units practiced regional financial autonomy, along the lines of true federalism as defined above.[20] Derivation, or the practice of allocating over 50% of the revenue back to where it was collected, gave regions more power than the central government. However, with the discovery of oil and Nigeria's entry into OPEC, the revenue distribution formula changed dramatically. As oil rents became the most viable source of national wealth, political reasoning deduced that resource endowed regions should not receive a majority of the proceeds of their resources. To receive the lion's share of funds from their resources would be unfair, as this will make 'resource blessed' areas disproportionately more developed than less endowed regions.[21] As a result, the federal government began to collect most of oil revenue from oil-producing regions and, in theory, share the collected income equally. Now, the federal government receives more income than the regional governments. In fact, the federal government nationalized the oil industry with the creation of the Nigerian National Oil Company to secure and gain more control over these resources.[22] In essence, political relations in the regions Nigeria are now reduced to regions grappling for more oil rents from the central government.

Therefore, the discovery of oil resources led to the dismantling of the fiscal federal system of derivation practiced in Nigeria. Moreover, this new process of revenue distribution led to grave political problems. Rather than uniting the Nigerian state and catalyzing socioeconomic development, the growth of oil revenues caused issues of revenue allocation and created imbalances and distortions in national and regional development interests. Heavily populated states gained more revenues and socioeconomic benefits at the expense of minorities who suffered deprivation, neglect and underdevelopment[23]. Clearly, oil rents can be seen as a corrupting influence in Nigeria in creating and exacerbating grievances among regions and ethnic minorities.

Further political consequences of oil can be seen when examining the rent seeking political violence between ethnic and regional groups in Nigeria as well as the current Niger delta crisis. Firstly, natural resource abundance leads to excessive state dependence on oil rents.[24] Indeed, ninety percent of Nigeria's national income comes from oil.[25] Furthermore, most of Nigeria's fixed investment is in the oil sector. This means that traditional Nigerian exports, such as cocoa, timber and palm oil, have declined dramatically so that non-oil exports constitute only four percent of total exports.[26] Given the convenience and lucrative nature of oil exports, the Nigerian government has invested almost solely in the oil sector at the expense of other potentially productive sectors of the economy, such as manufacturing, traditional exports and raising human capital. For example, capital use in the Nigerian manufacturing sector went from 77% in 1975 to only 50% in 1983.[27] Undeniably, the discovery and export of oil have created an extreme dependence on one resource at the expense of other sectors of the economy. Nigeria has therefore become an undiversified economy dependent on one primary product export. This reliance on oil means that control over oil resources equates to control over the nation's economic power. Since the state controls natural resource revenues, the state itself becomes a desirable resource to capture.

Unsurprisingly, this has led to corruption and endemic patronage in Nigeria. At the regional level, interest groups favour those who are related to the group; often, this is based on ethnic or tribal affiliations.[28] Oil income has financed the perpetuation of this heavy patronage, which has fuelled ethnic unrest as some ethnic groups are marginalized at the expense of others. At the state level, ruling elites have used oil income to not only reward political clients, but also to bribe groups at the regional level to elicit cooperation and support.[29] The distribution of this patronage undoubtedly creates an unstable revenue allocation system, causing a concentration of wealth and power to lie in the hands of a small minority of state elites. Furthermore, patronage has also led to an expansion of public sector employment.[30] Such large employment in the civil and public sector is unsustainable, as the majority of national income is funnelled to bureaucratic wages. This leaves very little income to invest in other areas of the economy such as welfare and education. The dependence on oil resource wealth explains the creation and persistence of heavy patronage and bloating of the public sector.

Natural resource wealth also undermines institutional checks and balances, leading to a weak and unresponsive state. In Nigeria, only the executive branch of the government is able to create policies, while the legislative and judicial branch perform cursory duties.[31] This concentration of power has been exacerbated by the growth of oil rents. For instance, the Nigerian constitution drafted after 1970 gives the executive branch the ability to create state budgets and even allows the president to withdraw money from the Consolidated Revenue Fund of the federation.[32] Thus, resource control, and consequently national income, is consolidated in the hands of the executive branch, not only weakening the ability of other governmental branches to challenge the executive, but also funding neo-patrimonialism and patronage.

There is also a link between resource abundance and socioeconomic problems. Natural resource wealth leads to less taxation, since the state is guaranteed a source of income from oil rather than from citizens.[33] Citizens are less likely to be conscious of how the government spends income. Politicians can then use this lack of scrutiny to embezzle natural resource revenues. Conversely, low taxation means the state has little to no incentive to be accountable and responsive to citizens. Income from oil resources also enables the state to pay for military repression of citizens and civil society who express grievances.[34] Secondly, natural resource wealth causes a nation to take on excessive debt.[35] Relying on future income from natural resource exports, a country takes on more debt to finance more patronage and bureaucratic bloating. However, if natural resource prices fall in the world market, resource revenue becomes less competitive and debt burdens almost unmanageable.[36] Nigeria exemplifies both of these economic problems. Tax collection rates across all regions in Nigeria are extremely low; in

1998 the rate was as low as 0.1%.[37] Moreover, Nigeria's debt to international and commercial lenders in 2002 was calculated to be $31 billion, approximately 70% of the country's entire gross domestic product.[38] The discovery of oil resources in Nigeria can be thus connected to less taxation and extreme debt accumulation, both of which make socioeconomic development difficult.

The existence of natural resources creates strong separatist incentives as well. Resource rich regions desire to secede from the nation in order to reap greater benefits from their resources.[39] The desire to secede is also connected to grievances associated with lack of socioeconomic development and inequitable income distribution. Since most of the nation's income resides in these resource-endowed regions, secessionist movement are confronted with military violence and repression as the state fights to retain its most productive regions.[40] The ongoing Niger Delta crisis illustrates this conflict between the state and resource rich regions. In 1967, oil related disputes motivated an uprising which led to the Nigeria-Biafran civil war.[41] As the major source of Nigeria's oil resources, the Niger Delta region is central to Nigeria's economic and political survival. However, the region is the least reciprocated for its contribution to national income, as it is the poorest and least developed of Nigeria's 36 regions.[42] These unaddressed grievances led the Igbo dominated south-eastern region of Biafran to secede and proclaim itself to be an independent nation.[43] In response, the Nigerian government launched a military offensive to retake the secessionist territory. The conflict was given a tribal interpretation: the Igbo people of the south fought against the Hausa Fulani of the north.[44] By 1970, when the civil war ended, the conflict costs millions of Igbo lives and Nigeria reclaiming Biafran territory.[45] The Niger Delta region continues to face constant insurgency and conflict, mostly from minority ethnic groups such as the Ogoni and Ijaw.[46] Oil in the Niger Delta region has led to both an incentive for minorities in the region to take control of the resources and the corresponding wealth and an incentive for the state to disadvantage and exploit the region for its oil. The exploitation of the region had led to feelings of deprivation, marginalisation, injustice and inequity.[47] Citizens in the region experience low employment, environmental degradation, and an insignificant share of oil revenue[48]. These grievances have triggered a call for regional autonomy and self-determination in the early 1990s, alongside a desire for direct control of the oil resource. In response, the state has used brutal and coercive methods of suppression and repression. Troop deployments repressed leaders and massacred several Ijaw and Ogoni in bloody battles.[49] The conflict continues to this day over the control of oil resources. Most recently in 2008, the Nigerian military launched a massive military campaign to hunt militants, confiscate weapons and raid rebel strongholds.[50]

The discovery and exploitation of Nigeria's oil resources can clearly be seen as a major challenge to the practice of true federalism. While Nigeria has seen a rise in national income since the discovery of oil, this has not translated into equitable socioeconomic growth and democratic political governance. Rather, resource wealth in Nigeria has led to poor socioeconomic growth, income inequality and greater poverty. In the economic sector, oil has undermined growth through increased debt, underdevelopment of manufacturing and traditional exports. Politically, oil dependence has dismantled the federal system into a centrally controlled, top-heavy state that is riddled with corruption, patronage and public sector bloating. Finally, the discovery of oil has triggered ethnic violence and conflict over resource control as evidenced by the Nigeria-Biafran civil war and the current Niger delta insurgencies. Thus, rather than contributing to democratic governance and economic growth, Nigeria's oil resource wealth has weakened state institutions, undermined equitable economic growth, and triggered ethnic conflict. All of these are significant challenges to the practice of true democratic governance and explain why federalism has not taken root in Nigeria. Consequently, the failure of federalism and the lack of democratic governance in Nigeria can be seen as a result of oil resource wealth.

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