

## Resource Endowment and Poverty in Nigeria

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**Abstract:** *Experiences of countries in the Global South tend to confirm the notion of resource curse. Endowments ought to provide the 'take-off' necessary for primary goods exporting countries to propel into sustainable economic growth and development. Unfortunately, various forms of externalities have stolen the show which made countries in desperate need for development in order to minimize poverty among the population to derail from the right path onto the path of parochialism. Elites in the resource-rich countries consistently imbibed the culture of waste, corruption, nepotism and sheer incompetence at the expense of the welfare of the entire nation. However, certain scholars have cautioned that the notion of resource curse is not entirely conclusive. Nigeria has been an unfortunate development story. In terms of every parameter, Nigeria's economic performance since independence has been a failure.*

**Keywords:** *Resource curse, endowments, poverty, rents, royalties.*

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Date of Submission: 11-07-2017

Date of acceptance: 13-09-2017

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### I. Introduction

The traditional thinking on the relationship between resource endowment and overall economic development was that of a positive correlation. For instance, Ginsburg (Higgins, 1968) argued that resource endowment is a major advantage for any country embarking on rapid economic growth. Similar opinions were echoed by Viner (1952) and Lewis (1955). Rostow (1961) also argued that natural resource endowment would enable less developed countries to transit from underdevelopment to industrial "take-off", as in the case of developed countries such as United States, Britain and Australia. Neoliberals such as Drake (1972), Krueger (1980) and Belasa (1980) concurred with this opinion by arguing that natural resources abundance could facilitate industrial development through domestic markets and adequate capital.

However, some economists challenged this view prior to the 1980s, arguing that the composition and structure of the global economic system puts developing countries who rely on primary goods exports at a disadvantage (Singer 1950), (Prebisch 1950). Though their views were largely overlooked, the general opinions were that resource endowments were a big push and a blessing for developing countries.

Overtime, numerous scholars came up with literatures which challenged the conventional wisdom. Natural resources endowment increases the tendencies that countries could face negative political, economic and social consequences including poverty, poor governance and insecurity. Some of such relevant literature includes Bannon and Collier (2003), Sala-i-Martin and Subramanian (2003), Davies et al (2003) and Stevens (2003).

This study conducts a critical survey of such literatures on resource curse with special attention to the following areas: (i) Are resource endowments good for development? (ii) What is the genesis of resource curse? (iii) How can resource curse be avoided?

To be able to tackle these questions effectively, the following observations are crucial: (i) While resource curse is related to various policy strategies, the evidence is not conclusive. (ii) Available explanations for resource curse do not adequately explain the role of externalities in the social and political arena. (iii) Certain resource-rich countries such as Malaysia, Canada, Chile, Norway, Botswana, and Indonesia have done quite well in terms of economic development (Stevens, 2003).

By and large, scholar might have been asking the wrong questions: instead of asking why resource endowment brought negative setbacks which in turn led to poor development performance, the questions ought to be what political and social forces made most resource-rich countries to use their potential positively for development, and prevent other richly endowed countries from fumbling? Synder and Bhavnani (2005), Shrank (2004).

Literature on resource curse and resource endowment basically consists of three categories: (i) Economic performance and rural resource endowment, (ii) Relationship between resource endowments and armed conflicts and (iii) On the relationship between political regimes and resource endowment. Ross (1999) highlights the first category of these literatures. Over time the subject of resource curse became a

multidimensional phenomenon, especially with the works of Collier and Hoeffler (1998), Wantchekon (1999) and Ross (2001a).

Definition of the term resource curse is not universally homogenous, as it varies from one perspective to another. Certain scholars view it in terms of specific commodities, example oil, minerals, etc. while others view it in terms of size of the primary sector.

## **II. Is Natural Resource Abundance Necessary For Economic Development?**

Available evidence from existing literatures suggests that natural resource endowments are generally bad for development. Here we analyse the evidence accordingly:

1. **Economic prosperity:** Wheeler (1984) opines that natural resources endowment reduces economic growth, especially within Sub-Saharan Africa; mineral-rich countries grew rather less than those without during the 1970s. Gelb et al (1988) argues that resource-rich countries experience terrible deterioration in their ability to raise investible capital domestically during the oil-boom era of 1971- 1983, unlike non-mineral endowed countries, which led to declining growth rates in hard mineral economies such as DR Congo, and stagnant growth rates in oil-exporting economies such as Nigeria (Auty, 1993). Experiences of resource-dependent economies were examined by Sachs and Warner (1995), in which a large collection of data was analysed between 1970 and 1989. The outcome was that natural resources endowment was negatively correlated with economic growth. Those scholars who concurred with Sachs and Warner (1995) includes Gylfason et al (1999), Leite and Weidmann (1999) by producing similar results. Also examining large set of data, Auty (2001a) in his contribution on the subject, discovered that per capita GDP of resource-poor economies grew at rates far better than those of resource-rich economies between 1960 and 1990. Also, Neumayer (2004) came up with studies which confirm whether natural resources endowment had adverse effect on economic growth, that is, if growth is measured in terms of GDP less depreciation on capital to determine real income; his findings were affirmative.

Nankani (1979) argues that in terms of primary agricultural economies, negative growth rates were noticeable. Other setbacks include inflation, high unemployment rates, wages dualism and high external indebtedness. Export of manufactured goods is unlikely in resource-rich countries due to lack of adequate technology (Wood and Barge, 1997). Corruption has been identified as a major challenge in almost all resource endowed countries (Leite and Weidmann, 1999).

2. **Armed Conflicts:** Collier and Hoeffler (1998) concludes that natural resource abundance and armed conflicts are positively correlated, especially going by the experiences of 98 countries and about 27 wars. The authors observed that resource abundance increases the risk of secessionism and other forms of agitations for the control of the rents from natural resources. Available records suggest that issues of secessionism and civil wars are most likely in most resource-rich states (Collier and Hoeffler, 2002).

Other scholars argue that resource abundance tend to lengthen the duration of civil wars (Collier and Hoeffler, 1998) and with a curvilinear relationship. Doyle and Sambanis (2000) argue that income from natural resource is negatively correlated with resolution of armed conflicts. Fearon (2004) and Ross (2004a) also concurred with this assessment.

Caution is sought with regards to the notion of resource curse. Researchers have supported that the findings of such issues as cited earlier are prone to variation in measurement of the extent of natural resources endowment. The parameters are either in terms of ratio of countries' natural resources exports to GDP or the ratio of countries' primary exports to total exports. Whenever different yardsticks are employed, the results tend to yield minimum support to the notion of resource curse. In the works of Stijens (2001), it was observed that when endowments were measured in terms of levels of production and reserves instead of exports, it does not comply with the negative correlation between endowment and democracy.

Auty (2001a) observed that certain studies have used non-export based parameters of resource endowments such as Gylfason et al (1999) and Auty (2001), implying that such findings are richer than what critics of resource curse theory would like to believe. It is not clear whether those findings are robust to larger changes in the parameters of natural endowment. Also, it remains unclear that the percentage of primary export to GDP or the percentage of primary export to total exports is appropriate measures of natural resource endowments. Thus far, the consensus among scholars is that the major problem with resource endowment is that it leads to economic dependence or a biased export structure of the economy due to easy rents that accrues to the economy.

Isham et al (2002) suggests that the major development challenges in resource abundant countries is not the abundance per se, rather, the major challenge is the reliance on a particular type of resource. Sala-i-Martin and Subramanian (2003) opined that point source resources are well correlated with poor economic development but an endowment of diffuse natural resources was not. Leite and Weldman (1999) observed that iron ores and fuels are negatively related with weak economic growth on primary production in agriculture.

## 2.1 Summary

By and large, though there is significant evidence in support of the idea of resource curse, it is not entirely conclusive. There are numerous reasons on the issue of the measurement of key variables which casts suspicion on the findings of studies that are in support of the resource curse hypothesis, especially civil war outcomes and resource endowments. Secondly, it is not clear whether the curse in resource endowments applies to all resource-rich countries or just some of them. Thirdly, some researchers report findings contrary to the dictates of resource curse hypothesis, even when same parameters of relevant variables were used. There is no conclusive link that causation emanates from natural resource endowment to poor economic results rather than the other way round.

### III. What Is The Genesis Of Resource Curse?

Though the evidence on resource curse is inconclusive, many scholars have accepted the notion that wealth from natural resources endowments leads to negative economic results and have attempted to explain why such is the case, regionally or globally.

Here perspectives vary according to cause and the emphasis attached, but may be broadly categorized into seven (7) classes:

1. **Radical perspective** that emphasize the role of foreign actors: this group of scholars aligned with Marxist ideology that colonial exploitation of the periphery by the Centre, unequal terms of trade at international markets and connivance of local elites with multinational corporations are the major issues impeding progress in the resource rich countries and not resource abundance per se.
2. **Structuralist perspective** that emphasizes the role of social groups or socio-economic structure: the opinion here shows that resource curse syndrome emanates mainly because of its effect on the relative influence of the various social groups or classes. This category of scholars view that resource abundance enriches powerful business elites, which tend to exert pressure on government to perform effectively (Broad 1995; Urrutia 1988). Some scholars argue that the main reason why East Asia develops more than Latin America in terms of economic growth and poverty reduction in recent years is the effect of resource endowments in the two regions on their respective industrial policies. It is argued that in Latin America resource endowments led to political and social dominance of the business and landed elites with interest in Import-Substitution Industrialization (ISI), thus impeding the emergence of externally competitive industrial sector. While in East Asia, resource poverty implies that such elites did not exist, or are not as influential in the government, which makes it easier for adoption of export-oriented industrialization and the formulation of an externally competitive economy (Auty 1995; Mahun 1992).
3. **Social Capital perspective** that emphasizes the extent of social integration: this group views that the problem with resource abundance is that it hinders social unity and also restricts the ability of governments to absorb economic instability. Point-resource ownership, it argues is normally in the grips of few powerful individuals or groups, which tends to create friction in the society. Certain frictions may be masked during prosperity and may eventually surface during crisis. The outcome, arguably, consensus among members becomes difficult around reform strategy for dealing with the crisis. Thus, in such instance, elites win out and tangible reform is frustrated (Isham et al 2002)
4. **State-Centred perspective** that emphasizes the nature of the state: this view argues that resource abundance leads to poor economic progress not by affecting the behaviour of political class or social actors but by inducing the state's ability to promote economic development. Certain theorists highlighted the defects related to the so-called 'rentier-states'- that is, those benefitting from enormous amounts of unearned income in form of royalties, taxes and rents (First 1974); Mahdary 1970; Skocpol 1982; Beblaws 1987; Luciani 1987; Tanter 1990; Chandry 1994. State-owned public enterprises are quite large in rentier states. According to Luuciani (1987:74) rentier states 'do not need to formulate anything deserving the appellation of economic policy; all they need is an expenditure policy'. Karl (1997:16) argues that dependence on oil revenues leads to the emergence of 'petro-states', those that solely survive on 'the political distribution of rents' and not promotion of economic growth, private investment and domestic production. Auty and Gelb (2001) and Auty (2001c, 2001d) opined that resource abundance tends to breed hostile and parochial oligarchic states and not developmental states due to the following factors:
  - i. Land surplus and tolerance to inequality in income distribution,
  - ii. Resource-rich states tend to be more protective than developmental in terms of trade policies,
  - iii. Abundance of natural resource implies the support of inefficient, wasteful sectors of the economy,
  - iv. Most resource-rich economies are prone to cumulative policy error (Auty and Gelb 2001; 128-9).
5. **Rational-actor perspective** that emphasizes the interests of political parties and groups: contrary to behavioralists, rationalists argue that political actor act to maximize utility rationally. Such that irrational behaviour is not the problem, rather, rent-seeking breeds corruption by idle politicians and policy-makers are the major problems. For instance, Ross (2001b) argues that windfalls during resource booms are

literally squandered. Only rational political elites could seize the rent windfall and utilize it positively. Also, Ascher (1999) viewed that resource curse or abuse became evident when political elites directs resources meant for overall economic development onto other parochial, sectional and controversial rent-seizing programmes. Robinson et al (2002) argues that rent-seizing tend to downgrade economic progress.

6. **Behavioralist perspective** that emphasizes emotional or irrational behaviour on the part of political actors: this view argues that resource abundance tends to breed variants of irrational and emotional behaviour on the part of the political class, which leads to inefficient decisions and policies. That is, it breeds shortsightedness, laziness and excessive exuberance among political class. Such views are are reflected in the works of Machiavelli, Montesquieu, Mill and Smith. As in the works of Levin (1960), Nurske (1958) and Wallace (1960).
7. **Econometric perspective** that emphasize the role of economic mechanisms.

### **3.1 Economic Mechanism**

Earlier studies of performance of resource endowed economies shows that causal relationship between abundance and performance were basically economic in principle. Prebisch (1950) and Singer (1950), for instance, opined that declining terms of trade suffered by resource-rich economies is the reason for their poor economic growth and development. Other researchers such as Levin (1960) and Nurske (1958) argued that instability in international commodity prices were the causes of poor economic growth in resource-rich economies. Hirschman (1958) argued that the issue was the 'enclave' nature of resource activities and multinational corporations in these sectors basically repatriate gains and not reinvesting them in the resource economy. This capital flight made the process of development very challenging. Also, the issue of 'Dutch Disease' has been attributed to be responsible for this woes – a situation in which a resource boom leads to appreciation of the real exchange rate which in turn harms manufacturing and industry in the resource-rich economies, (Bruno and Sachs, 1982) and (Corden and Neary, 1982).

Much of such views cannot be taken for granted. Recent studies on commodity prices show that though overall market prices nosedived during the twentieth century, this was attributed exclusively to fall in prices of goods exported by the rich countries. Some studies show that instability in export prices could be useful to exporters so long as it can encourage private investment because investors tend to shield self against future price volatility.

Other scholars argue that instability in export prices does not harm exporters, though is not clearly shown that exporters of primary goods get harmed as well. For instance, Hirschman (1958), views the economic linkages of the resource curse and the 'Dutch Disease' hypothesis. However, Hirschman (1958) also shows that government could take full control of the situation if there exist a political will. Interestingly, this issue points that these negative effect prevails more through political than economic processes.

Thus, most studies on nexus between natural resource abundance and economic performance (poverty) has given more consideration to political manipulation in handling the scenario. In certain instance, resource curse studies incorporate ideas from political scientists, especially neoclassical political economy and the new institutionalism (Auty 2001c, 2001d; Torvik, 2002). Also, debate on resource curse incorporates issues such as behavioralism, Marxism, Public Choice Theory, Structuralism/Dependency Theory and Fiscal Social Systems, most of which appreciates the power of political factors in moulding economic outcomes.

By and large, the consensus among scholars is that poor economic management and not resource abundance is the genesis of underdevelopment in most resource-rich economies (Mitra 1994, Karl 1997, Ascher 1999, Usui 1997).

These viewpoints shows that resource-abundant countries eventually got compelled into the global capitalist system, a phenomenon in which the interests of the less developed countries are relegated to the background and those of the rich countries are promoted, which in turn hinders real economic prosperity and genuine development in the poor countries.

Perelman (2003) argues that resource abundance turns a poor country into a prey and a target for the rich nations. The outcome, according to dependency theorists, is that governments in resource-rich countries are allowed to perpetrate fraud and economic sabotage to their states so long as they give respect and obedience to the dominant nations, (Bellamy, 2004; Amin, 2001).

## **IV. Panacea To The Paradox Of Resource Curse**

Most literature on the paradox of resource curse contains varieties of recommendations aimed at helping affected countries get out of the woods. For instance, Sarraf and Jiwandi (2001) emphasize adoption of sensible macroeconomic policies, minimum external and domestic debts, maximum budget surpluses, minimum inflation and competitive exchange rates. Also, Ussui (1997) and Mikesell (1997) argue that competitive exchange rate and cogent macroeconomic policies could help resource-rich countries in stemming the tide of the 'Dutch Disease'. However, Auty (1994) and Collier (2000) emphasize the need for diversifying the economy on

order to minimize dependence on primary resources by setting p industries and adding value to their natural resource and thereby creating employment for the population.

A second category of scholars emphasized the importance of political and social changes in order to overcome the menace of resource curse. Here it is argued that economic policies become functional only if and when social and political environments are transformed. For instance, Mitra (1994) argues in line with the Behavioralist view that governments in resource-rich countries deliberately perpetuate resource curse and such could only bend when there is a change in policies and ideas of elites in these countries. That is, elites need to view booms and prosperities as temporary phenomena and the rents thereof as unreliable event so as to halt the excitement and euphoria that normally accompanies boom. Karl (1997), Auty (2001b) and Pearce (2005) view from rational-actor and state-centred opinion and argued that in order to end resource curse, countries need to build state capacity and functional institutions which could then accelerate policy reforms across the system.

A third category of scholars argue that the state needs to be ignored. Instead of efforts to boost the state, rents and royalties should be distributed across board directly to citizens (Sala-i-Martin and Subramanian, 2000). Such system could reduce tension and eliminate opportunities for corruption and mismanagement. However, Ross (2001b) countered that if rents and royalties are transferred to the population, the state may use taxation to retrieve a significant share of it even though it is feasible.

A fourth category of scholars suggested the use of privatization strategy in resource abundant countries. For instance, Ross (2001b) argues that privatization could end the issue of 'rent-seizing'. Weinthal and Jones Luang (2001) suggested that privatizing natural resource sector to domestic private interests tend to be more viable than selling off to foreign interests, especially in the absence of effective tax policies in most resource-rich countries. This strategy has the ability of curbing the menace of capital flight to foreign countries.

A fifth category of scholars argue that the international multinational organizations have the power to come up with strategy that could end resource curse. Though, efforts to regulate international commodity prices have consistently failed, and few see this idea as a good one (Ross, 2001b).

## **V. Poverty In Nigeria**

The incidence of poverty in Nigeria is estimated at about 40% of the population of about 200 million people. According to the *Nigeria Economic Report* as released by the World Bank in 2014, the growth rate of the economy is put at 7.4% of GDP. Lack of data on the informal sector of the economy (about 60%) makes it difficult to comprehend the extent of poverty in the system. Ethnic conflicts, income inequality and political tension tend to intensify abject poverty among the population.

Nigeria has been an unfortunate development story (Sala-i-Martin, 2003). In terms of every parameter, Nigeria's performance since independence has been a failure. By 1970, Nigeria's per capita GDP stood at US\$1.113 and estimated to remain at US\$1.084 by the year 2000. This data puts Nigeria among the 15 poorest nations in the world for which data are available.

In terms of poverty and income distribution, the situation is even worse. Between 1970 and 2000, the percentage of the population living on less than US\$1.00 per day increased from about 36% to almost 70% of the population.

Also, income distribution crashed sharply during the 30 year period between 1970 and 2000. Data for 1970, 1980, 1990 and 2000 shows the two tails of the Gini Diagram got flattened, indicating an increase in inequality between the rich and the poor.

These patterns coincided with the advent of oil revenues in the Nigerian economy. In a period of about 35 years, Nigeria's cumulative oil revenues (net) stood at US\$350 billion at 1995 prices. In 1965, when oil revenue was US\$33 billion, GDP per capita stood at US\$245. By the year 2000, when revenues hit US\$325 billion, GDP per capita remained at 1965 levels. Literally, all the revenues from oil – about US\$350 billion, did not have any meaningful impact on poverty and raising the living standards in Nigeria. Rather, it tended to negate the living standards of the people.

## **VI. Conclusion**

On the balance, natural resource endowments such as oil, minerals and gas deposits may not necessarily be a curse to a nation. The culture of waste and Dutch Disease, especially in the Third World where functional institutions are literally non-existent, tends to add weight to the issue of resource curse. Corruption and parochialism especially among the political elites has been the major force which perpetuates abject poverty in resource-rich countries and Nigeria in particular.

Remedies for the problem include sound macroeconomic policies, trade liberalization, privatization, effective financial sector and a vibrant foreign policy to attract foreign direct investments. Strengthening of institutions within the system could minimize waste and corruption which in turn could make revenues from natural resource endowment useful and beneficial to the generality of the people.

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Mustapha Ali. "Resource Endowment and Poverty in Nigeria." *IOSR Journal of Economics and Finance (IOSR-JEF)* , vol. 8, no. 5, 2017, pp. 37–43.