Colonial Legacy and Development: Reflection on Nigeria’s Oil Dependency and Economic Resilience amidst the COVID-19 Pandemic

Adzraa Shaffa Andira¹, Freya Harber²

¹²University College Maastricht, Maastricht University, the Netherlands
¹adzraandira@gmail.com
²f.harber@maastrichtuniversity.nl

ABSTRACT

This paper argues that the lack of economic diversification caused by colonial practices serves as the cause of Nigeria’s dependency towards the oil sector, hence exacerbating their economic condition amidst the COVID-19 pandemic. What began as colonialism with the British Empire has carried out into today’s day and age as Nigeria’s economic vulnerability and dependency on its oil industry. Despite previous experiences in facing crises due to fluctuating global oil markets, it is apparent that the sector of mining and quarrying – including oil – still holds a great proportion of Nigeria’s domestic revenue sources, despite attempts to diversify the country’s economic portfolio. It is clear that Nigeria’s lack of diversification of economic sources as a colonial legacy makes the country more vulnerable towards crisis, especially in the context of COVID-19. Nigeria’s dependency on Oil in the wake of post-colonialism offers a good example of the vulnerable nature of economies that lack diversification. Furthermore, this study uses literature findings as its main source of data. One can also see literature comparison of the concept regarding the impact of neo-colonial frameworks towards former colonies.

Keywords: neo-colonialism, Colonial Legacy, Economic Diversification, Crude Oil.
Introduction

The decolonization of Africa started in the late 1950s, and marked by the independence of Ghana in 1957, the direct colonization practice has seemed to stop. However, it has impacted the African countries in a multi-dimensional way, especially in terms of their progress towards development. One of the undermining factors including colonial legacies and how it plays an extensive role in shaping the growth of post-colonial Africa in various dimensions, specifically in the economic sectors in terms of resource management and markets, through the practice of economic specialization. This paper argues that the lack of economic diversification caused by colonial practices serves as the cause of Nigeria’s dependency towards the oil sector, hence exacerbating their economic condition amidst the COVID-19 pandemic.

Furthermore, the structure of this paper goes as follows: literature review, explanation on dependency theory and neo-colonialism, economic specialization during British colonization, how it shaped Nigeria’s dependency to oil sector and trade with its former colonies, and Nigeria’s economic condition amidst the COVID-19 pandemic.

Literature Review

Some scholars argue that colonialism brought beneficial impact for the former colonies. Yoo and Steckel argued that colonization legacies catalyze a nation’s development. Institutions and rules imposed by colonizers have immensely affected the growth of Asian countries.¹ For instance, as a part of Japanese colonization in Korea and Taiwan, they imposed an efficient system of land taxation and well-defined property rights, which makes loan systems easier for farmers.

Gokmen similarly argues that colonization has facilitated countries that previously had an insignificant role in the global market to be integrated in the system. By internalizing common norms, languages, and legal systems, as well as establishing migration roots and necessary technologies; colonial legacies were built, and its impact still benefits the colonized countries until now.² The writer further uses the example of the Byzantine empire to demonstrate how their role in spreading the common roman law --which still serves as a basis of many legal systems now-- strengthen the trade relations between former Byzantine colonies, like Greece and Russia.

Gilley even argues that Western colonialism was both objectively beneficial and subjectively legitimate, given reasonable assessments of those ideas. In general, countries that embraced their colonial heritage fared better than those who rejected it. In many places, anti-colonial ideology has caused great harm to subject peoples and continues to obstruct long-term development and a fruitful meeting with modernity.³ Colonialism can be reclaimed by weak and fragile nations in three ways today: by regaining colonial models of administration, recolonizing specific territories, and establishing new Western colonies from the ground up. However, several scholars also stress on how these colonial legacies act as barriers for former

colonies to achieve notable development.

Chaudry through his paper *Development Chronicle of Pakistan: A Case of Colonial Legacy* emphasized that the failure of development in Pakistan stemmed from over-reliance on external development models and policies as a result of colonization.\(^4\) Such implied that there is a lack of adaptation towards Pakistan’s inherent conditions, resulting in laws and policies being applied in the country as it is, forcefully. He also stated how the leaders of post-colonial Pakistan do not try to find a system of development that suits their own, but rather just implement the economic development framework provided by Harvard Advisory Group (HAG) and other western correspondents.\(^5\) Hence, the writer further argues that the development efforts and approaches in Pakistan, by far, is just an embodiment of western ideology that has exploitative intent and capitalistic ethos.\(^6\)

Similar argumentation was also made by Austin, stating that colonial rules impacted the resources and institutional settings for economic development in the South-Saharan countries. It claimed that the “path(s)” on which African economies were set by the time of independence are best understood as continuations and adjustments from routes of development established before the European partition of the continent. Siedler further observed how the institutional environment in both countries has changed due to external institutions that were being established forcefully by the British colonizer.\(^5\) His thesis’ main premise is that European institutions affected the development of indigenous institutions. He refers to these as “clashes,” claiming that “variations” in their outcomes “account for today's economic performance of former British colonies.

### Theoretical Framework

For the purpose of establishing a theoretical foundation, this essay will first briefly address dependency theory, followed by how it was manifested in various colonial legacies, including in economic specialization. Depending on whose interpretation one follows this theory the details will vary, however the core philosophy of the theory outlines the idea that the international economy still functions with unequal power dynamics between core, semi-periphery, and periphery countries (while some only differentiates countries into core and periphery). This concept emphasized that the nature of international underdevelopment is driven by external rather than domestic causes and influenced by economic interaction rather than socio-cultural ones.\(^6\)

Arghiri Emmanuel in his thesis titled *Theory of Unequal Exchange* challenged the notion of how comparative advantage principle in international trade and development is universally beneficial.\(^7\) His thesis stated that as in the early stage of development, periphery countries are mostly dependent towards very few sectors in gearing up their economies (mostly either agricultural or valuable minerals), have large amounts of unskilled-cheap-labor, and rely on imports in fulfilling their other needs. Such situated the trade between periphery and core

---


\(^7\) Ibid.
countries to value more the cost of products from core countries, while the core devalues the exports of the periphery. Because core countries sold goods at prices above their values (the socially necessary labor embodied in the products), peripheral countries were prevented from achieving development because they sold their goods at prices below their values. According to Emmanuel, unequal exchange (via trade) is a covert method of extracting surpluses and a significant factor in the economic stagnation in the periphery. However, at the same time this process also sustains the periphery’s needs, hence looping them in a circle of dependency.

Putting it in the context of the post-colonialism era, it is the Western countries that hold the power to determine the terms of trade that ultimately serve their economies at the general expense of the ex-colonies, and the process has been going on even since colonialism took place, through the destructive practice of economic specialization. In the colonial era, the production in the colonies was customized to best serve the European markets, which means that most areas consist of one-product communities with little to none diversification.\(^8\) The residue of this is still evident in the African emerging economies and its respective sectors such as Uganda’s coffee beans (95% of its exports) and Zambia’s copper (98%), which leaves these economies open and vulnerable to the fluctuations of price and demand in the international markets.\(^9\) Following decolonisation, former colonies entered into a global economy that had already been molded by, and for, the former colonial powers. Not only did these ex-colonies enter into this structurally unfair economic environment but the terms under which they entered were also dictated by their former colonial masters.\(^10\) The result of this is inequality on a global scale: the debt of countries in the South has gradually increased, trapping them in a state of dependency on Western countries.\(^11\) Several scholars also argue that this could be the root of Neocolonialism – the practice of using economic imperialism, globalization, cultural imperialism and conditional aid to influence a country instead of the previous colonial methods of imperialism or indirect political control (hegemony).\(^12\)

This theory, like most, is not without its critics. Most recently, changes in economic developments –such as the USA’s relative economic decline over the last several decades, and simultaneously China and India’s rapid economic growth– are considered to challenge the core ideas behind the dependency theory. In addition, the extent of the dependency of ex-colonies and ex-colonial powers is disputed, even wholly discounted by some critics. At the core of this criticism is the claim that supporters of dependency theory exaggerate the extent of dependency, stating that this exaggeration has resulted in an inaccurate perception of the pre-independence period conditions, which is invariably viewed as functioning efficiently before the arrival of western countries.


\(^10\) Ibid.


\(^12\) Jean-Paul Sartre, Colonialism and Neocolonialism (Routledge, 2005), https://doi.org/10.4324/9780203991848.
Analysis: British-Nigerian Colonial Relations, Nigeria’s Oil Dependency, and Their Economic Condition amidst the COVID-19 Pandemic

a. British-Nigerian Colonial Relations

The occurrence of colonial rule in Nigeria coincided with the growth of oil exploration of the British. Nigeria became a part of the British imperial expansion that had a general focus on the extraction and exploitation of raw minerals and materials. With only a small domestic shale oil industry, Britain was in a vulnerable situation when the global oil industry emerged because it was unable to meet domestic demand for refined oil products. As a result, foreign oil sources that had to be shipped across large distances by sea were required to provide Britain's needs. For the Admiralty, the reliance on foreign oil supplies was particularly problematic due to the cost and shipping time. As a result, two situations took place: first, the Admiralty took charge in establishing Britain's oil policy (a process that got underway in 1904 when it was decided to only allow British-controlled corporations to hold oil concessions in British colonies). Second, it sparked interest in the vast, uncharted portions of the oil reserves in the British Empire territory.

What was initially a variety of products that were being explored for exploitation in Nigeria quickly became focused on oil following World War I (WWI). WWI left a huge shortage of oil and catalyzed the expansion of the global oil industry as countries desperately sought to fill this demand. The British Empire prioritized the search for oil for this reason as well as to gain greater independence from American oil. This oil exploration came in the form of companies, supported, and sponsored by the British Government: Shell and D’Arcy. The success of these companies, supported by the British government, helped establish the oil industry in the fabric of Nigeria’s economy.

What was then direct influence and control over the oil industry in Nigeria, and thus Nigeria’s economy, has now evolved into neo-colonial dependency structures, in particular economic imperialism. Although Nigeria’s government ostensibly has control over the national oil reserves, it is trapped in a mono-product economy that is dominated by foreign corporations who yield significant power with the government. Much of the revenue gained from the Nigerian oil industry does not get returned to the national population or the government: the Nigerian National Petroleum Corporation (NNPC) only receives 57% of profits from Nigerian oil, and Nigerian contractors are routinely excluded from the industry.

14 Ibid.
b. Overview of Nigeria’s Economy

Table 1. Distribution of Gross Domestic Production (GDP) across activity sectors in Nigeria as of 2020

Nigeria’s economic growth is proven to be the fastest in Africa, but compared to other countries worldwide, its income is still classified as low. Nigeria still relies on agriculture as its main economic activity. In 2020, as seen on Figure 1, the agriculture sector is the main contributor of the country’s *gross domestic product* (GDP). However, as seen above, the mining and quarrying industry held up more than 7% of the country’s GDP, which was largely contributed by the crude oil and natural gas industry. There are upstream, downstream, and midstream activity in the petroleum sector. In the case of Nigeria, the upstream part of the industry—such as drilling and the extraction of crude oil—is currently headed by international oil companies Shell, Chevron, Mobil, Agip, Addax, and Total, which together produce almost 80% of the country’s petroleum.

---

This trend started from the 1980s, where the oil sector accounted for 22% of GDP, 80% of overall government revenue, and nearly 90% of government export revenues in Nigeria.\textsuperscript{19} In addition, the policy framework's structure favored import substitution while providing few incentives for non-oil exports. However, their dependency towards this sector was soon proven unhealthy. It was further stated that Nigeria experienced an economic crisis in the mid-1980s due to an oil oversupply.\textsuperscript{20} Oil price volatility caused a decline in foreign reserves and ended up worsening the country's debt problems. In response to increased imports, the government deficit worsened, and efforts to stem the negative trend resulted in major issues like unemployment, payment imbalance, and inflation.\textsuperscript{21}

\textbf{Table 2.} Nigeria’s Oil Export Rate (in Barrel per Day) from 1980 to 2018\textsuperscript{22}

Despite the previous crisis demonstrating that their dependency towards the oil sector contributes to their economic fragility, Figure 2 depicted how the oil export rates keep increasing overtime. As a result, throughout 2015-2016, Nigeria faced another major recession as the global oil price dropped.\textsuperscript{23} The unstable situation domestically also aggravates the problem. One is the Niger Delta security crisis, provoked by the land grabbing (as multinational oil companies laid pipelines on the already-limited area of land, disrupting locals’ activities) and water crisis (mostly caused by surface and underground water reserve pollution due to oil spillage and production residue).\textsuperscript{24} The aforementioned eventually motivate locals—especially youth—to commit insurgency on the land and waters in the territory by engaging various Nigerian paramilitary groups to aid in seizing oil facilities and ships, stealing oil, damaging pipelines, and even committing sporadic attacks. Such eventually forced many multinational companies to close their oil operations in the country, damaging the supply chain and eventually the overall economies.

\textsuperscript{21} Ibid.
\textsuperscript{22} Ibid.
Moreover, Nigeria’s dependency towards oil can further be seen through Figure 3. Heed that it does not highlight that global oil prices (GOP) has direct correlation with Nigeria’s GDP (since it is composed of many other economic contributions within the country). However, one can see that when the GOP rose, so did the GDP and vice versa. Hence, there is a strong indication that the GOP has a significant influence over the country’s annual earnings.

Table 3. Global Oil Prices and GDP of Nigeria from 1993 to 2015

Table 4. Oil Price Development from 2000 to 2020

---


During the COVID-19 pandemic, the oil price dropped significantly. The Organization for Economic Co-operation and Development (OECD) stated that on the demand side, the COVID-19 outbreak's containment measures and economic disruptions have caused a global slowdown in output and mobility, resulting in a major decline in global oil demand.27 This is added with the fact that as the contagion spreads, countries face a major decline in labor due to more being infected and the result of travel restrictions. According to the International Energy Agency (IEA), demand was down 30% year over year in April, reaching a level not seen since 1995.28 Meanwhile, on the supply side, agreements that have historically allowed oil-producing countries to respond collectively to reductions in demand have so far proven insufficient to reduce output, suggesting the diminished traction of international solutions in recent years.

However, the members of the OPEC+ alliance failed to prolong their agreement to limit production just as the worldwide impact of the COVID-19 crisis was becoming obvious in March 2020, resulting in certain producers, including Saudi Arabia and Russia, briefly flooding the market. On March 5, 2020, OPEC recommended a 1.5 million barrel per day (mb/d) reduction in production for the second quarter of 2020, with 1 mb/d coming from OPEC nations and 0.5 mb/d from producers who are not members of OPEC but are linked with them, most notably Russia.29 The suggestion was rejected by Russia the next day, which led Saudi Arabia, the largest oil exporter in the world, to increase output to 12.3 mb/d, or its maximum capacity. Furthermore, Saudi Arabia announced unpredictable discounts in its key markets of about 20%. As a result, prices immediately fell by more than 30% and have since continued to fall throughout the year.30

d. COVID-19 in Nigeria, Resilience, and Development

Table 5. Trends in Inflation Rate before and During COVID-19 in Nigeria31

---

27 Ibid.
As seen on Figure 5, inflation in Nigeria steadily increased during COVID-19, which was partially caused by the global oil price disruption during the pandemic. Consequently, as noted by The African Development Bank, Nigeria’s overall real GDP shrank by 3% in 2020.  

Inflationary pressures were exacerbated by the elimination of fuel subsidies. Such is because national oil companies experience lower profitability after oil prices fall, which causes them to produce less and have less of a need for domestically produced materials. The aforementioned is coupled with the fact that the gasoline subsidy has consumed significant expenses, which represents an inefficient use of funds that could have been better allocated to initiatives in the economy that benefit the poor.  

Due to prior experiences, the government has been reluctant to alter this untargeted subsidy due to concerns about political opposition to significant price increases, as well as pervasive corruption and pressure from interest groups. Because of the size of the oil industry and the long-lasting effects of falling oil prices on government spending, by the time the GDP declines and revenue falls for both these companies and the government, subsidies are seen as a hardly viable option as stated by the IMF in their recommendation of subsidy reform towards Nigeria to strictly target the most vulnerable groups instead of making it universal.

In addition, the aforementioned also affect electricity tariff. Petrol subsidies, which have recently been reinstated after the government developed a market-based pricing mechanism, and power tariff reform, which has seen scheduled price increases. It is noteworthy that Nigeria has the world's highest number of people without access to power worldwide, and electricity subsidies primarily benefited wealthier households in the country. Such is supported with the fact that approximately 85 million citizens (43% of the whole population) is deprived of grid electricity access. As the country is facing an oil price crisis, President Buhari announced that the country needs to increase electricity tariff to create more streams of revenues and make up for losses faced by energy businesses, since the occurrence has disrupted the energy industry both on supply and demand side.

Furthermore, reflecting pandemic-related spending pressures and revenue deficits, the budget deficit expanded to 5.2% in 2020 from 4.3% in 2019, financed largely by domestic and foreign borrowing. As a result, governmental debt peaked at $85.9 billion (25% of GDP). Nigeria faces a huge fiscal risk due to high debt service payments, which are expected to be more than half of federally collected income. The current account deficit was forecast to stay at 3.7% of GDP, owing to a drop in oil receipts and sluggish external financial flows.

Seeing it from the development point of view, prior to the pandemic, Nigeria was already ranked 161 out of 189 countries on the Human Development Index and ranked 152 of

---


35 Ibid.


157 countries in the World Bank’s Human Capital Index. The COVID-induced crisis caused by inflation on the onset of oil price fluctuation is predicted to push over 11 million Nigerians into poverty, bringing the overall number of impoverished people in the country to above 100 million out of approximately twice the number of citizens. This is aggravated by other factors, including the minimum spread of social protection since only less than 2% of Nigerians lived in households covered by the nation's most important social security program, the National Social Safety Net Project (NASSP), before the epidemic, and coverage of most other programs was significantly lower. During the COVID-19 crisis, social protection services' coverage remained low. Just 4% of households got financial assistance from the federal, state, or local government between March 2020 and March 2021. (Figure 2). This is far less than what would be required to stop the crisis's causes of poverty from extending and intensifying.

On food insecurity, Shirbon and Ohaucha additionally found that the crisis was being exacerbated by inflation, particularly in food costs. Over the past year, food accounted for about 70% of Nigeria's total inflation increase. Higher food costs due to domestic supply limits and the pass-through effects of an exchange rate premium that increased to nearly 24% propelled inflation to 12.8% in 2020, up from 11.4% in 2019. One should note that food insecurity has been a long-term problem in Nigeria, way before the pandemic occurred, as demonstrated by several studies that 58 percent of all household spending in the country is on food, and the households in the bottom quintile of wealth spend more than 75% of their income on that sector. Additionally, there are significant socioeconomic issues surrounding the poor food security status that many Nigerian households are in, including high rates of poverty, unemployment, and severe malnutrition, particularly among vulnerable groups. Economic and social shocks brought on by COVID-19 have made Nigerian households more vulnerable and food insecure.

Another impact would be the spiking number of unemployment as a result of oil price freefall. As the ILO predicted 25 million would lose their job through sub-Saharan Africa where most oil-dependent countries are located, Nigeria is no exception. According to a report by the National Bureau of Statistics (NBS) and the United Nations Development Programme (UNDP) Nigeria, the COVID-19 pandemic resulted in the loss of employment of 20 percent of Nigeria's full-time workers in early 2020, and topped off at 33 percent at the last quarter of the year. The research, which evaluates COVID-19's effects on Nigerian commercial firms, is based on in-

---

44 Ibid.
depth interviews with nearly 3,000 companies from both the official and informal sectors and across the country's key economic sectors, including oil. According to research conducted in 2021 by Manasseh et al., since the economy is significantly impacted by the substantial dependency on oil earnings and oil price changes, a negative reaction caused by the combination of COVID-19 economic lockdown, restrictions on goods and services, and drop in oil demand also causes the aforementioned phenomenon. The fact that the amount of exported oil is sharply declining, as well as its other facilities (like byproducts, technology, and infrastructure) also caused manufacturers losses that required oil companies to cut down production cost by reducing human resources. Additionally, due to the high costs associated with moving capital and specialized labor from one industry to another, workers do not relocate right away but rather wait for things to get better, which lowers overall employment. Since the level of investment follows changes in crude oil price and controls the capacity of prospective output over the long run, higher input costs driven by shocks in crude oil price reduce the level of investment, leading to a decrease in output as well.

Lastly, insecurity in the country, which ranged from mass abductions at schools to ransom kidnappings, armed warfare between herders and farmers, armed robberies, and numerous insurgencies as a protest against the government, was a drag on economy and job creation, as well as investment in the long haul.

**Conclusion**

Nigeria’s dependency on Oil in the wake of post-colonialism offers a good example of the vulnerable nature of economies that lack diversification. What began as colonialism with the British Empire has carried out into today’s day and age as Nigeria’s economic vulnerability and dependency on its oil industry. Despite previous experiences in facing crises due to fluctuating global oil markets, it is apparent that the sector of mining and quarrying—including oil—still holds a great proportion of Nigeria’s domestic revenue sources, despite attempts to diversify the country’s economic portfolio. In the context of COVID-19, the volatility of global oil price due to supply flooding has caused extensive impact to Nigeria as predicted. Such includes inflation, creating various collateral damages which mostly aggravates the pre-existing domestic problems, such as food insecurity, spiking electricity tariff and energy inequality, rising unemployment, and risks of security issues and criminality rates. The aforementioned example worsens Nigeria’s progress towards achieving proper development, which—according to trend—does not display greater outlook to begin with.

---

References


