Nigeria’s Vulnerability to Global Oil Dynamics and Politics

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Abstract

The paper analysed global oil dynamics and politics and their implications for Nigeria’s development. It adopted systems theory as its theoretical framework and employed the qualitative method as its methodology, in which face-to-face interview was used in obtaining primary data from relevant respondents alongside secondary data from relevant academic works. The paper found out that Nigeria has been negatively affected by the changing dynamics of international petroleum politics, particularly by the fall in global oil prices, as Nigeria depends heavily on oil earnings to meet its budgetary provisions for national development. This is further compounded by mismanagement of the accrued oil wealth before the collapse of oil prices and increased geopolitical tension. Nigeria should without further delay, diversify its economy away from oil to other viable and less volatile sectors, such as agriculture and solid minerals, manufacturing, Information and Communications Technology (ICT), aviation services and so on, alongside the strengthening of its bargaining power in global petroleum politics, particularly in the Organization of Petroleum Exporting Countries (OPEC), availing itself of the advantage of its leadership position in OPEC and the political leverage it has as a strategic actor in international oil politics.

Keywords: Oil; Global Oil Dynamics; Politics; Nigeria; Development

1. Introduction

Nigeria as a member state of the international oil system depends heavily on oil, as its major source of income to meet its budgetary provisions and spur economic growth and development for the benefit of its teeming population. However, due to the changing dynamics of international petroleum politics and the collapse of global crude oil prices since June, 2014, Nigeria has been finding it extremely difficult to meet its domestic needs on almost all fronts of its national life, alongside other international obligations.

It is against the above background that this paper seeks to examine the implications of global oil dynamics and politics for Nigeria’s development; why is Nigeria vulnerable to international oil dynamics and how best could the ugly trend be managed? This research is of significance because it seeks to show
the path that Nigeria would take to keep floating, as it is at a critical crossroads and facing serious challenges due to the changing dynamics of international petroleum politics and the collapse of global crude oil prices, as it relies heavily on oil earnings to power itself and its economy, hence meeting the needs of its teeming population.

Global oil politics is conceptualised as the struggle and calculations of major and minor states or countries for highly valued oil and other petroleum products for their own survival, security, development, prosperity, power, and influence (Onuegbu, 2015). Global Petroleum politics also refers to the skillful manipulation of oil majors to influence OPEC’s decisions with the sole aim of cost minimization and profit maximization in the global oil game.

On the other hand, oil is conceptualised as that precious and highly valued natural resource that represents power, security, stability, and prosperity for any state that has it. Oil is universal, unique, and rare (Karl, 2004). Oil also represents a crucible for exploring the intersection of political economy, development, foreign policy, and international cooperation. Oil is conceptualised by some scholars as a prerequisite for attaining influence and power in international politics, especially global petroleum politics. In this context, therefore, a state that has oil is believed to wield some level of global voice and influence, for example, Saudi Arabia. Although, other scholars contend that it all depends on how it is utilized.

2. Methodology

The research adopted document analysis within the qualitative research framework, alongside specialised interviews with seven (7) key respondents from whom primary data were collected. Secondary data were obtained from relevant works, such as books, journal and e-journal articles, newspapers, and magazines. The research was qualitatively analysed with the utilization of the thematic analysis approach and with reference to the data and theoretical framework, and generation of themes and subthemes, as presented under findings and discussion.

The choice of the above method(s) is justified on the following grounds as follows: Firstly, the qualitative method was chosen for this research because of its flexibility and the fact that it adequately provided the research with the needed tools for collecting data and thereafter analysis. For this, purposive sampling and thematic analysis were adopted, which are integral parts of the qualitative method. Secondly, the qualitative method was found logical and systematic, as it ensured the orderly gathering, arrangement, coding, and analysis of data in this research. Thirdly, the qualitative method was found relevant and appropriate to this research because it ensured the utilization of a relevant theoretical framework, such as the major theory upon which this research was based.

The seven (7) relevant respondents that were interviewed are as follows: (1) NNPC officials, (2), (2) DPR official (1), (3) PENGASSAN/NUPENG official (1), (4) Independent Marketer (1) and (5) Public members (2), making a total of seven (7) respondents.

3. Literature Review

The review is done in a thematic form as follows:

3.1 Global Oil Politics

The theory of politics on the natural resource curse envisages the length (long or short) of any political office holder depending on the natural resource wealth and the political incentives created by the
natural resources in question. This also relies on the type of institutions as well as the type of natural resource (Andersen & Aslaksen, 2013). Over a century today, one of the characteristics used in measuring wealthy nations is the availability of natural resources of which oil is among. In developing nations, oil politics is argued to be a major source of domestic and international politics and this in most cases has adverse effects on the economy. However, states with revolutionary leaders are exempted from this illustration (Colgan, 2014). Historically, oil prices have been influenced by world politics and have caused many nations to be at war with one another. From the opinion put forward by Lei and Michael (2014), the discovery of giant oil fields has increased the oil exportation by almost 50% and, it has increased internal and external conflicts by almost 5 – 8% in the last 10 years, causing an increase in arms trade and arms proliferation, especially in countries ravaged earlier by political or civil unrest.

Gupta (2008) argued that the notion of oil vulnerability is multidimensional and is defined:

As a state that makes oil-consuming countries extremely vulnerable to international developments such as higher oil prices and oil supply disruptions. The literature on oil vulnerability highlights the fact that there are three major risks that contribute to the overall oil vulnerability of an economy - market (or economic) risk, supply risk, and environmental risk. Market risk of an economy refers to the risk of macroeconomic effects due to erratic price fluctuations in oil markets. Supply risk of an economy refers to the risk of physical disruptions in oil supplies. The environmental risk of an economy refers to the risks related to climate change, global warming, accidents, and polluting emissions due to increased oil usage.

Onuegbu (2015) argued in a broader manner that the global economy needs energy or a lifeline to float and run and much of that is crude oil. This then defines international relations since the discovery of internal combustion and diesel engines powered by crude oil. In fact, the history of international petroleum politics and indeed global politics has been dominated by attempts to restrict the supply of crude oil and maintain high prices by export-dependent economies or states or by moves to maintain sustainable, secure access to crude oil at low prices by import dependent states. The foregoing has therefore made international politics more than anything else to define the price of crude oil since the early 20th century to date.

Brew (2017) argued that the global oil system alongside its political dribbles has far-reaching implications for the developing oil producing countries. This means that global petroleum politics affects the state of the economies of these countries, more so those who depend solely on oil as the mainstay of their economies. This, however, further exposes the vulnerability of the case study of this research, Nigeria. It is further argued by that further surges in future non-OPEC supplies and prices lying stagnant in the $40, are becoming clear that OPEC’s deal to extend production cuts in place since November has not had the desired impact. With this, OPEC states are now taking divergent, self-interested approaches to the problem, raising new questions, such as: will the group take a new action to arrest the fall in prices, and if so, what form will it take, and when?

Further to the foregoing argument, a 2017 report by the International Energy Agency (IEA) advanced that Iraq, along with other OPEC member states, was being less diligent in cutting oil production and abiding by the OPEC deal. Baghdad, it is argued, reached only a 55% compliance rate, according to IEA figures.

The above picture demonstrates in another clear manner the vulnerability and impact of global petroleum politics that member states suffer, Nigeria inclusive, in the sense that they are left to suffer from the actions and inactions of other member states that have failed to comply with OPEC directives/orders. Nigeria, being the case study of this research suffers a lot.

The unstable political atmosphere among the OPEC members in the year 2014 led to disagreement, in which every member state decides to produce more of the petroleum product. The
aftermath of this scenario is over the supply of petroleum products, thereby forcing the price down below $70 per barrel (Aggarwal, 2014).

In addition to the disagreement among the OPEC member states, in which Nigeria is a member, the intense competition among the non-member states of OPEC and the shale oil revolution contributes to the political phenomenon.

3.2 Factors Influencing Global Oil Politics and Oil Price

One of the major factors that determines the price of oil globally is the Organization of Petroleum Exporting Countries (OPEC). The OPEC was found in the year 1960 and started with five member countries that include: Iran, Kuwait, Iraq, Venezuela and Saudi Arabia. As time goes on, some other countries joined these five countries. These five countries were later joined by nine other countries.

According to Mitchell (2016), OPEC is referred to as a “cartel” which has pursued and is pursuing high oil prices in the market. Whereas, conferring onto the notion of Brew (2017), the primary objective of OPEC is to maintain order in the oil market when there is pressure due to high demand. It is not in the agenda of OPEC to flood the oil market with excessive supply. However, the agenda of the OPEC is to cut production to reduce the supply and thus ceiling the price of oil.

Since around the year 2004, it is argued that there is a high demand for oil across the globe, especially from developing countries, this phenomenon caused OPEC to change its strategy by openly announcing their target price. In this regard, Saxton (2016) believes that OPEC, forcing high prices in the oil market and acting decisively when there is a crash in the oil price, is a way of not allowing the market forces “demand and supply” to be responsible for the price setting. In a bid to raise the failing oil price, OPEC developed a new strategy which was geared towards improving its market share.

This strategy, according to the notion expressed by oil analysts, is in a bid to force high cost producers (notably, the United States) out of the oil market. The main reason for this is because the falling oil price has a negative influence on the global economy (Kisswani, 2016). In a recent argument by Brew (2017), over 60% of the global oil wells is in the possession of OPEC member states, with this, they have the influence to control the oil price at their will. However, Investopedia (2016) claims that OPEC members have influence over oil prices for just in the short run. While in the long run, they have limited power to do such because each oil producing nation is fighting for its own market share (Ansari, 2017).

However, the claim of Kisswani (2016) debunked the argument of Mitchell (2016) referring to the OPEC as a cartel pertaining to her acclaimed dominance and setting of oil prices through its member states’ coordination. Kisswani (2016) argued that no evidence of co-integration in the relationship behavior. Further results from the analysis revealed that contrary to the arguments that OPEC sets oil prices, the results revealed otherwise, contradicting the claim of Brew (2017). While much in support of Investopedia (2016), where it was acclaimed, OPEC has no long-run influence over the price of oil in the oil market.

4. Theoretical Framework

The Research was based on Systems Theory, developed by Anatol Rapoport in 1974. Systems theory basically assumes that the entire world represents a whole with independent and sovereign units called states, interacting with others in an interdependent manner in the international system to preserve the system by ensuring its stability and then defending and promoting their individual interests. A good system consists of different parts; these parts interrelate with each other or one another in an existing
environment; the parts are both independent and interdependent; there are boundaries that separate one part from another and there is a stabilisation mechanism in the event of disputes and conflict.

This Theory was found relevant to this research, because Nigeria and its oil and gas industry constitute one strategic part of the world and more so that Nigeria produces oil and is a member state of the Organisation of Petroleum Exporting Countries (OPEC). Therefore, it means that international petroleum politics affects it, as this research moves to determine the extent to which it affects Nigeria’s development.

5. Findings and Discussion

The results are presented and discussed under three major themes, with the first major theme, having three subthemes.

5.1 Effects of Global Oil Politics and Collapse of Oil Prices

Under this first major theme, seven (7) respondents stated the following effects, which are presented under the following three subthemes:

5.1.1 Catastrophic Economic Recession and Distressed Economy

Global oil politics and fall in oil prices have caused a disastrous economic recession, which has resulted in a serious foreign exchange crisis, fall in the value or purchasing power of the Nigeria’s national currency, the Naira (N) and galloping inflation, which have all combined to trigger a distressed economy alongside a widespread cash crunch or squeeze and all Nigerians are complaining and the government seems powerless to help or resolve the ugly situation.

Respondent 1 said that:

Global petroleum politics, disputes and fall in oil prices have virtually affected every aspect of Nigeria’s national life, as governments at all levels cannot currently deliver and masses are left suffering, as the economy is in recession and this has plunged the entire Nigerian societal fabric into a standstill. Correspondingly, respondent 2 buttressed the above points:

By saying that on the economic front, the recession has befallen us, Nigeria currently suffers from cash squeeze and this has resulted in a distressed economy with many negative consequences. Similarly, the foreign exchange crisis is currently suffocating the economy people and chasing away foreign investors.

Respondent 3 stated that, socially, there is no employment, as social activities are generally paralysed and poverty, hunger, and crime rates have increased tremendously.

Respondent 4 said that, politically, there is no order in place and democracy is seriously being undermined, as Nigerian leaders are becoming increasingly inefficient, corrupt, and improvident.

Mitchell (2016) opines that the fall in global oil prices was the cause of the catastrophic or devastating economic recession in Nigeria, which has now resulted in tougher times. Similarly, Musa, Yaacob and Omar (2016) argue that there is an internal side of the problem, meaning it is true that global petroleum politics affects Nigeria negatively at the material time, but the lack of diversification of the Nigerian economy, corruption, mismanagement of oil wealth and poor political leadership are to blame also.
The major theory (Systems Theory) upon which this research was based provided the needed direction and light in this regard by arguing that the global system represents a whole by virtue of the interdependence of the individual states, especially the oil producing states under OPEC. This means the effects suffered by Nigeria are confronting other states. However, this theory falls short in this regard of generalising, as there are other oil producing states that currently do not suffer the devastating effects that the research found out that Nigeria is at present facing and suffering from.

5.1.2 General Insecurity and Political Instability

All 7 respondents interviewed agreed to the evident fact that Nigeria is in a state of general insecurity and political instability, which is attributed to the dwindling economic fortunes, following the collapse of global oil prices and the changing dynamics of global petroleum politics and other geopolitical factors.

Data collected from the interviews confirmed this and the major theory of the research points to the fact that other states in the international oil system could suffer a similar fate, particularly when the global oil price crisis erupted. Agbaeze and Alarape (2015) argue that Nigeria has to do more to overcome its dependency on oil, given the global oil shock or else there is the possibility of its remaining in its current shape.

As the mainstay of the Nigerian economy takes a turn for the worst, following the collapse of global oil prices and Nigeria’s poor bargaining power in global petroleum politics, especially in OPEC politics, social life becomes increasingly destroyed, as the means of livelihood of many Nigerians became wiped out, as a result of their disengagement from their jobs, as the government and private sector, particularly those in the oil and gas industry can no longer maintain them. This scenario is what the data from the conducted interviews confirm and the theories (systems and conflict triangle) also provide the theoretical underpinnings for this, that in the event of a systemic failure, everyone suffers and conflict is the end result of such a situation.

Galtung (2004) opines that neither in the life of individuals nor in the life of the nation, major primary needs (food, clothing, shelter, and sex) remain unsatisfied or unsatisfiable. This helps to support or confirm the above further.

5.1.3 Weakened Nigerian State's Capacity to Perform both domestically and Internationally

It is a clear fact given the data collected that the Nigerian state has become seriously weakened and almost incapacitated in terms of performing its statutory duties, as enshrined in the 1999 Constitution of the Federal Republic of Nigeria, as amended.

Respondents 2 and 3 stated that the three (3) arms of the government were not delivered regarding performing their fundamental functions of law implementation or execution (Executive), law making (Legislature), and law interpretation or construction (Judiciary). They further said that the Nigerian state was more of a failure, given the myriad of problems confronting it. However, they expressed hope that the current Buhari Administration might pull Nigeria out of its most pressing problems and then put in place strong and effective measures for its sustainable development.

Harris (2009) in his work on the geopolitics of oil, confirms the above by arguing that the bargaining power of a state is high; when the value of the resource it holds, dear is high in the global market and the reverse is the case; when it is low.
5.2 Nigeria's Vulnerability to Global Oil Dynamics

Under this, respondent 1 said that Nigeria was vulnerable to global oil dynamics because it is one country that depends almost solely (98%) on oil alone. For this, any shake or shock in the global oil system or fall in the price regime would have serious or even catastrophic impacts on Nigeria, as it is currently facing. This could be confirmed; if a careful look is taken at the raised effect under theme I and its sub-themes that the research found.

Respondent 2 corroborated the above finding where he said:

The major thing why Nigeria is vulnerable is because petroleum contributes 98% to it. He sees Nigeria as a mono economy and for this, whenever there is a collapse of oil prices or any shock in the global oil market, Nigeria suffers a lot.

The collected data showed that Nigeria’s vulnerability to global oil politics, dynamics and price crisis was largely as a result of its almost total dependence on oil (98%) as the mainstay of its economy. The research also found out that Nigeria, being a component unit of the global system and a strategic member state of OPEC was bound to be affected by any shake or shock in the international system, the global oil markets and politics, disputes and dynamics, as Nigeria is not ‘an island unto itself’ or operating in isolation.

Buttressing the above, Gupta (2008), opines that the oil industry is almost totally globalised, as approximately more than 60% of the global oil supply is internationally traded. This indicates that the world is heavily reliant on oil for the satisfaction of its energy demand. Therefore, this underscores the degree of vulnerability the world is most likely to face whenever there is a shock or unwholesome play of the geopolitics of oil.

Fattouh and Sen (2016) posit in relation to the above that vulnerability to the global oil market and politics is intensified by the action of Saudi Arabia, being the largest crude oil producer in the world and the actual power holder in OPEC. This is because any decision of OPEC that runs contrary to the fundamentals of Saudi oil policy ‘is a rejected one’ by Saudi Arabia even if it is good for the global oil market or price stability. This further highlights Nigeria’s vulnerability at the global level and its poor planning, mismanagement and lack of diversification of its economy long ago at the domestic level. The major theory (Systems theory) of this research has aided in this context by showing how the globalised and interconnected the world has become.

5.3 Strategies for Overcoming the Negative Effects of Global Petroleum Politics, Dynamics and Price Crisis

Under this, respondent 1 advanced that at the macro level, Nigeria should diversify its economy from oil to agriculture and solid minerals, while at the micro level; Nigeria should embark on investments in upstream oil exploration by diversifying the base of crude oil to gas. The Federal Government of Nigeria should strengthen the downstream operations in refining and marketing and it should improve on its fiscal regime and contracting cycle so that it could get value for its investments. They also said that Nigeria should strengthen its mechanisms of effective collaboration among oil producers and consumers and be more tactical in OPEC politics. They also said that Nigeria should quickly pass the Petroleum Industry Bill into law.

Respondent 2 stated that first; Nigeria should look inwards and diversify its economy. Secondly, Nigeria should make its position known in global petroleum politics. Thirdly, it should understand and be highly educated in global oil politics, particularly between Saudi Arabia and United States of America, to the extent that she understands better than any member state or non-member state of OPEC. Fourthly, it
should learn to build bridges with those that are not member states of OPEC, for example, USA, Russia, China, Norway, and so on. Fifthly, Nigeria should invest heavily in research to create alternative sources of energy and income.

Musa, Yaacob and Omar (2016) posit that for Nigeria, to get itself out of the current doldrums or economic stagnation, it has to solidify its bargaining tactics and power in global petroleum politics and disputes, especially at OPEC, ensure a quick and sustainable diversification of the Nigerian economy and Nigeria should fight the scourge of corruption and manage oil wealth prudently for Nigeria’s development should global oil price return to its profitable peak of $100 and above per barrel.

Research has also shown that a state that depends too much on crude oil as its only source of income and subsistence would always suffer from the unintended negative consequences of global oil volatility and the dynamics of global petroleum politics and disputes (Ekon & Effiong, 2015). This is also supported by Agbaeze, Udeh and Onwuka, (2015).

**Conclusion**

The research examined the implications of Nigeria’s vulnerability to global oil dynamics and politics, and the research findings clearly showed that Nigeria, its oil and gas industry, economy, and citizens had been hit hard and negatively affected by the volatile dynamics of global petroleum politics, disputes and the collapse of global oil prices, as Nigeria relies heavily on earnings from its foreign sales of crude oil, which according to the Nigerian National Petroleum Corporation (NNPC) had dropped from $212.5 million in July, 2016 to $180.93 million in August, 2016, representing 17% drop in proceeds.

The findings were: a devastating economic recession and distressed economy, which caused a serious foreign exchange crisis, fall in the value of the Naira (N), hyper inflation, general insecurity and political instability, loss of global oil markets and foreign direct investments, arising from skyrocketing youth unemployment, abject poverty and inequality and weakened Nigerian state’s capacity to perform effectively both nationally and internationally. One positive effect that stood out was the restoration of state consciousness and renewed hope for the passage of the Petroleum Industry Bill into law.

It also found that Nigeria is vulnerable to global oil dynamics because of its overdependence on oil and the study found the most effective measures or strategies to be taken are: the diversification of the Nigerian economy away from oil to other less volatile and viable sectors, such as agriculture, solid minerals, manufacturing, aviation, Information and Communications Technology (ICT), strengthening of Nigeria’s bargaining power in global petroleum politics, passage of the Petroleum Industry Bill (PIB) into law as well as finding a lasting peace in the Niger Delta region, which is the area where the bulk of the Nigerian crude oil is produced.

The research recommends that Nigeria should first; diversify its economy away from oil to other viable and less volatile sectors, such as agriculture, solid minerals, manufacturing, aviation, and Information and Communications Technology (ICT). Secondly, Nigeria should strengthen its bargaining power by being more diplomatic and tactical in global petroleum politics, particularly at OPEC and at the same time capitalising on the leadership position it currently holds at OPEC. Thirdly, Nigeria should stop the delay in the passage of the Petroleum Industry Bill and pass it into law, given its derivable benefits.

The research also recommends that future research could be undertaken on the politics that would most likely surround the diversification of the Nigerian economy in relation to the interests of the western powers and their major international oil companies operating in Nigeria’s oil and gas industry, especially the upstream sector of the industry.
Data Availability

The data is incorporated into the findings of the study, and were obtained through special interviews, as indicated under the methodology (methods).

Conflicts of Interest

The author declares that there are no conflicts of interest regarding the publication of this article.

References


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