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Why We Feel Unsafe When We Get Rich? Review on the Empirics of Corruption, Oil Rents and Insecurity in Nigeria

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Abstract

The empirical submissions that oil rents cause internal conflict have been widely supported by many researchers but criticized on the basis that oil dependence and conflict are influenced by other factors endogenously. In this paper, we review the empirics and interaction between corruption, oil rents and insecurity in Nigeria. Based on the theoretical submissions of the "Resources Curse Thesis", the paper argues that Nigeria's security challenges are more or less driven and triggered by corruption and oil rent, and the fact remains that oil rents tend to affect all economic activities, shaping the political system which certainly presents a reasonable explanation for both economic and political "Dutch Disease". However, we upheld the proposition that due to corruption, oil is problematic because the unearned income received by the government from oil rents leads to the neglect of other key aspects of the economy especially peace and social security.

Keywords

Corruption, Oil Rents, Insecurity, Dutch Disease, Resources Curse

1. Introduction

When Nigeria is mentioned, what often comes to mind is a country where oil and gas resources occupy the heart of economic affairs. As one of the major oil producers and exporters in the globe, Nigeria's oil industry contributes more than 90% to its foreign exchange, about 84% of GDP and more than 70% of budgetary revenues (National Bureau of Statistics-NBC, 2018). Over the years, both the government and private sectors have gained a huge amount of rents from international oil trade that generated quite some livelihoods which are often below expectations. However, the oil-rich Nigeria has become unsafe due to increasing tensions from armed conflicts and deadly violence which led to the loss of many lives and properties without corresponding loss in oil rents. In the same vein, people feel unsafe due to the current security challenges in the country, thus, the timely question "why we feel unsafe when we get rich" demands clear answers.

Over the last two decades, insecurity is among the world's greatest challenges because of the increasing numbers of domestic and international militia groups especially in Africa and Middle East regions. The rising phase of globalization and communication networks exposed many countries to the shackles of insecurity often driven by a series of socio-economic and political forces. Among these forces, corruption and resources competition for rents were given more prominence in empirical and theoretical researches (see Leite & Weidmann, 1999; Collier & Hoeffler, 2004; Arezki & Gylfason, 2013; de Soysa, 2015). Resource rents represent a significant portion of Gross National Income (GNI) for many countries (World Bank, 2010) and this attracted counter-arguments among economists on natural resources curse thesis (Frankel, 2012; Morrison, 2013; Ross, 2015) and political scientists on grounds of good governance and socio-political progress (Karl, 1997; Auty, 2001 among others). Interestingly, at the heart of these arguments, corruption and its transmission mechanisms are given much consideration. Precisely, Karl (2004) argues "that countries dependent on oil are often characterized by corruption and exceptionally poor governance, a culture of rent-seeking and high rates of civil conflict and inter-state war".

The link between corruption and oil rents has received the attention of political economists and social researchers using different perspectives; resource rents lead to an increase in the level of corruption (Bhattacharyya & Hodler, 2009). Oil rents could foster security challenges by funding rebels group and weaken state institutions (Fearon, 2005; Snyder & Bhavnani, 2005). Makes the state more vulnerable and attractive to rebels (Fearon & Laitin, 2013; Arezki & Bruckner, 2011; Arezki & Gylfason, 2013), serve as a source of trade shocks (Humphreys, 2005), making separatism financially attractive especially in rich resources region (Collier & Hoeffler, 2009; Le Billon, 2005) or through power competition and other related mechanisms (Ross, 2006). However, resource rents and economic management was examined by Ross (1999a), he found that abuse of political power for private gain is the fertile ground for poor economic management. Countries dependent on oil often suffer from corruption and exceptionally poor governance, a culture of pervasive rent-seeking and a high incidence of insecurity (Karl, 2004). On the effect of oil rents and political systems, Ross (1999b) reported that oil rents significantly undermine the democratic capacity of a system. Aslaksen (2010) shows that the oil rents systematically predict both levels and changes in a democracy based on a panel of 156 countries for data spanning from 1992 to 2002.

This paper specifically reviews whether there is a theoretical link between corruption, oil rents and insecurity based on the empirical and theoretical submissions. The potential link between corruption and insecurity has long been confirmed by Ivo and Rosalind (1968) using the Frustration-Aggression theory put forth by Dollard et al. (1939). The authors show that when people in rapidly modernizing nations become more urbanized and literacy improves, they become more aware of material improvement. The increasing gap between the rich and the poor partly caused by illegal power and resources competition (corruption) intensifies frustration, and unprovoked aggression ensues and escalates. They were also able to show that, corruption breeds injustice, ethnic conflicts, militancy, hostility and anger (an emotional readiness to aggression) which leads to social insecurity.

Our study focused on Nigeria, the most populous country in Africa and the largest economy in the continent. The choice of Nigeria as a unit of analysis is not arbitrary because in recent years Nigeria became a potential laboratory to study the link between corruption, oil rents and insecurity. Given the role and importance of good governance in achieving development, at the heart of government's policy thrust since returning to democratic rule in 1999 is the fight against corruption, promotion of rule of law and good governance specifically, the policy thrust of the current administration is anchored on three priorities; containing insecurity, fight against corruption and economic management. Within the last two decades, Nigeria's security situation worsened, data has shown that 3641 people lost their lives and 1.7 million people were internally displaced in the last four years. From May 2009 to June 2019, more than 100,000 dead were recorded and almost 2.5 million people were displaced (International Crisis Group-ICG, 2019). In 2017 alone, the country lost more than $19 billion (N7 trillion Naira) as revenue leakage in addition to $1.5 billion lost monthly on the Gulf of Guinea due to terrorist attacks, piracy and militancy (National Bureau of Statistics-NBS, 2018). Since returning to civilian rule in 1999 (Fourth Republic), the country has suffered from growing security, capacity and legitimacy, and development challenges.

Corruption has denied millions of people the opportunity for a better life (International Crisis Group-ICG, 2019), according to former World Bank Vice President for Africa Ezekwesili, "Nigeria lost more than $400 billion to large-scale corruption since independence in 1960 which could have been channeled to development programs". The country's oil rents account for more than 80% of GNI and exert a significant influence on government revenue and expenditure framework. The economic significance of oil rents is more or less linked to the role governments play in managing it, but the consequences of a potential increase in oil rents on the level of corruption as well as the effect of corruption on insecurity are among the key issues that draw the attention of both academician and policymakers at domestic, regional and global levels. The mechanism through which corruption and oil rents lead to insecurity in Nigeria is the purpose and motivation for this paper. And through its emphasis on corruption, the paper contributes to the current literature by showing the possibility of "Nigerian Disease" using a holistic framework depicting the transmission channels (pathways) from corruption to insecurity as mediated by oil rents in Nigeria. The basis and foundation of the framework are supported by seeking truth from the facts based on "Resources Curse Thesis" (Ross, 2012; de Soysa, 2015) and the "Dutch Disease Thesis" (Corden & Neary, 1982). The main innovation of the paper is its ability to simultaneously explain the pass-through and interactions among corruption, oil rents and insecurity (see **Figure 1**). Specifically, our conclusion reveals that insecurity in Nigeria is motivated by both political and economic Dutch diseases (corruption and pervasive rent-seeking). Impliedly, our conclusions signal to the fact that insecurity is the product corruption in Nigeria but oil rent is also problematic because it has led to the neglect of other key aspects of the economy especially peace and societal security. The rest of the paper is structured as follows; Section 2 discusses the theoretical foundation on the link between corruption and insecurity. Section 3 dealt with the resources curse thesis linking corruption, oil rent and insecurity. Section 4 presents the case for Nigeria using a framework to show the corruption-insecurity pathways linked by oil rents; while in Section 5, we present the main conclusions.

The Dutch Disease Thesis

The theoretical foundation of the Dutch disease is anchored on the apparent causal link and interdependence between the increasing development of a particular sector (i.e. natural resources sector) and a decline in other sectors (manufacturing, service and agriculture sectors). The expectation is that, as net revenues increase marginally in the natural resource sector (inflows of foreign exchange earnings), the country's currency becomes powerful compared to other countries' currencies. But the implication is that, the country's other exports will become more expensive for other countries, and imports becoming cheaper, making those sectors less competitive.

Corden and Neary (1982) developed a framework describing the Dutch disease using a three-sector economy, namely; resource sector (R), tradable sector (T) and manufacturing sector (M). It was in the late 1950s that the Netherlands' currency (Guilder) witnessed significant appreciation following the boom in the natural gas export. The increasing marginal revenues foreign exchange pushed the inflation rate to increase which further leads to declining competitiveness, output and profitability of the manufacturing and service sectors. Subsequently, aggregate export crashed down relative to GDP. The theory is based on the following assumptions as identified by Corden and Neary (1982);

- There should be perfect mobility of the labor force among all the three sectors in the economy.
- All commodities are for final consumption.
- Trade always balances (output equals spending).
- Commodity and factor prices are free from distortions.

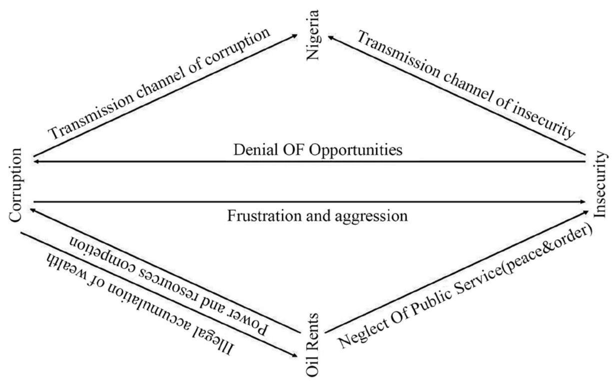

Figure 1. Pass-through channels of corruption, oil rent and insecurity in Nigeria. Source: Authors' logical conclusions based on theoretical arguments.

Based on the above assumptions, Corden and Neary (1982) suggest two major potential effects as a result of the resources boom and increasing rents from the export of resources in an economy, thus:

Movement of resources effect: the boom in the natural resource sector increases labor demand, and this will cause the movement of a large number of the labor force to the resources sector. Hence, causes production shift toward the resources sector and away from other key production sectors. This movement of labor from productive and lagging sectors to the booming resources sector is called "*direct-deindustrialization*".

Spending effect: as a result of the additional revenues (rent) received from the export of resources, there is a tendency for the increasing demand for labor in the non-tradable sector (services) at the mercy of the productive sector (manufacturing and agriculture). This deliberate shifting of resources from the neglected productive sectors to the non-tradable sector is called "*indirect-deindustrialization*". So, the increased demand for non-traded goods raises their price, but prices in the traded good sector are determined exogenously by the international market making them hard to adjust. This amounts to an increase in the real exchange rate.

From this view, the main argument of the Dutch disease is that, natural resources rents could be the major inducement for neglecting other key sectors as witnessed in many developing countries that relied on natural resources rents to finance development. The situation is worsened by corrupt practices among public and private stakeholders because the socio-economic implication of shifting resources to the natural resources sector from other key sectors of the economy cannot be overemphasized. The spillover effects of resource abundance amidst corruption are pervasive rent-seeking, resources competition, abject poverty, high rate of unemployment and civil unrest. However, the government may lack accountability, strong institutions and unable to implement reforms that will improve the welfare of the people.

2. Corruption and Insecurity: The Theoretical Discourse

Before the 1980s, economic theory suggests that natural resource abundance could help developing countries to make the transition from underdevelopment to industrial "take-off", just as in the case of Australia and the U.S (Baldwin, 1966). This notion was successfully refuted and challenged by some researches that show the existence of "Resource Curse"—poor economic performance and slow growth amidst natural resource abundance (de Soysa, 2002; Rosser, 2006; Acemoglu, Johnson, & Robinson, 2012; Ross, 2012; Barma et al., 2012; de Soysa, 2015). The classical explanation on the resource curse is deeply rooted in Dutch Disease or "deindustrialization" (Corden & Neary, 1982) which suggests that revenue from natural resources export hurts traditional production hub (manufacturing) due to an increase in resources rent. Also, productive resources need to be moved from the manufacturing sector to natural resource mining and production. Although most of the earliest studies did not go further to explain other socio-economic implications of Dutch Disease and Resources Curse theses (Hirschman, 1958; Baldwin, 1966), recent works suggest another explanation of the Resource Curse that captures the socio-economic implications of the menace—the "Nigerian Disease" (Rosser, 2006; Otaha, 2012). The Nigerian Disease explains a situation where natural resource abundance and increasing oil rents lead to poor governance, weak institutions and conflicts. It further gave rise to government that lacks accountability, has little incentive for institution-building, and failure to implement growth-enhancing reforms (Ogwang et al., 2019). The higher level of corruption, pervasive rent-seeking activities, social and economic insecurity, and loss of capital are some of the outcomes related to Nigerian Disease (Rosser, 2006).

However, Dollard et al. (1939) formulated a psychological theory named Frustration-Aggression theory which states that "aggression is always a consequence of frustration" and that "frustration always leads to some form of aggression". The theory stipulates that aggression is the result of frustration which results from an individual's inability to attain their goals. Accordingly, insecurity is the product of aggressive behavior (corrupt practices) of the few elites that deny many people the opportunity to earn a living. The theory tallies with the study and supports the notion of a direct link between corruption and insecurity in society. Corruption breeds injustice, ethnic conflicts, militancy, hostility and anger (an emotional readiness to aggression) which leads to social insecurity. Ivo and Rosalind (1968) applied the Frustration-Aggression theory in a study of political instability within 84 nations. It was found that when people in rapidly modernizing nations become urbanized and literacy improves they become more aware of material improvement. The increasing gap between the rich and the poor intensifies frustration and unprovoked aggression ensues and escalates. The aggression manifested in crimes and violence (insecurity).

3. The Resources Curse Thesis: Linking Corruption, Oil Rents, and Insecurity

As put forth by Ross (2012) and cited in de Soysa (2015) that "the finance streams for states are akin to food for the human body as they shape the form and character of states and the outcomes generated in the economy, polity, and society". Unearned income emanating from natural resources such as oil tends to lead societies to narrow interest and decisions by actors who are unwilling to make effective democratic and economic reforms because they often fear the loss of future rents (Acemoglu, Johnson, & Robinson, 2012). The thesis suggests that states that are dependent on resources rent tend to be weak and vulnerable because they lack strong institutions of governance, leading to pathology of interests, abuse of duty and inability to provide the needed public goods including good governance, justice, and security (Barma et al., 2012).

As observed by de Soysa (2002), Collier et al. (2003) and Ross (2004), oil wealth generates weak institutions where groups organize armed violence for rent-seeking, making a resource-dependent country vulnerable to violent crimes because either the institutions in the country are too weak to monopolize violence or because the resources themselves encourage looting, which ultimately finances costly rebellion. Accordingly, the government simply neglected the citizens and many institutions that provide the needed public goods leading to unwieldy grievances that disturb the peace and stability of the state. This notion has been loosely referred to as the "political Dutch disease".

Though not all natural resources are prone to curse particularly when it comes to promoting and predicting armed violence. On this line, Le Billon (2005), Lujaja (2009) and Ross (2012) hold the opinion that point-sourced resources, such as mineral wealth are problematic especially when looting wealth serves as the mechanism from resources to war. This is quite evident in many African countries like Biafra and Niger Delta militants in Nigeria, the same events are found in South Sudan, Congo and Chad. After considering and analyzing pieces of evidence, Ross (2012) concluded on this regard that it is the oil that matters when it comes to resources curse hypothesis based on the following submissions:

- Oil tends to dominate the economy due to the high demand and prices that bestow a significant amount of finances to the government. This development will make the government independent of citizens (taxpayer income) and as such, leading to the neglect of public goods that ensure economic and social development.
- The global oil market is prone to boom and bust due to price fluctuations. Governments have borrowed hugely during boom years and faced negative consequences during years of the bust.
- The process of extracting oil allows for secrecy especially on the government's revenue streams, affecting governance capacity, encouraging corrupt practices that fuel mass-scale grievances and economic decline.
- Oil rulers suppress the rights of the citizens by denying them opportunities to a better life which hurts their social and economic status.

In the same vein, Kaldor et al. (2007) argue that the oil wars emblematic of the crisis in Iraq are a clear testimony on how oil-rich countries suffer chronic instability and violence. To capture the chronic nature of this violence that made up of a cocktail of a weak state and terrorism, Kaldor (2013) described the situation using the term "new wars" that manifested into internal wars, external wars, violation of human right, and violence against civilians as witnessed in many parts of the world. Furthermore, Kaldor et al. (2007) added that oil-exporting countries are prone to suffer from "rent-seeking conflicts" cycles that explain clear violence as a result of corrupt and weak institutions in these countries.

4. The Case for Nigeria

In Nigeria, insecurity and conflict are often attributed to poverty (Ajodo-Adebanjoko & Nkemakolam, 2014; Aminu et al., 2015). With much emphasis on the Boko Haram insurgency in the North-Eastern part of the country, the poverty-insecurity nexus dominated the debate on the causes and effects of insecurity in the country. The popular view is that poverty breed insecurity, and when the rate of poverty is high, insecurity tends to deteriorate in various forms and manifestations (Usman, 2014). Stan (2004) in a study on global peace and conflict opines that poverty anywhere breeds insecurity and vice versa. The raging inability of many people in Nigeria to secure the minimum standard of their needs put them in a situation of grievance because they lack the basic security which simultaneously affects several aspects of their life in regaining their right and reassuming their responsibilities now and in the future (Hulmes, Moore, & Shepherd, 2001: p. 20).

However, it is noteworthy to state that corruption in Nigeria is both criminal and monopolistic. Literature suggests that corruption reproduces greed and creates incentives for unregulated competition for resources and power among the elites. It also undermines the capacity of the country to mitigate normal social conflict and create avenues for redressing injustice and social vices (Shehu, 2011). The 2014 UNDP Human Development report on the Niger Delta gives a "graphic picture of how corruption in Nigeria intensifies desperate conditions of socio-economic exclusion as the cause of youth restiveness in the region despite the huge budgetary allocation and empowerment programs by the federal government". However, the introduction of the amnesty program in 2008 and the Niger Delta Development Commission (NDDC) is another giant strike adopted to mitigate the problems of hardship and misery among the people, but corruption on the part of the elites undermines the efforts put in place by the government because they controlled greater portion of the resources allocated to the programs living many in misery especially the youth (Shehu, 2011).

Nigeria witnessed a huge increase in oil rents between 2000 and 2008 by six-fold due to the oil boom in the global oil market. Barma et al. (2012: p. 23) observed the same trend for sub-Saharan Africa's natural resource rents. However, the authors noted that resource-dependent countries "tend to suffer from poor governance and weak institutional capacity, which exposes them in turn to a heightened vulnerability to the resource curse". While some countries such as Botswana and Chile have been fortunate to benefit from their resources, others such as DR Congo and Nigeria have not, and have "suffered from decades of poor governance, internal conflict, and impoverishment, and appear to be on the downward spiral that illustrates the conventional understanding of the resource curse" (Barma et al., 2012: p. 25). Furthermore, "competition over rents is a central fact of the political-economic system. In Nigeria, the magnitude of oil rents is enormous, making the mining and extractive industries sector itself a key locus of political contestation leading to corrupt practices, intense competition and insecurity as witnessed in various parts of the country. This trend has become a norm among relatively wealthy who often practice rent-seeking activities rather than engage in productive ventures or other activities that contribute to development" (Chakraborty & Dabla-Norris, 2006). Rent-seeking refers to "the largely unproductive, exploitative activities that bring personal benefits to individuals but negative outcomes for society, and can take many forms, including bribery, corruption, smuggling, and black market sales" (Krueger, 1974).

Corruption is more or less attributed to governance failure, and insecurity in Nigeria is mainly a function of government failure to provide the necessities of life to the people. It has created both economic and physical insecurity among a significant number of people in the country (Shehu, 2011). Rising unemployment and poverty levels especially among the youths have in turn worsened the insecurity situation in the country. The unique nature of corruption and its attendant effects on the Nigerian state has been emphasized by Ajodo-Adebanjoko and Nkemakolam (2014). The authors further identified the main sources and motives of corruption which are; political, economic and religious. Corruption triggered the abuse of political power for private and selfish motives and vice versa especially if there is a lack of accountability and transparency in the system. These abuses cut across different sectors of the economy including defense and security which manifested in the form of cronyism, bribery, favoritism, patronage, extortion, influence peddling, fraud and embezzlement (Ogwang et al., 2019). The central theme about corruption is that, wherever it manifests and how it strives against the public good and destruct the entire society.

From the foregoing, we show the transmission mechanisms and interaction of oil rents to corruption as well as the direct impact of corruption and oil rents on insecurity. For simplicity, the logical arguments for the paper follow a cyclical connection (see **Figure 1**); from oil rents to corrupt practices and power/wealth competition, denial of opportunities, frustration and aggression leading to armed conflicts and violence which create feelings of insecurity among the people. We summarized the whole narrative to show that corruption lead to pervasive rent-seeking from oil revenues and both are deliberate motives that deny millions of people the opportunity to secure the basic source of living especially social security.

5. Conclusion

The counter-arguments on the theoretical link between natural resources rent and the level of economic development and socio-political progress have drawn the attention of economists, political scientists and other scholars in social sciences. While some countries are benefited from their resource rents and achieve economic and socio-political development, many others find it difficult to provide the necessities of life including security (both physical and economic) partly due to corruption and rent-seeking activities among the elites. Based on Nigeria's dilemma and prevailing conditions that predict the country's security challenges, we argue that corruption is the key trajectory that describes the political economy of insecurity threatening its existence. However, the fact remains that oil rents tend to affect all economic activities, shaping the political system which certainly presents a reasonable explanation for both economic and political "*Dutch Disease*" but corruption further worsens this situation to present the "*Resources Curse Thesis*".

Our contribution to the current literature centers on the fact that the interaction among corruption, oil rent and insecurity is cyclical and peculiar to economic structure. For Nigeria, we upheld the proposition that due to corruption, oil is problematic because the unearned income received by the government from oil rents led to the neglect of other key aspects of the economy especially peace and societal security. So, the situation provides us with ample evidence that despite being rich from oil and other resources rents, countries could be unsafe when corruption and illegal competition for wealth are left unchecked. Despite its contributions, the paper failed to use empirical methods due to the paucity of data on key variables. Future researches may explore the influence of the foreign forces on insecurity through the transmission mechanisms of oil rents and corruption.

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Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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