

## CHAPTER ONE INTRODUCTION

### 1.1. Background to the Study

Crude oil is one among other natural resources endowment in a nation by nature. Natural resources are often regarded as free gifts of nature. All over the world, different countries are endowed differently with different resources, both in quality and quantity, to some less and others in abundance. Nigeria is one among these countries that is richly blessed with vast natural resources, such as: forests, lands, fresh and salt water, sands, coal, Iron-ore, natural gas, aluminum, non-mineral energy source of solar, crude oil which is our subject matter among others.

Crude oil was first discovered in United States (US) in 1859, which was sold on a large scale in the 1860s. In Nigeria, the search for crude oil started within 1905 and 1908 by the Nigerian Bitumen Corporation (NBC) who on their search found 16 shallow wells, confirming a line of oil seepage in the Eastern Dohomey Basin in Okitipupa, Western Region of Nigeria. The NBC could not go far with its search due to the outbreak of the First World War in 1914 which distorted their activities.

However, after the war, the Royal/Dutch Company took over and continued with the search from Ondo State to Abia State and finally narrows down their search to Niger Delta Region where they first discovered oil in large commercial quantity in 1956 at Oloibiri specifically in the present Bayelsa State. Nigeria oil hit the international market in 1958 with approximately 5,000 barrels per day. Nigeria produces about 30% of the total oil production in the Africa region. As of September 2004, she was ranked the largest producer in the sub-Saharan Africa, the 5th largest petroleum exporting country in organization of petroleum exporting countries (OPEC) and the 5th largest oil exporting country to the United States of America, amounting to about 8% of USA crude oil imports. Her current production capacity is over 2 million barrels per day on average.

Although Nigeria for over 30 years has established herself as a leading producer of crude oil, she is known in energy circles as a "gas province with only a little pool of oil". The oil producing states in Nigeria so far discovered include: (Abia, Akwalbom, Bayelsa, Cross

River, Delta, Edo, Ondo and Rivers) state, nine in number with a common nomenclature known as the “Niger Delta region”. The formulation and implementation of the Nigerian oil sector is under three actors which are:

i. The ministry of petroleum resources, established in 1972 with four departments functioning differently.

ii. The Nigeria national petroleum corporation (NNPC), established in 1977 under decree No. 33 as government owned company together with the petroleum inspectorates as its integrated part under six directors.

iii. The private sector, which comprises of multinational oil companies, which produces about 98% of the total production and indigenous companies producing about 2%. The oil sector is categorized into up and down stream, connected with forward and backward linkages.

Over the past 30 years, different people have commenced differently in the activities of oil production in Nigeria, to some it has made a variety of contributions to the Nigerian economy, such of which include: the creation of employment opportunities, the supply of energy to industries, supporting the transportation system, source of revenue generation to the government, etc. while to others, oil production does more harms than good to the environment and the economy as a whole, which call for environmental-resource accounting.

In terms of output production and product contribution, oil witnessed steady progress throughout the period under review. Crude oil production increased from 1.9 million barrels in 1958 to 152.4 barrels in 1966. Production increased from 395.7 million barrels in 1970 to 660.1 and 845.5 million barrels in 1975 and 1979 respectively. The increase in production witnessed during this period was precipitated by Middle East crisis and the 1973/74 oil embargo which caused a sharp reduction in world oil supply. The increased oil prices that the crisis generated helped to boost local oil production in the country. However, this was short-lived as the early 80s witnessed a glut in the international crude oil marketing to over-supply, which culminated in sharp drop in prices and central reduction in the production quotas by OPEC member countries. Consequently, oil production in Nigeria dropped from 0.1 million barrels in 1980 to 535.9 and 383.3 million barrels in 1986 and 1987 respectively. The situation improved in the 90s as crude oil output rose from 383.3 million barrels in 1987 to

711.3, 742.3 and 772.9 million barrels in 1992, 1996 and 1998 respectively. The trend continued between the year 2000 and 2009. The cumulative crude oil production for the country increased from 20,575,881 million barrels in 2000 to 27,052,067 million barrels in the 2009. In general, crude oil production witnessed appreciable increase over the period under study.

Finally, the production of oil in Nigeria is not totally free from challenges; rather it has been plagued by various problems which undermined its optimal development over the years. In general term, from 1990s till date, public control and bureaucracy, poor funding of investments, communal disturbances, smuggling and diversion of petroleum products, fraudulent domestic marketing practices, and product adulteration, oil theft among others has been identified as the challenges facing crude oil production in Nigeria.

## **1.2. Statement of Problem**

Crude oil which is believed to be a gift of nature to a nation, like Nigeria and others who are blessed, has become a controversial subject among scholars and researchers worldwide. Over the years, the issue of whether crude oil production translates to economic growth or not has been a burning question to many as well as a global subject of considerable interest and debate as a bone of contention. While some strongly opine that crude oil production is the life-wire of a producing country's economy, maintaining that its export has a positive relationship with economic growths, spill-over effect on foreign reserve as well as determining the rate at which her currency is exchanged in international market etc, to others, the reverse is the case, as they argued that it has done more harms than good.

Affirming their argument, they point at environmental degradation, pollutions, deprivation of means of livelihood,

over dependence on oil revenue, socio economic conflict associated with crude oil production activities among others. To be specific, the words of Juan Perez Pablo Alfonso, fully support the latter when he says "I call petroleum the evil's excrement. It brings trouble...waste, corruption, consumption, our public services fall apart and debt, a debt we shall have for years" (the economist, May 22, 2003).

Research-wise, this contradictory argument "for and against" the subject matter, has created a gap which keeps both ends from reaching a consensus. Objectively, these

hypothesize arguments is what necessitate the conception of this study as an attempt to ascertain which assertion.

### **1.3 Objective of the Study**

The objective of this research work is sub-divided into two, the main and specific.

#### **Main Objective**

To examine the impact of crude oil production on economic growth in Nigeria.

#### **Specific Objective**

- i. To examine the impact of crude oil export revenue on economic growth in Nigeria.
- ii. To examine the transmission channel through which exchange rate is affected by crude oil export and thus economic growth in Nigeria.
- iii. To examine the relationship between Nigerian foreign reserve and her economic growth through crude oil export.

### **1.4 Research Hypothesis**

- i.  $H_0$ : There is no significant relationship between oil revenue and economic growth in Nigeria.
- ii.  $H_0$ : There is no significant relationship between exchange rate and economic growth in Nigeria.
- iii.  $H_0$ : There is no significant relationship between Nigerian foreign reserve and her economic growth.

### **1.5 Scope and Limitation of the Study**

This research work focus on the impact of crude oil production on economic growth in Nigeria, with time series data from 1980-2011, which cover a period of thirty-two (32) years to examine the relative impacts of oil revenue, exchange rate and foreign reserve as the regressors on the regressed (economic growth represented by G-DP). This choice of time space is believed to be long enough to capture and explain the long-run relationship that exist between the variables noted above in the growth of Nigerian economy. On its limitation, source of gathering data was the major constraint encountered in the cause of conducting this study, together with the difficulty in accessing the internet in Amassoma due to poor network services. Also financial constrain and time factor as well as academic stress among others, as well contributed to the limitation of this work.

### **1.6 Significance of the Study**

- It will provide useful information to government and policy makers.
- It will also provide an econometric basis upon which to examine the impact of crude oil production on economic growth in Nigeria.
- It will as well add to existing literature and knowledge.

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