Article

Removal of Petrol Subsidies and its Impact for Democratic Governance in Nigeria

Nnamdi Azikiwe Journal of Political Science (NAJOPS).
2024, Vol. 9(3)
ISSN: 2992-5924

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Abstract

The removal of petrol subsidy in Nigeria has been a contentious issue with profound implications for democratic governance. While it has been argued that subsidy removal will lead to fiscal savings, which could be channelled to infrastructure, education, and health; stimulate the domestic refining sector; and attract foreign investment, it was also observed that the policy has a potential negative impact on the prices of goods, transportation, and the general living condition of the average Nigerian. This paper delves into the socio-economic ramifications of the policy decision and its intricate relationship with democratic governance in Nigeria. The paper adopts a qualitative method, while secondary sources of data were utilised. The paper is anchored on the political economy theory. Findings reveal that measures were not put in place to mitigate the negative effects of the removal of petrol subsidy on the average Nigerian; otherwise, it is a step in the right direction towards economic nationalism and effective democratic governance. Consequently, the paper recommends that there is a need for transparency, public engagement, and prudent management of resources to ensure the benefits of subsidy removal are equitably distributed in order to enhance the democratic ethos of the country.

Keywords

Democratic Governance, Petrol Subsidy, Sustainable Development, Economy, Nigeria.

Introduction

Petrol subsidy was introduced in Nigeria in the 1970s particularly in 1977 when it was formally instituted following the promulgation of the Price Control Act which regulated the prices of some products including petrol. The concept of subsidy is considered grand since the purpose is to help individuals and businesses purchase/acquire essential goods and services that they may not be able to afford, under normal circumstances. Basically, subsidy connotes assistance paid to a business or economic sector, and is often regarded as a form of protectionism or trade barrier by making domestic goods and services artificially competitive against imports (Asiwaju, 2003; Majekodunmi, 2013). However, the subsidy on Petroleum Motor Spirit (PMS) also known as fuel or petrol has generated lots of debate on its implication on the growth of the Nigerian economy. Petrol subsidy implies that a fraction of the price that consumers are supposed to pay to enjoy the use of petroleum products is paid by government so as to ease the price burden. This notwithstanding, its administration in Nigeria has been plagued with serious allegations of corruption, lack of transparency and mismanagement.

In Nigeria, petrol subsidy is regarded as part of an implicit social contract between citizens and the state. The objective is not simply to enhance financial capacity but also to accept the implied financial losses by it in the spirit of the government's national responsibility to ensure the wellbeing of the populace. The

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fact that government has some responsibilities towards its citizens has never been disputed. In fact, the strength and the fundamental basis of acceptance of any theory of governance in most contemporary societies lies in its ability to clearly spell out what the obligations of governments are to the people and whether government can, within its theoretical framework, meet those obligations. This is quite understandable as the best form of democratic government is one which ensures the greatest degree of happiness and safety for the people (Akanle, Adebayo & Adetayo, 2014). Irrespective of the fact that the 1999 constitution of the Federal Republic of Nigeria acknowledged that it is the responsibility of the government to promote welfare through the provision of quality healthcare, education, food, shelter, security etc., governance in Nigeria has for most part fallen short of expectations (Akanle, 2013). Before implementation, government actions are expected to be humanely weighed relative to their outcomes especially as it affects the quality of life of the masses.

Therefore, on January 1st 2012, when the Federal Government under the leadership of President Goodluck Jonathan removed petrol subsidy in an effort to avert the collapse of the economy, it was met with nationwide opposition in form of protests and workers strike (Onyishi, Eme & Emeh, 2012; Okpaga, Ugwu & Eme, 2012; Ayodele, 2014). The average Nigerians believed that the unprecedented hike in petrol prices and the attendant inflation that followed will further worsen the already poor living condition and hardships they have experienced over the years as a result of corruption, ineffective and misapplied policies, insecurity etc. To quell the week-old nationwide protests and restore normalcy, the Federal Government reversed its decision on petrol subsidy removal bringing the pump price of petrol back to its pre-January 2012 price. However, Nigerian government never stopped weighing the option of subsidy removal as there have been discussions and considerations by successive governments on subsidy reforms and finding alternatives to address the fiscal challenges resulting thereof.

Subsequently, in May 2016, the President Muhammadu Buhari administration announced the complete removal of fuel subsidy which according to him was a necessary step towards addressing corruption, inefficiency and the drain on public finances. As a result, there was a significant increase in petrol prices, and as expected nationwide protests. However, due to the public backlash, the decision was reversed, and subsidies were partially reinstated (Obo, Omenka, Agishi & Coker, 2017). The success of complete removal of petrol subsidy came finally on May 29, 2023 when President Bola Ahmed Tinubu while delivering his inaugural speech announced that subsidy is gone. Despite public outcry and Labour Union protests against the decision, the Federal Government maintained its stance on that highly controversial economic decision. The ripple effects of that subsidy removal manifest in over 200% increase in the pump price of petrol and unprecedented high cost of living in the country. This has brought untold economic hardships to the average Nigerian and has raised lots of questions on the essence of democratic governance. It has brought to the fore questions relating to purposes of government and goals which ought to determine the focus of governance and public policy (Akanle, Adebayo & Adetayo, 2014).

Obo, Omenka, Agishi and Coker (2017), argue that the essence of governance is the promotion of people's welfare. Democratic governance ensures that various institutions and systems in the government are essentially concerned with the determination and delivery of public goods (electricity, hospitals, roads, schools, etc). Therefore, removing subsidies without improving social welfare protection may be considered a unilateral change in the social contract, which can give rise to protest and political instability (Moerenhout, 2018). Several arguments have been made to prove that the substantial portion of the national inflow committed to funding the subsidy scheme has made maintaining petrol subsidy unsustainable. However, as Bodea and LeBas (2016), aver that improved services can increase support for tax compliance, Nigerians, likewise, may be more willing to accept and support petrol subsidy removal if the state has been fulfilling its constitutional responsibility by providing improved services and transparently investing the savings from the subsidy removal into the provision of public goods.

This paper, thus, proceeds to examine the political economy of petrol subsidy removal in Nigeria and its associated economic implications. This is with a view of providing understanding to the politics of petrol subsidy and proffering solutions to the negative impact of the subsidy removal on the majority of the population so as to improve public acceptance of the reform.

Methodology

This paper engaged the descriptive research design. This method is used to gather information in order to describe a situation or phenomenon. Data were gotten from secondary sources. This involved a meticulous library research and extensive review of existing literatures. With the aid of this method, we got information on the current status of the subject matter under study. This aided the understanding of the circumstance that led to the removal of fuel subsidy and its attendant effect on democratic governance in Nigeria.

Theoretical Perspective

The subject of petrol subsidy and the Nigerian economy has been a controversial issue. The contending arguments revolve on the advantages and disadvantages of petrol subsidy removal. Several theoretical orientations exist that can be used to analyze the politics of fuel subsidy and its removal in Nigeria such as the elite theory, rentier state theory and the dependency school. This paper, however, adopts the political economy approach as the basis for analysis. It developed through the works of Smith (1723-1790), Ricardo (177-1823) and then Marx (1818-1883). It looks at the relationship that forms between a nation's population and its government when public policy is enacted. It is, therefore, the result of the interaction between politics and the economy (Stone, 1993). The study generally involves the examination through a sociological, political, and economic lens of how public policy, the political situation, and political institutions impact a country's economic standing and future.

In a wider sense, political economy was once the common term used for the field we now call economics. Adam Smith, John Stuart Mill, and Jean-Jacques Rousseau all used the term to describe their theories (England, 2019). The shorter term "economy" was substituted in the early 20th century with the development of more rigorous statistical methods for analyzing economic factors. Political economy studies both how the economy affects politics and how politics affects the economy. As political parties come to and leave power, economic policy often changes in a country in accordance with the ideology and goals of the party in power. The recent fuel subsidy removal is a very good instance of how politics affects the economy. Since its removal, the economic sector has not been the same and the rippling effect has been felt even in other sectors.

Political economy analysis often begins with the standard assumption that government leaders' act with the goal of staying in power. Policies that provide subsidies often help leaders achieve that goal by channeling resources to interest groups that could affect government survival, such as by voting or by donating to their political campaigns (Victor, 2009). Economic change raises questions of equity: Who will benefit and who will bear the cost? It also forces decision makers to ask how various economic and non-economic considerations are to be weighed against one another (Logan & Molotch, 1987 in Stone, 1993, p. 15). The pace as well as the exact form of restructuring is an issue. As Karl Polanyi (1957 in Stone, 1993, p. 15) has argued, "The rate of change is often of no less importance than the direction of the change itself."

Victor (2009), explains that once a subsidy is created, regardless of its original purpose, interest groups and investments solidify around the existence of the policy and make change difficult. Nigeria's political economy is underpinned by oil, which is the basis of its insertion into the global capitalist system. The country's oil and gas downstream sector is dominated by cartels who manipulate prices, through artificial supply restriction. These cartels determine volume of importation and the proportion that should be released to the market. At times, they only allow a few products holders to supply the market, while others hoard as such control petrol prices (Obasi, Ezenkwa, Onwa & Nwogbaga, 2017). A proper understanding of the political economy of petrol subsidy requires not only an explanation of the goals and political forces that led to the creation of such subsidy in the first place, but also of why the policy has been difficult to reform even when it is no longer sustainable. The latter is, in part, primarily due to the existence of the cartels who benefit hugely from the policy and thus have made transition difficult. Additionally, the average Nigerian for which the subsidy was initiated for, have not significantly benefited from the policy.

The Rationale behind Petrol Subsidy in Nigeria

Subsidy is one of the many policy instruments available to the government. Overtime, it became a substantial financial burden on the Nigerian government. Let us look at some of the gains associated with the fuel subsidy removal.

(a) **Reallocating Resources for Development:** Eliminating fuel subsidies frees up substantial financial resources that can be redirected toward critical infrastructure and social programmes. There is an agreement among academic economists that the funds used for subsidy payments can be channelled to public infrastructure spending (Bazilian & Onyeji, 2012; Majekodunmi, 2013). Moyo and Songwe (2012), noted that in 2011, the subsidy cost the country an estimated $8 billion, accounting for 30% of government expenditure and about 4% of GDP. This expenditure has crowded out essential development spending in sectors like education and healthcare. For instance, the total allocation for education was approximately $2.2 billion, significantly less than the subsidy expenditure. The Nigerian government has indicated that the funds saved from subsidy removal would be utilized for infrastructural development and job creation, aiming to improve the quality of life for its citizens.

(b) **Lower and stable prices:** Due to the volatile nature of crude oil prices, which are the primary raw material in the production of petrol, fuel subsidy keeps the fuel price stable and lower for end users. Su et al., (2020), observed that the price of petrol will be determined by the forces of demand and supply, rather than being determined by government regulation or through subsidy. There is the notion that the fuel subsidy is a tactic to continue to channel Nigeria's hard earned foreign exchange into private accounts abroad (Itumo & Onyejiuba, 2019; Sheyin, 2018). This will in turn stop unhealthy practices of inflating the prices of petrol associated with subsidy scheme.

(c) **Support and sustain industries:** Fuel constitutes a major input for many businesses in Nigeria due to inadequate power supply and deficiency in transportation and logistics. Therefore, fuel subsidy sustains many businesses across sectors. By and large, artificially low fuel prices, maintained through subsidies, have discouraged investment in Nigeria's oil sector, particularly in refining capacity. Okongwu and Imoisi (2022), astutely noted that Nigeria's domestic refineries have been in a bad state since the fuel subsidy regime started. Moyo and Songwe (2012), also observed that since 2000, Nigeria issued at least 20 refinery licenses to private companies, yet none resulted in the construction of refineries not until recently we had the Dangote refinery coming on board. Investors were deterred by the inability to recoup investments under the subsidized price regime.

(d) **Stimulate economic growth:** A subsidy-free economy signals commitment economic reforms, which attract foreign direct investment (FDI). Investors are more likely to trust an economy with a sustainable fiscal policy and predictable market conditions. Fuel subsidies often contribute to

Nigeria's fiscal deficit. Removing them can reduce the budgetary burden, allowing the government to focus on other developmental priorities. It also reduces borrowing and improves the country's credit rating, encouraging international investment.

Arguments for Petrol Subsidy Removal

A number of factors and reasons have been adduced for being responsible in the removal of subsidy in Nigeria. Abayomi (2023), noted that the economy's key sectors suffered due to low earnings already consumed by inflated subsidy payments. He went further to aver that the trade deficit of $20 million recorded in November 2022 from the low crude oil exports receipts signalled the urgency to petrol subsidy, develop local production and end fuel import dependency for a favourable balance of trade.

It is also pertinent to note that Nigeria has experienced unstainable and exacerbated fiscal woes in recent times. This concern has continually been shared by the World Bank. This subsidy promotes overconsumption, divert resources from more productive sectors and worsen pollution and global warming, and aggravate inequality by benefiting wealthier households that consume more fuel. The popular saying 'robbing Peter to pay Paul' best explains this. A country that keeps borrowing money to subsidize petroleum products is only stepping on a time bomb that will cripple the economy in a matter of time.

Advocates for subsidy removal argued that fuel subsidy removal was a step in the right direction and in the interest of Nigerians. They maintained that it will help eliminate incentives for corruption and excess profiteering by an unpatriotic cabal in the petroleum sub sector (Majekodunmi, 2013)

Fuel subsidy removal has quite a number of benefits in so far, the government lives up to expectations and makes transparency its watch word as far this issue is concerned. First and foremost, it will ensure private sector participation in the importation of petroleum products which will free up the market, empower many Nigerians and also allow the government to focus on other key sectors of the economy. It will also necessitate the availability of the product for all Nigerians and this will make it very difficult for marketers to divert products as the ones available will be used up by the citizens.

Another prominent benefit is the idea that it will bring about competition in the petroleum sector. Just as we witnessed in the telecom sector, prices will go down on the long run because of the fact that many players are involved in the business. Monopoly is an unhealthy phenomenon in any economy. Instead of the few individuals previously involved to make decisions that are detrimental to the economy, market forces will determine prices and availability of the products.

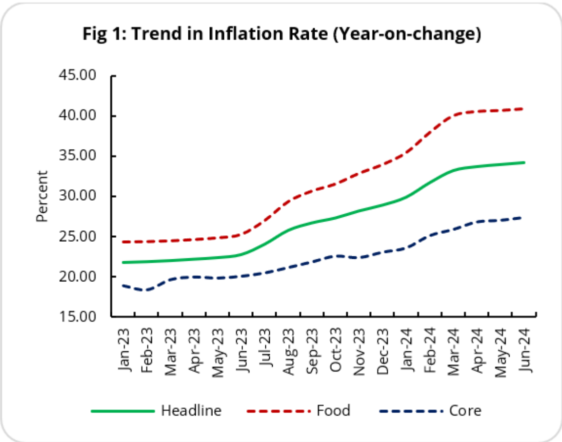
Implications of Petrol Subsidy Removal for Democratic Governance

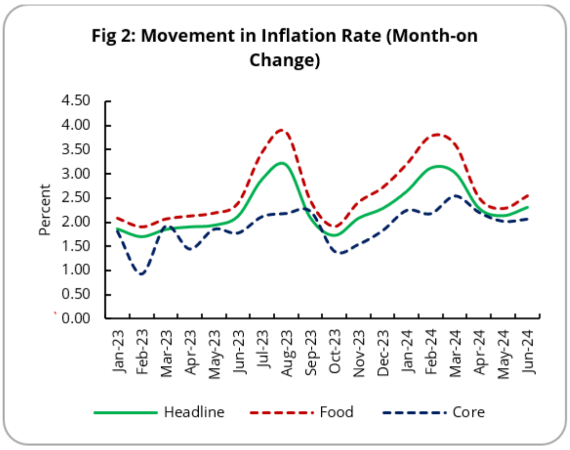
The removal of petrol subsidies in Nigeria is a critical test of democratic governance, as it reflects the government's ability to balance economic reform with public welfare. While subsidy removal can enhance fiscal stability, reduce corruption, and attract investment, it also poses significant challenges to citizens, particularly those in lower-income groups who bear the brunt of rising fuel costs. In a democratic system, the success of such reforms depends on transparency, accountability, and the government's responsiveness to public concerns. Effective communication, social protection measures, and inclusive policymaking are essential to maintain public trust and ensure that economic reforms like subsidy removal align with the broader goals of democratic governance, social equity, and sustainable development.

The removal of fuel subsidies in Nigeria, a significant policy change that began in May 2023, has wide-ranging implications across several sectors of the economy. Here are some of the key implications:

Inflation and Cost of Living

Increased Prices: The removal of subsidies leads to a direct increase in the price of fuel, which impacts the cost of transportation and logistics. This increase ripples through to the prices of goods and services, contributing to inflation. Food and essential items, which rely heavily on transportation, experience significant price hikes. It also leads to reduced disposable income. Households face higher expenses, especially for transportation and energy, leaving less money for other needs, thereby reducing the overall standard of living. The National Bureau of Statistics (NBS) reported that all measures of inflation rate rose in June 2024, albeit at a slower pace. Headline inflation increased to 34.2 percent in June 2024 from 22.8 percent in June 2023 and 34.0 percent in May 2024. The inflationary pressures remain driven by fuel subsidy removal, currency depreciation, with the official exchange rate averaging N1471/US$ in June compared to N769/US$ in June 2023 and rising imported food inflation (36.4 percent y/y). Headline inflation remains dominantly driven by food inflation, which rose to 40.9 percent year-on-year, up from 40.7 percent in May 2024 and significantly higher than 25.3 percent in June 2023 (see Fig 1). Similarly, core inflation rose to 27.4 percent in June 2024, from 27.0 percent in May 2024 and 20.1 percent in June 2023.





Data: NBS; Chart: NESG Research

According to World Bank's half-year report on Nigeria's economy, if the current situation persists, an additional 4 million citizens will most likely be added to the 133 million citizens enmeshed in multidimensional poverty (National Bureau of Statistics, 2023).

Impact on Businesses

Operational Costs: Businesses face higher operational costs due to increased energy and transportation expenses. This is particularly critical for industries reliant on diesel and petrol, such as manufacturing, logistics, and agriculture. Many businesses may pass these increased costs onto consumers. Houeland (2022), argued that the removal of fuel subsidy will lead to job loss in the informal sector as they rely heavily on petrol for their activities. The increase in the price of petrol has drastically reduced their profit margin making most of them to shut down.

Small and Medium Enterprises (SMEs): SMEs, which are often more vulnerable to cost changes, may struggle to absorb these increased expenses, leading to reduced profitability or even closure in extreme cases. According to Abdulrasid Yarima, President/Chairman of the governing council of the Nigerian Association of Small and Medium Enterprises (NASME), about 10% of the 40 million Micro, Small and Medium Enterprises have shut down since the subsidy removal (Businessday, 2023).

Government Revenues and Fiscal Space

The removal of subsidies frees up billions of naira previously spent on subsidizing fuel. This creates fiscal space for the government, enabling it to reallocate funds towards other critical areas such as infrastructure, education, and healthcare. Fuel subsidy has been a major source of government expenditure in Nigeria, with huge sums being spent annually to keep petrol prices artificially low. This has led to the government borrowing heavily to finance the subsidy, which in turn increases the country's deficit. By removing the subsidy, the government can reduce its borrowing and the associated huge deficit, freeing up resources for other important sectors.

Addulhakeem (2022), asserted that subsidy has grown to unsustainable level, hence becomes a burden on government so much that government cannot provide basic infrastructure such as education, energy, transport and health care. With the removal of fuel subsidy, the government can free up resources that would have been spent on the subsidy to invest in other critical sectors such as education, healthcare, security and infrastructure. This will not only improve the standard of living for citizens but also enhance economic growth.

Finally, subsidy has created a huge incentive for smuggling of fuel to neighbouring countries where they can be sold at higher prices. This has resulted in security risks, as smuggling has also led to illegal refining, pipeline vandalism, and other criminal activities. By removing the subsidy, the incentive for smuggling will be reduced or eliminated, which will lead to a reduction in security risks associated with fuel smuggling.

Social and Political Tensions

There has been public backlash since the removal of fuel subsidy which led to the end bad governance protest. Fuel subsidy removal often triggers protests and strikes, as many Nigerians view subsidies as a means of ensuring affordable fuel in a country where poverty and unemployment rates are high. The ability of the government to manage the transition and mitigate the adverse effects on citizens will impact its credibility and social contract with the public. Social protection programs and effective communication are critical in maintaining public trust.

The fact remains that, the removal of fuel subsidy has had a number of negative socio-political consequences on the Nigerian populace. Even when the federal government has promised and taken a number of rushed and unsustained remedial measures (palliative) to cushion the effects of the fuel subsidy removal on Nigerians, they are not far reaching enough. The effects of the palliatives are not being felt; the argument is that these so-called palliatives should have been put in place before the removal of the subsidy (Ering and Akpan, 2012).

Conclusion

The removal of petrol subsidies in Nigeria is a critical test of democratic governance, as it reflects the government's ability to balance economic reform with public welfare. While subsidy removal can enhance fiscal stability, reduce corruption, and attract investment, it also poses significant challenges to citizens, particularly those in lower-income groups who bear the brunt of rising fuel costs. In a democratic system, the success of such reforms depends on transparency, accountability, and the government's responsiveness to public concerns. Effective communication, social protection measures, and inclusive policymaking are essential to maintain public trust and ensure that economic reforms like subsidy removal align with the broader goals of democratic governance, social equity, and sustainable development.

Furthermore, the removal of fuel subsidy although necessary, has brought about positive and negative implications across various sectors of the country. Government should implement supporting policies that can mitigate the adverse effects of the subsidy removal. These policies should aim to cushion the impact and effectively utilize the additional funds generated from the subsidy removal to foster the development and growth of the economy.

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