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RESEARCH ARTICLE

INVESTING IN NON-OIL EXPORT SECTOR: A KEY TO OVERCOMING SET BACK OF FALLING OIL PRICES IN NIGERIA

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ABSTRACT

The Nigerian economy is mono economy because of its reliance on only oil export. The agricultural sector in the 1960s was a major area of foreign revenue. However, the discovery of oil at a large scale that brought about exploration and exportation of oil in the 70s turned the tide against agricultural sector. The fluctuating price of oil in the oil market as of today has affected the Nigerian economy negatively as it has put pressure on the naira and the rate of unemployment has continued to be on the increase. The consequences of dependency on oil trade therefore necessitated the call to encourage investors to invest in the direction of non oil exports such as manufacturing, agricultural, telecommunication, tourism, real estate, construction etc. Impediments to the growth of non oil sector were identified as weak infrastructure, supply side constraints, low level of human capital development, absence of adequate commitment, weak institutional framework and poor access to finance. It was recommended that the Nigeria government should remove the impediments limiting non-oil export; make the environment friendly to encourage investors and government should re-organize the agricultural sector among others

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INTRODUCTION

The need for the diversification of the Nigerian economy from over-dependence on oil to other sectors cannot be over emphasized especially going by the unstable and fluctuating global oil prices. This will assist to minimize the country's vulnerability to macro-economic risks, such as production fall, fall in demand, which is already hitting hard on the economy. The agricultural sector in Nigeria which was a major source of foreign revenue prior to the discovery of oil in commercial quantity need to be revisited. In the early 60s Nigeria was known with the production and export of groundnut from Northern Nigeria, cocoa from Western Nigeria and rubber and oil palm from South-East and South-South of Nigeria respectively. The discovery of oil at large exploration in the 1970s turned the tide against the agricultural sector in favour of the oil sector. According to Efobi and Osabuohien (2011), as at the year 2000, oil and gas exploration accounted for more than 98% export earnings and about 83% of Federal Government Revenue. The oil sector according to the authors also accounted for more than 40% of the gross Domestic product (GDP) in Nigeria and about 95% of the foreign exchange earnings.

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The major implication of Nigeria relying on oil is that the dynamics of the economy is at the whims and caprices of the price of oil, which for the most part has been volatile. According to Onodugo, Ikpe, and Anowor (2013) the major fallout of this fragile structure of the Nigerian economy is a situation where the economy has been growing without creating jobs and reducing poverty. The on-hand explanation to this economic paradox is that the oil sector that produces about 90-98% of export earnings are in the hands of less than one percent of the Nigerian population dominated by expatriates and members of the political class who control production and the processes respectively. Worse still, the sector is disconnected from other tiers of the economy and thus offers little or no linkage and multiplier effect to the economy as a whole.

A Brief History of Oil Prices 1999-2015

The huge revenue Nigeria earned from oil and gas and a simultaneous lack of investment in infrastructure and sustainable projects remain a challenge for Nigeria. According to Budget Research Team (2014) led by Oluseun Onigbinde, stated that capital expenditure in Nigeria is wholly financed through debt and the entire oil revenue for federal Government of Nigeria is used for recurrent expenditure. For instance, the

2013 Budget implementation report made available in 2014 showed that N3.5tn was the total revenue from the Federal Government in 2013 and this offset recurrent expenditure worth N3.6tn. Nigeria's entire expenditure was finance via domestic debts and borrowing from special accounts. At the advent of democracy in 1999, expectations were high that oil revenue would be better managed. The agitation for resource control snowballed into violence and morphed to include kidnapping and vandalism. Revenue earnings from oil increased by 8% to N5.9tn in 2006. With growing restiveness in the Niger Delta, Nigeria experienced a 4% drop in revenue in 2007, leaving total earning at 5.72tn (Budget team 2014).
The global financial meltdown in 2009 left Nigeria's oil revenue sliding to N4.84tn representing a 39% reduction in revenue at the end of that year. This showed the weakness of Nigeria economy but the fault lines according to the Budget team were not visible, due to prior robust savings in the excess crude account. The global economy recovered in 2010, as did crude oil prices, resulting in government revenue by rising to N7.3tn and 11.1tn in 2010 and 2011 respectively.

Despite oil prices averaging above $100 per barrel in 2012, oil revenue slowed down considerable, the reduction was occasioned by increased oil production by the US, which in turn resulted in the reduction in imports from Nigeria and Nigeria's inability to meet its own budget production targets. With the US not importing from Nigeria in 2014 couple with falling global oil prices, government oil revenue took a further slid downward. The Nigerian economy cannot continue to depend on oil and gas revenue, considering its fluctuation, currently the activities of militant group has further depleted the supply chain of crude oil as Nigeria could no longer meet its OPEC production quota coupled with fallen price of crude oil in the international market, the outlook in 2015 and 2016 was not impressing and 2017 does not show that things will improve considering the high exchange rate of the dollar in the parallel market. Inflation rate in June 2016 according to analyst as reported by NTA on 18th June, 2016 hits 17.6%, by December 2016 it was 19.8% highest in 11 years. The projection by the World Bank is that oil prices will improve by the end of 2017, though there are signs already due to the decision of the petroleum exporting countries (OPEC) to curtail oil production among its 14 member countries for the first time since 2008. However, this has not reflected in any way in the standard of living of the people as salaries are being owed to workers and inflationary rate is still on a high side with just about 2.02% drop from 19.8% in December 2016 to 17.78% in March 2017. Commodity prices' are still above the reach of the common man.

Implications of Oil Price Free Fall for Nigeria Economy

The oil price continued on a free fall, fluctuating within $50-$42 per barrel in 2015. At the first quarter of 2016 crude oil price was below $30 per barrel. At the present it is within $48.8 per barrel (Silverbird TV March 2017). The implication for a Nigeria Economy which runs mainly on a single commodity according to economic analyst is dreadful and the following has been put forward as challenges:

Exchange Rate Volatility: 95% of foreign exchange earnings are tied to oil and with shortened revenues in dollars terms, the naira will be under continuous pressure. This has already began as the monetary policy committee in 2015 has already devalued the naira, shifting the band from N155 to N168 to $1. The exchange rate in February 2017 was N520 to $1 in the parallel/open market. Though by March 2017 the naira witnessed substantial improvement against the dollar, but household items are still very expensive with the burden passed on to Nigerians.

Saving Stagnation: with the excess crude account at below $4bn, declining oil prices mean that Nigeria might not be able to add additional revenue due to pressure from states that also run high recurrent expenditure. It might also be difficult for the federal government of Nigeria to save funds in the sovereign wealth fund, considering the times. Accretion to the external reserves is already slowed down with falling crude prices.

Debt Spiking: Debt servicing according to analyst will possibly rise especially foreign debts and Nigeria will need more funds to cover the budget deficit (difference between accrued revenue and expenditure). With stagnated excess crude account savings, raising debts is the glaring alternative.

Capital Expenditure under Threat: the haste to spend on recurrent items will remain, as they are fixed charges, unless drastic reforms such as downsizing personnel and sharp cuts in overhead costs occur. Capital expenditure performance might be threatened by lower oil prices as government strives to keep its deficit within the limits of the fiscal responsibility act whilst ensuring it meets its day-to-day obligations.

Employment: The public sector is still the largest employer of formal labour and with cuts to government expenditure due to falling oil prices, the number of new jobs will continue on a decline. Though the private sector will have to lead the way for employment opportunities in Nigeria. Already according to NTA 15TH March, 2016, almost all state government are finding it difficult to pay workers salaries and the situation is getting worse by the day.

The Need to Encourage Investors to Invest in Nigeria Non Oil Export for Competitiveness in the Global Economy

The adverse consequences of over dependency on oil trade heightened the need and call to encourage investors to invest in the direction of non-oil export trade. The president of Nigeria, President Mohammadu Buhari in stressing this point on 24th March, 2016 in NTA news said "diversification is now a necessity and no longer a slogan". If this is done, it will assist the Nigeria economy to be productive and contribute to the global economy adequately. Proponents of this increased proportion of Non-oil export such as Olayiwola and Okudua (2009), Efobi and Osabuhien (2011) and Onwula (2012) argue that the non-oil trade has great potentials to propel Nigerian economy to the desired growth and development. Non oil sector comprises those groups of economic activities which are outside the petroleum and gas industry or those not directly linked to them. It consists of sectors such as manufacturing, agriculture, telecommunication services, finance, tourism, real estate, construction and health sectors. Non oil (mostly agricultural products such as groundnuts, palm kernel, palm oil, cocoa, rubber, cotton, coffee, beans, hides, skin and cattle dominated Nigeria's export trade in the 1960s. but the discovery of crude oil in commercial quantity shifted the attention from non-oil export to a "petroleum mono-culture economy" since the 1970s while petroleum export was growing, non-oil exports were declining, this made the dominance of oil export over non oil export much more rapid

and pervasive. According to Ogunkola, Bankola and Adewuyi (2008), in the 1960s Nigeria export trade was largely dominated by non-oil products. Over 66% of the total exports on average accounted for, by non oil commodities. The same pattern continued into the early 1970s, as a matter of fact, cocoa was the dominant export product at that time contributing about 15% of total export in 1970.

Ajakaiye and Fakiyesi (2009) stated that the earnings from non-oil exports, such as finished seeds and manufactured products like cosmetics and toiletries, rose to about US $1. 3billion in 2007, by the end of 2008, this value rose to $1.8billion, the highest in the country's history. Obeke (2004) stated that the gross official external reserves rose 29% to stand at about $50.75billion by the end of December 2007, as against $42.3billion in December 2006. In 2008 estimated growth of GDP of 6.77% was higher than that of 2007 (at 6.2%). Growth was again driven by the non-oil sector, especially the agricultural sector, which contributed 39.8% out of the 80.7% total contribution of the non-oil sector to GDP in the first half of 2008. This increased to 60% by the last quarter of 2008. Soludo (2007), Olayiwola and Okodua (2010) and Aigbakhan (2008) stated that there are available evidence that pointed to noticeable increase in the contribution of non-oil sector to growth of Nigeria economy. Specifically, the Central Bank of Nigeria (CBN) has attributed the growth in Nigeria Gross Domestic Product (GDP) from 6.9% in the third quarter 2012 to 7.1% in the fourth-quarter of the same year to the increase in the contribution of non-oil sectors, particularly the industrial sector. Onwuala (2010) maintains that the value chain approach to agriculture has the potentials to open up the Nigeria economy and generate various activities which are capable of creating jobs and enhancing industrialization and thus make the non-oil sub-sector to hold the aces for future Nigeria sustainable economy growth.

Efforts of Nigeria Government to Improve the Non Oil sector

Nigeria government have made efforts over the years to grow the non oil sectors of the economy initiating supportive policies and incentives to encourage investment on the non oil sector of the economy. These policies according to Onodugo, Ikpe and Oluchukwu (2013) are categorized into three namely:

- Protectionism Policy (1960-1986). This is in form of import substitution industrialization aimed at expanding the industrial base, enhancing cash crop exports, encouraging farmers to expand their farms and increasing the production of cash crops. The ultimate goal was to protect domestic industries that were set up to produce import substitutes
- Trade liberalization policy (1986 SAP era). In this era, the Nigeria government trade policy was aimed at deregulation, commercialization, privatization and liberalization of the economy in order to achieve greater openness to integration with the world economy and thereby pave way for sustainable economy and development.
- Export promotion policy (post SAP period). The Nigeria government policies from 1999 till date are aimed at facilitating the diversification of the economy through policy support to SMEs to enhance the export of their products. Export grants, as reported by Onwualu (2012), is given to exporters to make exports to cushion the impact of infrastructural disadvantages face by Nigerian exports and to make exports competitive in the international market.

As important as the interventionist policies of the Federal Government of Nigeria are, Onwualu (2009), identifies key impediments to the growth of the non oil sector as, weak infrastructure, supply side constraints due to low level of technology which is prominent in the agricultural sector, low level of human capital development, absence of adequate commitment, weak institutional frame work and poor access to finance. Boyede (2015) added that the vagaries of international competition have not helped the Nigeria non oil export. This includes economic and commercial warfare for product market share, geographical market conquest, steady product innovation development and production. Others are global diffusion of satisfaction and comforts operational implications of product flows, increase information and knowledge flows leading to increased production worldwide and global contact and proximity of nations, people, market product and services.

Conclusion

Conclusively, based on the available evidence which showed a positive contribution of non-oil export sector in Nigeria, it could be emphasized that the Nigeria should diversify its economy to other areas where the country has comparative advantage in order to meet up with its obligations, and this will further create employment for the youth.

Recommendations

The following recommendations are made as follows: The Nigerian government should remove the impediments limiting non-oil exports and make the environment friendlier to encourage investors. For instance Australian's exports in the world market and South Africa has over thirty seven export promotion councils (almost creating a separate export promotion council for every sector in which it suspects having comparative advantage). Nigeria can take a cue from this and enhance her non-oil sector.

Past efforts by the Nigeria government to diversity Nigeria in the direction of non-oil sector through the implementation of policies like import substitution and export promotion strategies failed because of bad and poor implementation policies. It is therefore recommended that there should be a deliberate development of the capital base of the non-oil sector, with commitment both in depth and capacity through the implementation of carefully thought-out initiative of public private partnership (PPP) to assist in stimulating growth and development in key sectors and sub-sectors like power, mine, and agriculture, as well as the transport sector. Government should provide a congenial environment for the operation of venture capital and business financing so as to assist in providing risky startup capital for investors. Government should re-organize the agricultural sector to give room for small and medium enterprises investors to enter the trade on a large scale production that world leverage on modern technology and yielding seedlings to increase productivity for export. Also we believe the solid mineral resources could as well be giving proper attention by coordinating the activities of miners that are scattered all over the country, this will help to stimulate growth.

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