DIVERSIFICATION AS A STRATEGY TO IMPROVE ECONOMIC DEVELOPMENT OF OPEC MEMBER COUNTRIES: CASE STUDY OF NIGERIA.

Abstract. The article analyzes the main theoretical aspects of the development of the economic member countries of OPEC and: a case study of Nigeria. Diversification strategies adopted by oil-dependent economies' played an important role in the economic development in these countries, which rely heavily on oil exports. Nigeria as an oil-dependency economy has the type of strategy to diversify the sources of its national income and reduce its dependence on oil to non-oil products in order to counter the instability in global oil prices. This paper seek to investigate whether the diversification strategies adopted by Nigeria is adequate to manage its economic development.

Keywords: Diversification Strategies, Economic Development, Oil-Depended Economy.
Аннотация. В статье анализируются основные теоретические аспекты развития экономический стран - членов ОПЕК и: тематическое исследование Нигерии. Стратегии диверсификации, принятые экономиками, зависящими от нефти, сыграли важную роль в экономическом развитии этих стран, которые в значительной степени зависят от экспорта нефти. Нигерия как экономика нефтяной зависимости имеет тип стратегии диверсификации источников своего национального дохода и снижения зависимости от нефти до не нефтяных продуктов в целях противодействия нестабильности мировых цен на нефть. Настоящая статья направлена на изучение того, является ли стратегия диверсификации, принятая Нигерией, достаточной для управления ее экономическим развитием.

Ключевые слова: стратегии диверсификации, экономическое развитие, нефтяная экономика.

Nigeria is a middle - income, mixed economy and emerging market, with expanding manufacturing, financial, service, communications, technology and entertainment sectors. It is ranked as the 30th-largest economy in the world in terms of nominal GDP, and the 23rd-largest in terms of purchasing power parity. It is the largest economy in Africa rich in oil and other natural resources, agricultural products, and a member of OPEC (Organization of Petroleum Exporting Countries) the Federal Government revenue profile in the last half-decade showed that oil earnings accounted for over 80.0 per cent of the foreign exchange earnings, while the non-oil sector, despite its improved performance, contributed 20.1 per cent, thus revealing the extent of the vulnerability of the economy to swings in the price of oil in the international market.

The renewed emphasis on the production of Shale oil in the United States and other alternatives to fossil-fuel energy, such as solar, wind and bio-energy in the advanced economies, has reduces oil demand and price, and further weaken Nigerian earnings. Thus, in the absence of concerted efforts to shore-up and widen
the revenue base, there will be reduction in crude oil revenue and excess crude oil receipts savings in the coming years with grave macroeconomic implications.

The performance of the non-oil export sector in the past three decades leaves little or nothing to be desired, in spite of the efforts to promote non-oil exports in Nigeria. Abogan, et al. (2014) note that an assessment of the trend and patterns of activities in the non-oil sector of Nigeria revealed that despite the various policies, strategies and reform programmes, the contributions of the sub-sectors of this sector have been dismal, disheartening and below its full potential [1,c. 1-11].

The share of non-oil export in the country’s total export earnings has remained very low and it was 1% in 2008 (CBN, 2008), and up 4.8% in 2013 (CBN, 2013). Ezeudu (2014) notes that recent proactive efforts from the private sector, export processing free zone scheme and Nigeria Export and Import Bank (NEX1M) especially efforts of the banking sector to finance exportation of commodities are becoming noticeable in the nation’s export profile, with the traditional commodities like cocoa, being upstaged by new ones like cashew nut, ginger and sesame seed in the foreign market. The policy concern over the years has therefore been to expand non-oil export in a bid to diversify the nation’s export base (Adedipe, 2004)[4].

The diversification of the Nigerian economy is necessary for important reasons. First, the volatility of the international oil market with the attendant volatility of government revenue gives credence to any argument for diversification of exports. Secondly, the fact that crude oil is an exhaustible asset makes it unreliable for sustainable development of the Nigerian economy (Utomi, 2004) [24]. The adverse consequences of over dependency on oil trade heightened the need and call to diversify Nigerian economy away from oil towards the direction of non-oil export trade. Proponents of this increased proportion of non-oil export argue that the non-oil trade has great potentials to propel Nigerian economy to the desired growth and development. For instance, Onwualu (2012) maintains that the value chain approach to agriculture has the potentials to open up the economy and generate various activities which are capable of creating jobs and
enhancing industrialization and thus makes the non-oil sub-sector to hold the aces for future Nigerian sustainable economic growth.

Available evidence point to noticeable increase in the contribution of non-oil sector to the growth of the Nigerian economy over the last ten years (Olayiwola and Okodua, 2010)[18]. Specifically, The Central Bank of Nigeria (CBN) has attributed the growth in Nigeria’s Gross Domestic Product (GDP) from 6.9 per cent in third quarter 2012 to 7.1 per cent in the fourth-quarter of the same year to the increase in the contribution of the non-oil sectors, particularly the industrial sector (NBS, 2012). In 2015 Nigeria introduced the diaspora export program of exporting Nigerian non-oil products and according to world bank data $20.77 billion was realize which significantly contributed to Nigeria GDP[26]. Product In its report titled “Economic Report Fourth-Quarter 2012” CBN submits that non-oil receipts stood at N589.98 billion (24.4 per cent of the total).

National Bureau of Statistics (NBS) further reports that the non-oil sector grew at 9.07% in the fourth quarter of 2011 higher than the 8.93% increase recorded in the fourth quarter of 2010. In 2017 it was reviewed by the Nigeria bureau of statistics that Nigeria export rise of 73.2 percent where non – oil product like Cashew nuts, for instance, earned Nigeria N13.5B in revenue in the period under review, this Cashew nuts were primarily exported to Vietnam, India and Kazakhstan, Sesame earned Nigeria N7.02B, Sesame was exported mainly to Japan, India and Turkey, Frozen shrimps and prawns earned Nigeria over N2.83B, Shrimps were exported to the Netherlands, Belgium, and USA (segun Awolowo 2017)[27].

The growing body of literature indicating possible linkage between non-oil export and growth of the Nigerian economy notwithstanding, there is still paucity of empirical evidence as to the magnitude of the contribution of non-oil export to the growth, and specific sectors and factors that are behind such growth, furthermore, it is observed that most time series studies in this line of investigation on Nigerian economy have focused on export promotion strategy of industrialization, as a way of diversifying the productive base of the Nigerian
economy (Onayemi and Ishola, 2009) without clear information on how strong the impact of non-oil export has on the rate of change in the Gross Domestic Product (GDP).

Literature Review economic diversification was described by Samuelson (1968) as an act of investing in a variety of assets, mentioned its benefit as that which reduces risk especially in the time of recession, inflation, deflation etc. Economic diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Muttaka (2015) examined the effect of Nigeria's oil dependency on economic growth. He observed that Nigeria has wasted much of its opportunities to break away from underdevelopment despite its massive natural and human resources endowment due to heavy reliance on her huge crude oil resources, regrettably mismanaged, as the major source of revenue.

He identified and discussed on some key drivers of economic diversification such as investment, governance and regional dimensions of economic diversification as well as human and natural resources. He maintained that of all the other drivers, good governance remains a prerequisite in building an enabling environment for such diversification. Onucheyo (2001) earlier predicted the fall in oil prices, when he pointed out that in the 21st century nuclear, solar, geothermal and other energy sources will be sufficiently developed to meet most of the world’s energy requirements.

A situation which, according to Onucheyo, raises fears for Nigeria’s oil powered monoculture economy. Onucheyo maintained that Nigeria’s position in the 21st century will not depend on its oil, but the development of its agricultural sector and related human resources. 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, service, 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-cultural 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.

The transformation of Nigeria from a net exporter of agricultural products to a large-scale importer of the same commodities was particularly marked during the period 1973–1982 (Oyejide, 1986). Osuntogun et al (1997) [21], report that nominal non-oil export earnings fell from N363.5 million in 1973 to N203.2 million in 1982. The decline was even more dramatic in real terms as oil exports in contrast rose phenomenally, from about N2 billion to about N8 billion in nominal terms during the same period. Also continued reliance on developed countries as markets for oil and non-oil exports has caused Nigeria great misfortunes, as recessions in developed countries are usually fully transmitted to Nigeria. Onwualu(2009), identifies key impediments to the growth of the non-oil sector as follows:

- Weak Infrastructure –a national challenge.
- Supply side constraints –due to low level of technology. This constraint is particularly prominent in the agricultural sector. • Low level of human capital development –general.
- Weak Institutional framework –general.
- Poor Access to finance -general Consequently, efforts have been made over the years by Nigerian governments to grow the non-oil sector of the economy by initiating supportive policies and incentives to encouraging the diversification of the economy. These policies can be categorized into three, namely:
- Protectionism Policy (1960 to 1986) - import substitution industrialization was 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 Liberalisation Policy (1986 SAP era)-trade policies of this era was aimed at deregulation, commercialization, privatization and liberalization of the economy in order to achieve greater openness to and integration with the world economy; and to tackle the challenges of imbalances in the economy and thereby pave way for sustainable economic growth and development.

Export Promotion Policy (Post SAP period) -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 grant, as reported by Onwualu (2012), is given to exporters to cushion the impact of infrastructural disadvantages faced by Nigerian exporters and to make exports competitive in the international market.

Case for Diversification of Nigerian Economy

Nigeria is Diversified Talking of diversification; Nigeria is much diversified in terms of its people and cultures, more than 500 tribes or ethnic nationalities. Its very unity and stability are based on that diversity. It is also climatically diverse, from the tropical jungles and swamps of the south-south to the temperate belt around Jos and Obudu, to near desert conditions in parts of the far north. And the various parts are also very well endowed in all sorts of mineral and other resources. Technology fast becoming available and cheaply priced should facilitate their exploitation in the near future. Interest in diversification for now can therefore mostly arise from the dependence of our economy on one major commodity, namely oil, and the need to broaden our revenue base.

Risks of Over-dependence on one Commodity:

The main risk is that of over-dependence on one commodity, oil, which is also non-renewable. When oil was first found in Nigeria in the fifties, the prognosis was that Nigeria would never become more than a dot on the world oil map. Today, she is very much more than a dot, about the sixth largest producer or thereabouts. Unfortunately, Nigerian oil is so sweet that the Nigerian economy is now nearly 90% to 98% dependent on oil revenues. This dependence exposes the economy to major risks; namely, The risk that our production could fall,
The risk that the demand for our oil could fall [external factors] The risk that the price might fall [external and OPEC related] The risk that the country could run out of reserves, risks of Revenue Shortfall The good news is that whereas our oil production could fall as a result of domestic factors [strikes and insurrections], the demand is unlikely to fall in the nearest future unless the consumer countries like the USA, which is now more than 60% dependent on imported oil, discover other products to replace oil. Prices are a different matter and not even OPEC can guarantee their level for all time, especially in the face of determined opposition from the developed world. Our reserves can still take us a few decades at current levels of production and there is hope that advances in technology will reveal further finds, even from previously exploited wells.

The biggest risks are in the domestic front and it is therefore not by accident that much Nigerian oil production currently takes place off shore, away from the warring youth gangs. The goals of policy here would therefore be to create and sustain economic, political and social conditions, which make the extremism that results in 911-type adventures unattractive under any circumstances. There are other derivative risks but the foregoing will suffice for now. From the point of view of the layman, the most important aspect is the risk that revenues would not be sufficient for the yearly budget and that times could become hard or harder. Diversification as a subject is concerned with protecting ourselves and our children against such risks.

Sustainable Development The second concept with which we shall be concerned is sustainability. In simple terms, like democracy, sustainability has to do with conditions under which we are able to offer a majority of the people, including future generations, better life, and for all, not just the women. To pursue sustainable development is to “ensure socially responsible economic development while protecting the resources base for the benefit of future generations. As the price of oil in the international market is not unstable, time has come for countries depending on oil to diversify or face great economic quake that has the potential to threaten their political stability.
Policy Recommendation

The logical policy recommendations from the review are as follows:

There is the need to promote expanded production in both the agricultural and industrial sector. A higher level of output will help to achieve the Development objectives, satisfying local demand for goods leaving a reasonable balance for export and a reduction in the unit of production. Diversification of export market for Nigerian goods. At present, the bulk of Nigeria limited manufactured goods goes to the African and Asia countries and these accounts for an insignificant share. High priority should be accorded to gain access to market in Africa especially, Ecowas countries. Effective use of bilateral and multilateral trade agreement between Nigerians and other countries should be effectively used to promote Nigerians exports.

Promotion of foreign private investment:

Foreign investment capital is typically a vehicle for industrial growth in a developing country like Nigeria. Since the bulk of industrial inputs is imported, foreign finance helps to complement foreign earnings as it provides funding for import needs to the investors. Attraction of foreign direct investment either wholly owned or in joint ventures with Nigerians should be promoted. To promote the inflow of foreign capital, there is need to undertake image restoring measures to counteract the lingering negative image Nigeria has acquired abroad. This should include efforts to design and implement credible economic and political programme, adjustment of interest rate to encourage investment and actions to protect lives and property.

Designing and packaging:

More attention should be focused on designing and packaging of export product which has been recognized as a necessary condition for a successful export business. Specialist institute for design and packaging should be set up to train industrial workers.

Need to upgrade basic infrastructures:
There is need to upgrade the basic infrastructure to a functional level. In particular and adequate power and water supplies must be ensured for any meaningful industrialization and export trade to take place. Establishment of more export processing zones in strategic locations within the country to facilitate increased production of manufactured goods duty free.

Improving electricity supply:

Electricity situation Nigeria need to be improved upon as a matter of urgency since most industries in Nigeria depends heavily on the usage of private generators to power their production. This action of course increases the overhead cost of production and affects the outputs of the non-oil sector for exportation purposes. Financial reforms: Wide interest rate has been severally observed as the factor affecting accessibility of firms to loans by entrepreneurs. Thus, the monetary authorities need to intensify effort at pursuing financial reforms targeted at reducing high interest.

Diversification of the economy is of paramount importance in the economy by not dependently only on oil sector as the mainstay and the largest contributor to the Total government revenue and GDP. Agricultural, manufacturing and industrial sectors etc. should be more funded and equipped to ensure good outputs and contributions. Economic diversification is vital to countries' long-term economic growth, but many oil resource-rich countries remain heavily reliant on revenues generated by oil production or mining, jeopardizing their chances for sustainable growth. Too often, countries lack clear policy guidelines on how to diversify, and policymakers have limited understanding of why diversification is important, diversification is driven by human capital development which is the starting point, driving force and sustaining force. OPEC countries need to highlight the fact that good diversification policy requires a long-term perspective, with a concerted and sustained effort to channel the resources and funds that can build effective institutions. As the price of oil in the international market falls and unstable, the time has come for countries depending on oil to diversify or face great economic quake.
References


Bank of Nigeria.


