THE IMPACT OF OIL ON NIGERIA'S ECONOMY: THE BOOM AND BUST CYCLES.

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1.0 INTRODUCTION

The global perception of Nigeria is that of a richly blessed oil producing nation but with a growing poverty index. The problem of low economic performance of Nigeria cannot be attributed solely to instability of earnings from the oil sector, but as a result of failure by government to utilize productively the financial windfall from the export of crude oil from the mid-1970s to develop other sectors of the economy. Nigeria is among the poorest countries in the world, with the poverty incidence estimated at 54 per cent in 2006. The economy has been substantially unstable, a consequence of the heavy dependence on oil revenue, and the volatility in its prices. The oil boom of the 1970s led to the neglect of non oil tax revenues, expansion of the public sector, and deterioration in financial discipline and accountability. In turn, oil-dependence exposed Nigeria to oil price volatility which threw the country's public finance into disarray. Since 1986, Nigeria has undertaken reforms in various sectors of the economy. The reforms have moved the economy forward but the rate of the growth is not commensurate with the reforms and there is much room for improvement. This paper therefore, seeks to appraise the state of the Nigerian economy, over the years from the boom to burst periods and identify some major economic policy issues. To do this, the part two of the paper would give appraisal of the theoretical issues. Part three will examine the boom period, while part four will discuss the burst period and policies responses. Major economic policy issues will be discuss in part five, while reforms and outcomes will be examine in part six. Finally, the prospect of diversification from oil to non-oil will be converse in part seven of the paper.

2.0 THEORETICAL REVIEW

In the early 1950s, some development economists, especially those associated with the ***Staple theory*** *of growth*, suggested that natural resource abundance would help the backward states to overcome their capital shortfalls and provide revenues for their governments to provide public goods and lift their citizens out of the doldrums of poverty. However, since the 1990s, a growing number of researches have established a link between resource abundance and socio-economic problems. Natural resource abundance has been associated with slow growth (Sachs and Warner, (1995)), (Gravin and Hausmann (1988)), Ross (2004), (Lane and Tornell (1999)), Ross (1999, 2001). At the same time, there is an established link between resource motivated conflict and economic collapse (Collier and others (2003)), Skaperdas (1992), Deininger (2003). Of all natural resources, oil has been found to have the highest risk of civil conflict because of the large rents it offers and the shocks to which the government and the national economy are exposed to (Collier and Hoeffler (2005)), (Fearon and Laiton (2005)). According to Collier and Hoeffler (2002), 23.0 percent of states dependent on oil exports have experienced civil war in any five-year period, a figure that dwarfs the 0.6 per cent for countries without natural resources.

Three major lines of argument have been employed in the theoretical literature to explain the resource curse which is the tendency of natural resource abundance or dependence to miniseries growth and development. One line of argument follows what has come to be known as the ***Dutch disease***. The second focuses on the ***volatility*** *effect* of natural resource export-dependence IDB, (1995), Gravin and Hausmann,(1996), Ramey, (1995) Aizenren and Manon, (1999) and Caballero, (2000), while the third discusses the ***rent-seeking effects***. The rent seeking view assert that resource-dependence ,especially oil, often lead to a vicious development cycle, whereby all actors public and private, domestic and foreign have overwhelming incentives to seek links with the state in order to share in the resource pie. This incentive for rent-seeking penalizes productive activities, distorts the entire economy and hinders economic growth. In a dynamic setting, this may produce a *voracity effect* (Lane and Tornell, (1999)). The *Dutch disease* thesis asserts that an increase in resource-based revenues due to a boom leads to an appreciation in the local currency, increases the capacity of the country to import *tradable* and also enlarges the demand for other goods and services, including *non-tradable* which must be produced locally. This forces a structural adjustment in the domestic economy as resources are diverted out of the non-resource tradable sector represented by manufacturing into the production of *non-tradable*. Thus typically, resource booms lead to the contraction of the non resource (manufacturing) sector (Hausmann and Rigobon, (2003)).

3.0 THE BOOM PERIOD

By the time Nigeria became politically independent in October 1960, agriculture was the dominant sector of the economy. Agriculture provided the

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bulk of the employment for Nigerians and the needs of the household. The proportion of the Gross Domestic Product (GDP) accounted by agriculture (defined broadly to include crops, animal husbandry, fishing and forestry) and petroleum stood at 67.0 per cent and 0.6 per cent respectively, by 1970 the proportions had been reversed to 23.4 and 45.5 per cent respectively, by 1980, the shares of agriculture and petroleum went down further to 15.5 per cent and 28.0 per cent respectively. The proportion of oil continued to dominate ever since.

Since the early 1970s, the Nigerian economy has become more reliant on oil earnings, with a negative impact on the non-oil sector of the economy, resulting in the sector's declining contribution to GDP despite the phenomenal increase in prices over the years. The crude oil price which was only $2.00 per barrel in 1973 had risen to $36.6 per barrel by 1980. In 2005, the price rose to $55.4 and by 2007, the price had risen to $135.00 per barrel. This sky-rocketing oil prices, initially propelled by the Arab-Israeli war and energy crisis and depression in the industrial countries, resulted in increased oil revenue and boom for Nigeria and other oil exporting countries.

The enormous increase in the oil revenue created unprecedented and unplanned wealth for Nigeria, that our leaders even once remarked that money was not the nation's problem but how to spend it. Consequently, the government began the dramatic shift of policies from a holistic approach to benchmarking them against the state of the oil sector. In order to make the business environment conducive for new investments, the government began investing the newfound wealth in socio-economic infrastructure across the country, especially in the urban areas, and the services sector grew. The relative attractiveness of the urban centre made many able-bodied Nigerians to migrate from the hinterland, abandoning their farmlands for the cities and hoping to partake in the growing and prosperous (oil-driven) urban economy. This created social problems of congestion, pollution, unemployment and crimes. The national currency, Naira,

Fig 1

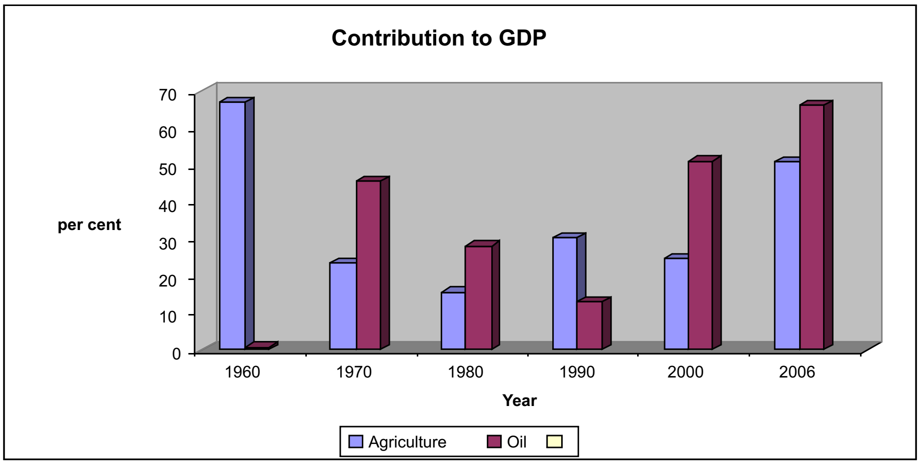


Fig 2

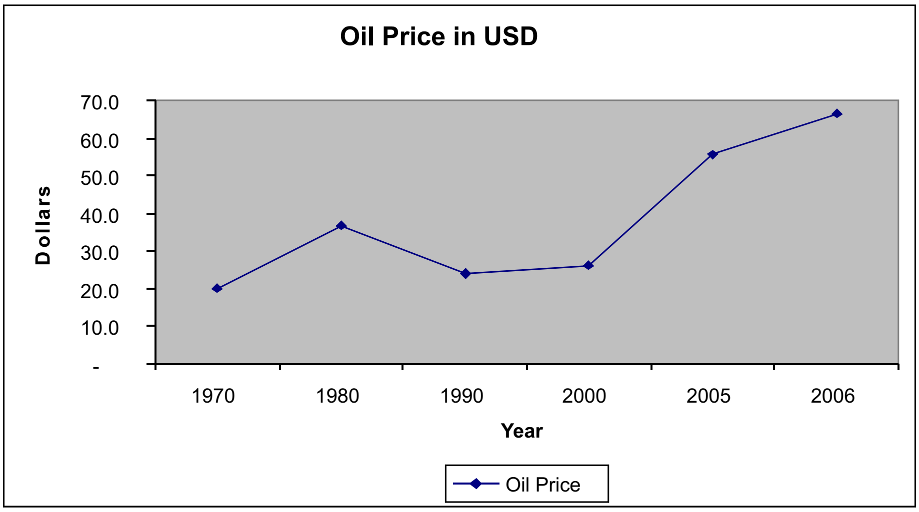
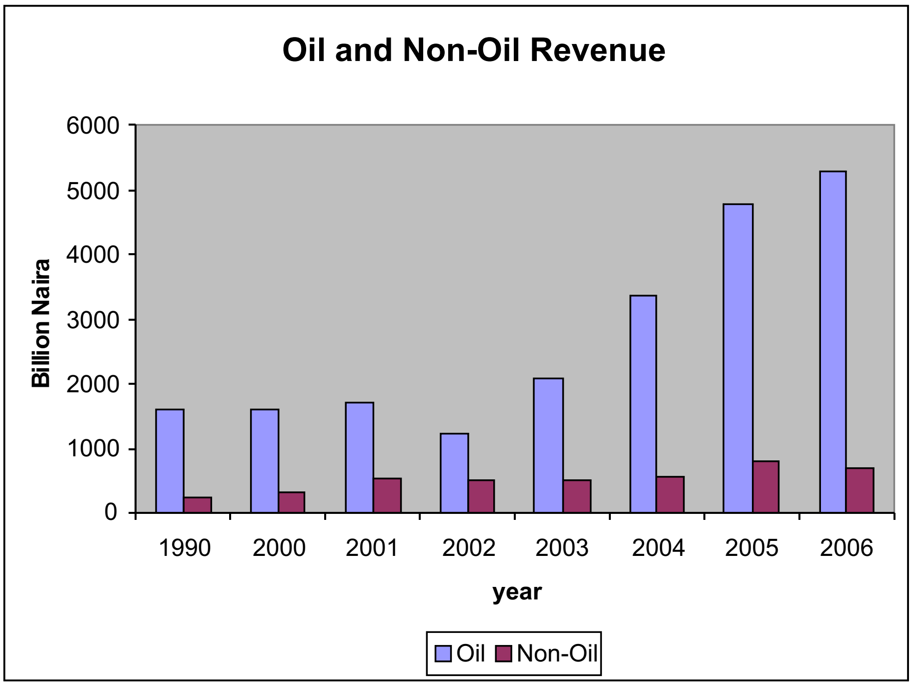


Fig 3



strengthened as foreign exchange inflows outweighed outflows, and foreign reserves built up.

This encouraged import-oriented consumption habit that soon turned Nigeria into a perennial net importer, which became a major problem when oil earnings decreased with lower international oil prices. External reserves collapsed, fiscal deficits mounted and external borrowing ensued with the "jumbo loans" taken in 1979. Most of Nigeria's macro-economic indices became unstable and worrisome. Several policy initiatives to address the defective structure and inefficiencies were taken, but poorly implemented and sometimes contradictory. These created new distortions and further weakened the inchoate institutions for policy implementation. The average Nigerian therefore, became so sensitive to oil and all the variables surrounding it, to the extent that any development in the international oil markets invites an almost instantaneous reaction from domestic economic agents and policy makers alike.

Table 1 gives the picture of the structure of the Nigerian economy from 1960. The table reveals that the contribution of the agricultural sector to the GDP declined consistently from over 60.0 per cent in 1960 to 24.6 per cent in 2000 before rising up to 50.8 in 2006. With the re-emergence of the oil-glut in 1980 and the subsequent collapse of the petroleum economy, the Nigerian economy was engulfed in a serious economic crisis. The slow growth rate of national output, the balance of payment crisis, the mounting national debt and debt servicing burden, the deepening food shortage crisis, the collapse of the manufacturing sector, mounting unemployment and galloping inflation (stagflation) and deteriorating standard of living are dramatic indicators of economic crisis.

4.0 THE BURST PERIOD AND POLICIES RESPONSES

The false sense of economic self-sufficiency generated by the oil boom of the 1970s, led to the neglect of the agricultural sector since the nation had access to cheap money to import all sorts of things including foodstuffs,

Fig 4

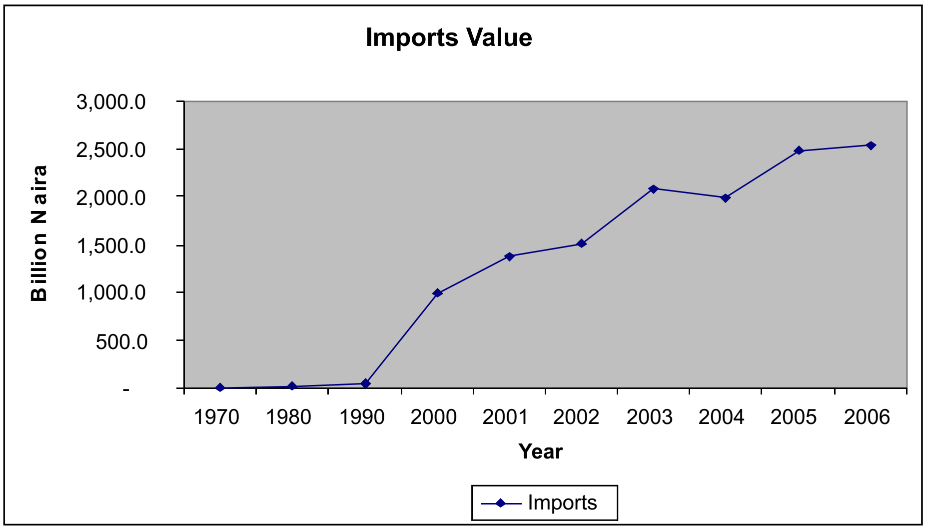


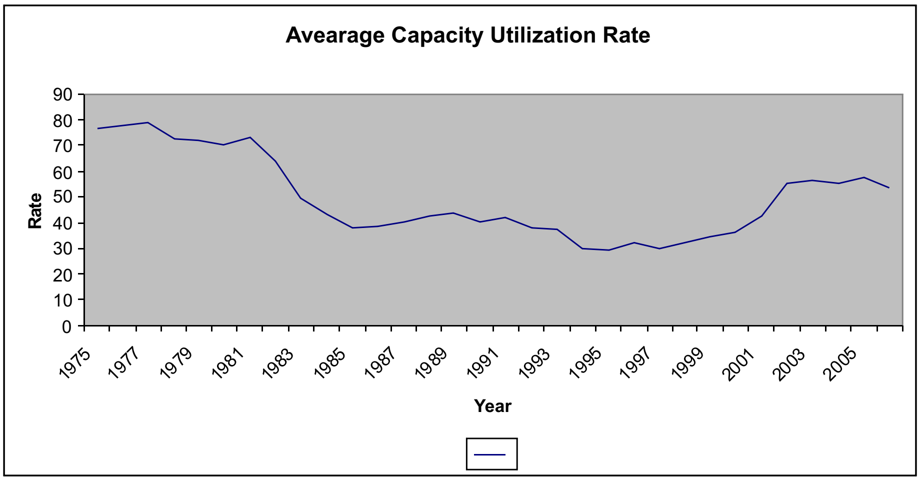
Table 1

Nigeria: Sectoral Contribution to Gross Domestic Product (GDP)

SECTOR	1960	1970	1980	1990	2000	2006
Agriculture	67.0	23.4	15.5	30.1	24.6	50.78
Crude	0.6	45.5	28.0	12.8	51.1	66.21

Source: Central Bank of Nigeria, Changing Structure of the Nigerian Economy (2000) and Annual Report & Statement of Accounts (various years)

FIG 5



raw materials and manufactured goods. In turn, oil-dependence exposed Nigeria to oil price volatility which threw the country's public finance into disarray. The economy witnessed structural changes in the 1980s which was characterized by a slow growth of output in almost all sectors of the economy. The manufacturing sector has in particular suffered from this declining output as a result of a drastic reduction in capacity utilization due to shortage of raw materials. By 1986, the overall average capacity utilization of the Nigerian manufacturing sector, an index of economic performance in the sector, stood at 38.8 per cent as against 77.4 per cent ten years earlier. However, with the remarkable reforms in the 1999s, capacity utilization have improved reaching 57.8 per cent in 2005.

The over-dependence on petroleum oil is more vivid in the external sector trends. The desire for imports reflects in the current account balances, whose oil component expanded by an annual average of 57.7 per cent during 1971 to 1980, 43.0 per cent in 1981-1990 and 40.3 per cent in 1991-1998. The current account balance grew with the oil revenue trend, reflecting import expansion as oil earnings grew. In 1982, reflecting the crash in oil earnings and the tight rein on international trade through the Stabilization Act implementation, current account balances dropped by 22.7 per cent in 1982 and further by 14.6 per cent in 1983.

Another critical dimension of Nigeria's economic problem was the foreign exchange crisis. As a result of dwindling foreign exchange earnings from crude-oil, the nation has experienced dreadful short-fall in foreign exchange. The foreign exchange crisis manifests itself in terms of balance of payments problem, rising external debt and debt servicing burden as well as the inability of the nation to import crucial capital and intermediate goods to execute her development projects. As a result of the country's inability to pay for imports and the dwindling foreign reserves, Nigeria accumulated trade arrears during the period 1980 and 1986, the period before the operation of the Second-tier Foreign Exchange Market (SFEM). This accumulated trade arrears coupled with external borrowing led to a mounting external debt and debt servicing burden.

The 1980's saw Nigeria plagued by the twin problems of high inflation rate and high unemployment rate. In the 1980's, events have disproved traditional economics postulation of a trade-off between inflation and unemployment. During that period both high inflation rate and high-unemployment rates co-existed, giving rise to what came to be known as stagflation. These twin problems were crucial elements of the Nigeria's economic crisis. The high inflation rate has in particular been fueled by the under-valuation of the naira due to the operation of the foreign exchange market. The government has to introduce some measures to tackle the problems which include the followings:

Table 3: Current Account (US$ Million)

Year	Oil Export	Non-Oil Export	**Total**	Oil Imports	Non-Oil Imports	**Total**
1986	5,977.40	394.40	6,371.80	652.80	3,259.10	3,911.90
1987	7,052.20	538.00	7,590.20	792.50	3,305.60	4,098.10
1988	6,319.00	612.70	6,931.70	845.10	3,545.50	4,390.60
1989	7,469.80	401.10	7,870.90	634.30	3,200.10	3,834.40
1990	13,265.60	405.50	13,671.10	755.60	4,192.52	4,948.10
1991	11,792.40	472.00	12,264.40	784.30	6,971.50	7,755.80
1992	11,641.70	244.40	11,886.10	1,130.80	6,072.90	7,203.70
1993	9,696.60	227.80	9,924.40	1,865.90	4,790.00	6,655.90
1994	9,170.70	244.40	9,415.10	1,935.00	4,677.60	6,612.60
1995	11,448.70	285.70	11,734.40	1,923.90	6,297.60	8,221.50
1996	15,829.80	287.20	16,117.00	1,997.10	4,441.30	6,438.40
1997	14,850.10	357.20	15,207.30	2,043.90	7,457.40	9,501.30
1998	8,564.70	406.50	8,971.20	2,099.60	7,111.80	9,211.40
1999	12,664.90	211.10	12,876.00	2,292.20	6,295.60	8,587.80
2000	18,897.20	244.20	19,141.40	1,955.10	6,766.20	8,721.30
2001	17,633.80	250.30	17,884.10	1,925.60	9,104.50	11,030.10
2002	14,777.40	785.70	15,563.10	1,984.50	9,893.18	11,877.68
2003	23,215.00	735.10	23,950.10	3,094.10	13,040.51	16,134.61
2004	33,755.43	851.95	34,607.38	2,391.84	12,548.35	14,940.19
2005	47,683.56	806.30	48,489.86	1,251.65	15,728.72	16,980.37
2006	44,068.26	1,047.72	45,115.98	1,560.48	16,283.40	17,843.88

Source: Central Bank of Nigeria Annual Report & Statement of Accounts. (Various)

Economic Stabilization Measures of April 1982

As the glut in the international oil market continued unabated, and the country's balance of payments situation continued to deteriorate persistently, it led to a heavy drain on the external reserves. Thus, by 1982, the external reserves had fallen to a dangerously low level that it could hardly finance one month's imports at the then level of importation. In the circumstances, it became imperative for the Federal Government to take immediate action to protect the balance of payments and revamp the economy. Thus, the government introduced the Economic Stabilization Act comprising a package of stringent policies and measures of demand management aimed at rationalizing overall expenditure pattern in order to restore fiscal balance and equilibrium in the external sector. These stabilization measures were, to a large extent, implemented through administrative controls which included a severe tightening of import controls, the imposition of exchange restrictions on international transactions, substantial increases in customs tariffs, introduction of an advance import deposit scheme, and ceilings on total central bank foreign exchange disbursements. The emphasis on short-run stabilization measures reflected the Government's belief, at the time, that Nigeria's economic and financial problems were transient and would eventually disappear with a recovery in oil export prices. However, oil prices did not recover as soon as expected and it became clear that the stabilization policies were inadequate in tackling the underlying economic problems. The immediate option was to secure IMF support facility which was debated on and later dropped. However, in 1985, the Government agreed on a number of structural reforms based on the Funds framework but rejected an IMF loan.

The Structural Adjustment Program (SAP) of 1986

The SAP adopted in June 1986 signaled a radical departure from previous reform efforts. The aim of the SAP was to effectively alter and restructure the consumption and production patterns of the economy as well as eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods. It emphasized reliance on market forces and the private sector in dealing with the fundamental problems of the economy. The SAP was originally intended to last for two years, but was extended when it was realized that implementing many of the reforms required more time.

The objectives of the SAP were, among others, to:

- restructure and diversify the productive base of the economy so as to reduce dependency on the oil sector and imports;
- achieve fiscal and balance of payments viability over the medium term; and
- promote non-inflationary economic growth.

The key policies designed to achieve these objective were:

- Strengthening relevant demand management policies;
- Adoption of measures to stimulate domestic production and broaden the supply base of the economy;
- The setting up of a Second-Tier Foreign Exchange Market (SFEM) as a mechanism for achieving a realistic exchange rate and consequently, the alteration of relative prices to enhance efficiency in resource allocation, and to promote domestic-based production and non oil exports;
- Further rationalization and restructuring of tariffs in order to aid industrial diversification;
- The liberalization of the external trade and payments system-dismantling of price, trade and exchange controls;
- The abolition of price commodity boards;
- The decontrol of interest rates; and
- The rationalization and restructuring of public sector enterprises and overhauling of the public sector administrative structure.

In general, the various policy measures incorporated in SAP have been pursued to varying degrees of implementation coupled with a number of complementary polices and programmes. The implementation of the SAP was bedeviled with lots of slippages to give it a human face, consequently the performance was mixed, as it recorded successes only in the early years after which performance worsened. In the 1990s the economy went through periods of control (1994), partial deregulation (1995-1998) and guided liberalization from 1999.

In realization of the relevance of the tenets of the SAP to Nigeria's economic development, the Government embarked on renewed initiative to formulate its home-grown programme after the unsuccessful implementation of two Stand-by Arrangements (SBAs) with the IMF. The home-grown programme was christened the National Economic Empowerment and Development Strategy (NEEDS) and was aimed at enhancing efficiency and higher productivity, growth, transparency and accountability in the economy.

NEEDS

The NEEDS is a strategic change in Nigerian economic development policy and as reflected in the Federal Budget (2002 budget statement), Nigeria's policy reforms are expected to continue focusing on four main themes: pursuing sound economic management, improving the condition of public infrastructure, diversifying the economy while emphasizing poverty reduction, and increasing integration with the regional and global economies.

Each sector's reforms and measurement of economic performance rests on achieving:

- Diversifying the economy towards poverty reduction activities
- Adopting strategies aimed at integrating the Nigerian economy into the global world, using domestic competitiveness as a launch pad for reasserting the country's position in the globalization process.

The entire scenario has changed with the formal announcement and presentation of the NEEDS, which is a medium-term strategy that seeks to implement series of reforms that would lay a solid foundation for a diversified Nigerian economy by 2007. It sets specific goals in major growth indices as wealth creation, employment generation, institutional reforms and social charter.

The unveiling of NEEDS is another attempt to chart a sustainable growth path for the economy. The primary objective of NEEDS agenda is to reinvigorate the economy, and return it to the path of sustainable growth, development and poverty reduction. The various reforms focus on people, with emphasis on job creation, and employment generation for the youths, through provision of the enabling environment for the private sector to generate jobs. The NEEDS is also meant to enable Nigeria turn around and adopt a broad based market oriented economy that is private sector - led and in which people can be empowered to afford the basic needs of life. It is therefore a pro-poor development strategy which is in line with the new focus of both the IMF and the World Bank.

The Federal Government identified and prioritized major areas requiring reforms under the NEEDS platform and such areas include:

- Privatization of public enterprises;
- Liberalization of key sectors of the economy;
- Restructuring of the Public Service;
- Review of government budgeting and taxation laws;
- Governance and institutional strengthening;
- Debt Management;
- Service Delivery;
- Economic empowerment programmes; and
- Due Process.

The reforms refer to positive changes in economic policies aimed at achieving different objectives or same objectives at a faster rate. They focus on ways of doing things and on setting targets. Reforms become necessary when existing policies fail to achieve set targets or when set targets are found to be unsustainable and so need to be changed. The reforms introduced include macroeconomic, fiscal policy, budgetary, monetary policy, debt management, banking and financial sector and other sectoral reforms.

Nigeria has made commendable progress in implementing its economic reform program. In the process, the authorities requested the IMF for a Policy Support Instrument (PSI) in support of the NEEDS programme. The IMF board approved the establishment of a Policy Support Instrument (PSI) in 2005, a non-lending programme which will provide policy advice to poor countries and send a signal to donors and markets about the quality of a country's economic policies. This has also assisted the country in securing remarkable debt relief from the Paris Club of Creditors.

5.0 MAJOR ECONOMIC POLICY ISSUES

The disappointing results of the adjustment effort were linked to two major factors:

- Product of misguided policies under the SAP and;
- Incoherent implementation of SAP policies.

In general, not only did the economic stabilization measures and reforms proved inadequate in dealing with the seemingly intractable problems of the economy, some of them, were to a large extent, counter-productive, thus defeating the attempts to use them successfully in restoring normalcy to economic activities. After more than a decade of SAP, structural imbalances still persist and abound. The reforms have not been far-reaching with low economic growth and more people becoming poor. The mono cultural economy of Nigeria continued to be exposed to shocks beyond the control of the government. These shocks have adversely affected the government's ability to meet the needs and aspirations of the people. The economy over the years had been beset with lingering problems of low output growth elative to the population growth rate, unemployment and external debt overhang.

The first consequence of the major policies pursued over the years was the sluggish growth of the Nigerian economy. By and large, Nigeria had implemented policies which were largely inconsistent and ineffective in tackling the problems of the country. The policy reversals have tended to discourage domestic and foreign investments required for the development of the economy. Taiwo (2001) and Iyoha (2003) explained that stagnation of the Nigerian economy could be traced to both the remote and immediate causes. The remote causes included the weak production base arising largely from a poor technological base, overdependence on externally driven solutions to Nigerian economic problems as well as poor governance. The remote causes manifested in immediate causes such as the high cost of doing business arising largely from inefficient infrastructures, non-competitiveness of the domestic products in the international market, falling investment-GDP ratio, poor planning and data base, political instability, insecurity of life and social and ethnic dichotomy.

In spite of the reforms, the economy continued to rely heavily on foreign exchange earnings from oil exports as a result of failure to diversify the foreign exchange base away from oil receipts. The implications are multifarious. First, the excessive dependence on the petroleum sub-sector makes the economy susceptible to external shocks. The economic programme adopted in 1986 failed partly because the process of change was not properly managed and partly because the people were not ready for change (Ojo, 1994). Second, it resulted in the slow growth of the non-oil export sub-sector owing to the neglect of other sectors particularly the solid minerals. Third, the successive development programmes could not be accomplished owing largely to declining fortunes as well as mismanagement of oil receipts while the three tiers of government were engaged in financial recklessness leading to the draw-down on the external reserves. Furthermore, the pace of economic recovery suffered a setback in the 1980's following intensification of pressure on external sector as the world price of oil slumped while the growth rate of non-oil exports remained weak. Another dimension worth examining is the direction of trade which shows an over-dependence of oil export on industrialized countries, while intra-Africa trade is very minimal, although there has been an increase over the period. In reviewing the direction of trade, with particular reference to oil exports, it is the Americas that remained the largest buyer of Nigeria's crude oil, followed by Western Europe, while the export share taken up by Asian and African countries fell during the period 19881996. It has been proposed that regional trade, particularly within the West African sub-region, needs to be boosted as part of diversification. *Other problems associated with trade were the composition of the non-oil exports. T*he contribution of the non-oil export was low, in spite of government's efforts to revamp the sub-sector. The factors accounting for the poor performance of the sector during these periods included inefficient implementation of export incentives and support programmes, inadequate and decaying infrastructure, financing constraints and policy instability, among others.

WHY THE FAILURE?

Numerous explanations have been advanced as to why, with such great promise, the Nigerian economy failed to achieve take-off in the past. It is argued that, natural resource possession makes countries vulnerable to the “Dutch Disease”, which is the propensity for the real exchange rate to become overly appreciated in response to positive price shocks. The natural resource abundance does reduce private and public incentives to accumulate human capital due to a high level of non-wage income, among others. In Nigeria, the poor management of oil revenues during the boom and bust period has tended to create a highly volatile macroeconomic environment for the nation. Inadequate adjustment to oil price shocks during the downturn in oil prices in the 1970s and 1980s led to large fiscal deficits. The second price hike of the 1980s witnessed a marginal surplus and reverted to large deficits afterwards. The resultant huge fluctuations in government expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by previous administrations, reinforced by an accommodating monetary policy. Public expenditure closely followed swings in current revenue such that, invariably, the oil price shocks were transferred into the domestic economy. Another major reason why Nigeria failed to achieve progress in the past was due mainly to lack of unswerving long-term reform and planning, arising largely from political instability. Since independence in 1960, Nigeria has had 13 different governments; eight of them were through military coups.

6.0 REFORMS AND OUTCOMES

Several landmark successes had changed the dynamics of the Nigerian economy. These include: the banking sector and telecommunications revolution, sound macroeconomic environment, the privatization programme, deregulation of the downstream oil sector, sectoral reforms, a stable exchange rate regime and increasing external reserves. The real sector should be the prime beneficiary of the reforms. Macro stability and sound financial system constitute the foundation and lubricant for the new economy. Some of the outcomes are as follows:

- Average GDP growth rate of 7.5 per cent since 2003 compared with 2.8 per cent in the 1990s
- Non-oil sectors growth rate above 7.0 per cent since 2004, led by services with 7.0 per cent
- External reserves grew from US$4bn in 1999 to US$51.3 billion in December, 2007, even after paying about US$14 billion to Paris and London Clubs.
- Debt relief (from Paris and London clubs - about US$33 billion).
- Foreign investment over US$4.0 billion in 2007.
- Remittances about US$4.0 billion per annum and by 2007 reach US$10,000 billion.
- End period inflation declined to single digit in 2006
- Exchange rate has been appreciating and stable, while parallel and official rates have converged.

The Nigerian economy is changing in fundamental ways and the rest of the world is taking notice. From a perception of Nigeria as a hopeless case for investment, the growing view now is that of a preferred investment destination. In the banking sector, the country now has 24 strong and reliable banks. The growth in assets, deposits credit and profitability etc since 2004 had been astounding. In terms of performance, the capital adequacy and liquidity ratios are satisfactory while the size of nonperforming loans as a percentage of total loans declined significantly. The Nigerian banking industry is now the fastest growing in Africa. Similarly, it is the dominant sector in the Nigerian Stock Exchange and indeed the key driver of the recent phenomenal growth of the stock exchange.

Since 2003 Nigeria has begun to address, systematically, the problem that has been referred to as a resource curse. A number of key measures are being put in place to manage oil revenue and expenditure more effectively in order to cushion unanticipated boom and bust cycles caused by oil price shock. These measures are captured in an overall economic reform agenda that has resulted in boosting confidence, credibility, transparency and accountability, rule of law and corporate governance in Nigeria. Between 2002 and 2006, the non-oil sector's contribution to GDP rebounded to 7.2 per cent from an average of 2.4 per cent between 1992 and 1998; and 3.8 per cent between 1999 and 2001, compared with the oil sector's contribution of 3.9 per cent. The overall growth in GDP averaged 6.0 per cent for the period. Inflation and exchange rates moderated, with the latter achieving convergence with the rate in the bureaux de change. The attainment of macroeconomic stability has provided a platform for improved growth performance in recent years.

Nigeria is a nation endowed with a variety of resources ranging from natural to human and capital, if well harnessed, have the great potential of elevating Nigeria from a struggling economy to one of the so-called Tigers, such as Indonesia, Malaysia and Thailand. These resources include crude oil and gas, solid minerals, population, land, foreign reserves and capital inflow. Currently, Nigeria is the eighth largest oil-exporting country in the world with oil revenue accounting for about 80 per cent of total government revenue and 95 per cent of foreign exchange earnings. Nigeria's proven oil reserves are estimated to be 36 billion barrels while the country's natural gas reserves are even bigger, estimated at well over 100 trillion cubic feet. Nigeria is also endowed with a variety of solid minerals ranging from coal, cassiterite and columbite in the southern region to limestone, iron ore, tin and marble in the northern region. With a population of over 140 million and estimated growth rate of 9.0 per cent, Nigeria is the most populous country in Africa. It accounts for over half of West Africa's population. About 45 per cent of the population is under the age of 15 years, with a dependency ratio of 0.9. The total average fertility rate is estimated at 5.7 per woman. The country has some of the best-educated people in Africa and the world. The large population is also a solid base for the domestic market. The unprecedented, continuous rise in the price of crude oil in the international market in recent years has given Nigeria an opportunity to accumulate reserves. External reserves grew from US$4 billion in 1999 to US$51.3 billion by end-December 2007. The foreign reserves are expected to remain relatively high in the foreseeable future due to the upward shift in the structural global demand for oil. At the level of imports in 2006, the foreign reserve could finance 24.7 months of imports.

Nigeria is turning out to be one of the most attractive countries in terms of foreign investment inflow. Foreign direct investment increased from less than US$1 billion in 1990 to US$1.2 billion in 2000, US$4.9 billion in 2005, US$4.0 billion in 2006 and US$12.4 billion in 2007. As percentage of GDP, foreign direct investment has increased substantially in recent years. The same pattern is witnessed in portfolio investment, which grew from US$0.2 billion in 2003 to US$2.9 billion in 2005 and US$4.4 billion in 2007. This is attributable to the economic reforms and the resulting macroeconomic stability, which have instilled great credibility in the Nigerian economy. Home remittances are also becoming an increasingly important catalyst to growth in Nigeria. In 2005, it received an estimated US$6.5 billion in home remittances; this has continued to increase remarkably with a recorded figure of over US$18.0 billion in 2007.

7.0 PROSPECTS OF DIVERSIFICATION FROM OIL TO NON-OIL

The major problem has been the economy's continued excessive reliance on the fortunes of the oil market and the failed attempts to achieve any meaningful economic diversification. The need to correct the existing structural distortions and put the economy on the path of sustainable growth is therefore compelling. This raises the question of what need to be done in order to diversify the economy and develop the non-oil sector in order to realize the potentials of the sector. This calls for new thinking and initiatives.

The continued unimpressive performance of the non-oil sector and the vulnerability of the external sector thus dictate the urgent need for a reappraisal of the thrust and contents of our development policies and commitments to their implementation. Indeed, the need for a change in our policy focus and paradigm shift in our industrialization strategy is imperative, if we are to return the Nigerian economy to the path of sustainable growth and external viability.

The prospects for achieving transformation from a crude oil dependent to a sectorally balanced and diversified economy are not high in the short run. However, the prospects for long term transformation are good if the nation can surmount the challenges. It calls for removal of the major constraints to sustainable economic growth and development that currently plagued the economy. The Nigerian economy is richly endowed with both human and natural resources which can be productively and efficiently harnessed to achieve sustained growth of GDP and development. The government must address the issue of poor economic management which results in macroeconomic instability and undermines the achievement of growth and economic development in general and the real sector in particular. The issue is not whether government should not budget a deficit. The issue is that the size of the deficit as a proportion of GDP must be low while the financing should not rely on credits from the banking system. In addition, borrowing from external sources must be productively utilized to enhance the capacity of the national economy to meet the debt service obligations in future.

The private sector should be motivated and supported in the production of private goods in which Nigeria enjoys considerable comparative advantage. It should also encourage the private sector to take advantage of backward and forward linkages in establishing manufacturing industries that rely on agricultural produce while products of the manufacturing sector feed the distributive service sector.

There is need to recognize the problem posed by poor infrastructural services, particularly unstable electricity supply, sustained

Fig 5

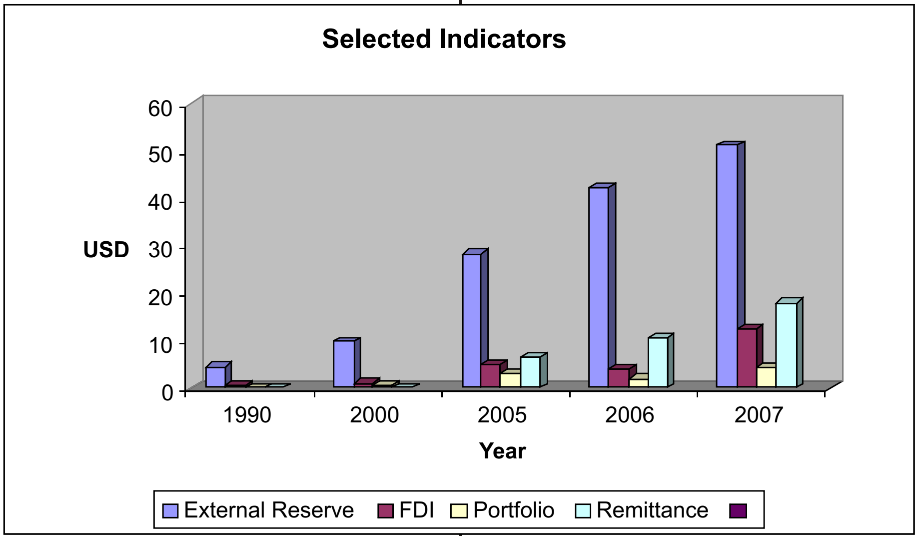
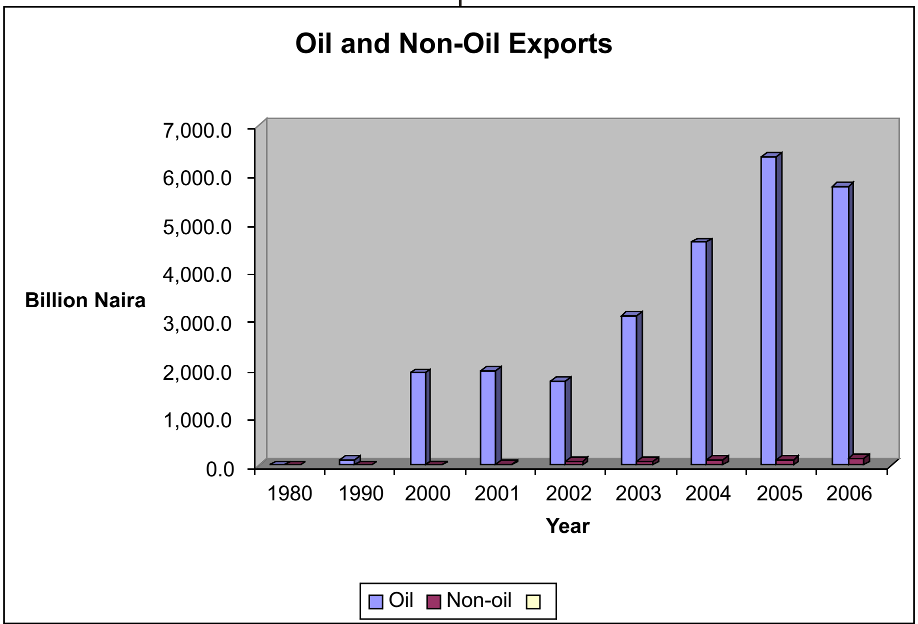


Fig 6



performance of the real sector and the non-export production in particular. The country is blessed with four main sources of energy. These are hydro, thermal, gas and solar energy, yet the nation suffers from unstable electricity supply, persistent shortage of gas for both residential and industrial consumption. The gas shortage is supplemented by import with scarce foreign exchange from crude oil exports. The development of these sources of energy would enhance private production levels as well as costs of production. Entry into public monopolies providing these services presently should be liberalized to enhance private investment and competition and thus ensure stable supply. Of course, it is pertinent to readily admit the determination of the present administration to address the problem of inadequate infrastructural services as well as poor delivery of critical public goods and services. Considerable success has been achieved in eliminating fuel shortages and long queues and wastage of precious hours at the petrol stations. The oil refineries are being revived and production capacity increased in order to reduce foreign exchange expenditure due to import of refined petroleum products. These policy measures would have to be sustained and improved sufficiently to meet international standards to the point of enhancing comparative advantages for production of non-oil manufactures for export.

The government should identify key industries with comparative advantages and high potentials for export penetration encourage private investment for its development while providing export promotion schemes. These may include provision of strategic foreign market services and provision of favourable credit facilities for export producers, export credit insurance and guarantee schemes trade facilitation, etc.

The long-term perspective must address the issue of capacity building and development of intermediate capital inputs. This calls for a new approach in funding of high tech educational institutions and selecting the best scientists and engineers who will be motivated and well remunerated to use their knowledge in the economic interest of the nation, rather than seeking green pastures abroad. The 140 million population provide a strong market for large-scale production and the realization of economies of scale. The West African region offers another window of opportunity for export growth and promotion. The main issue is for Nigeria to recognize and tap the opportunities for development and enrichment of its citizenry.

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