

Chapter 16

CHAPTER

16

Nature of the Nigerian Economy

INTRODUCTION

The economy of a country is made up of the activities that take place in the different sectors. The sectors are made up of industrial, agriculture, education, transport, health, sports, financial, oil and gas, and so on. Trading (buying and selling) takes place within the country and also between Nigeria and other nations of the world, and revenues are earned in dollars, pound sterling, and euros. This chapter dwell on what makes up the Nigerian economy in terms of these sectors.

OBJECTIVES

At the end of this chapter, students should be able to:

- ◆ Explain the nature of the Nigeria's economy in terms of the trading activities;
- ◆ Describe the nature of the Nigeria's economy in the area of agriculture;
- ◆ Explain the Nigerian economic system in terms of its domination by oil;
- ◆ Explain the nature of Nigeria's debt.

16.1 General Overview of the Nigerian Economy

Nigerian economy is a mixed one in that it is neither fully capitalist nor socialist. The public sector in terms of capital formation has been having a relatively larger share. In the modern sector, the public sector is the largest if we isolate the traditional agricultural sector. It should be realised that the constitution of the public sector by definition of Nigeria's constitution includes the civil service, boards, corporations and limited liability companies in which the government has majority equity shares. It has a wider concept than the former constitutional definition. The government includes both federal, states and local governments. The public sector is wider in scope. Another feature is that for the past decades, the economy has been monocultural as oil accounts for about 90% of the federal revenue. Additionally, the economy is so dependent on the external sector, and what happens in the external sector is transmitted to other sectors. Moreover, as the external sector is dominated by oil, oil accounted for about 96% of Nigerian revenue in 2009. Oil prices have dwindled since the 1980s in Nigeria. This has affected Nigeria's federation account. In a country like Nigeria, two-thirds of the labour force is engaged in agriculture, yet a soap manufacturer has to import oil produce. The trend in Nigeria now is to look inwards for the raw materials instead of depending on foreign imports. The debt service ratio (DSR) in Nigeria in 2 years rose from 9% to 17% and was 28% as at 1984.

Another feature of the Nigeria's economy is that the manufacturing sector is still under-developed. The government has been trying through her policy today to encourage manufacturers acquire their raw materials locally. This informed why some companies and most breweries now invest in agriculture. The only company that gets about 95% of her raw materials locally is the tobacco company and every manufacturer can follow the tobacco company model. One of the best things that can be done is to ban all importation of food items for about 2 years. Most of the industries in Nigeria are agro-based and as a result, such industries cannot do better because the base, which is agriculture, has been neglected. So, the Nigerian government is agitating for the production of raw

materials by the industries. Infrastructurally, there is a deficit in Nigeria, such as roads, power generation and lots more. Notably, it is not encouraging that most Nigerian firms and industries still rely on sourcing of power from the acquisition of generators, without which productive efforts will be thwarted.

16.2 Economic Activities

Economic activities in Nigeria show that as at year 2008, the Gross Domestic Product (GDP) accounted for \$183 billion, while the notable agricultural products in Nigeria are cocoa, palm oil, yam, cassava, sorghum, millet, corn, rice, livestock, groundnut and cotton. The industrial (c) Plantation agriculture (d) Shifting cultivation sector in Nigeria produces various items such as; textiles, cement, food products, footwear, metal products, lumber, beer, detergents and car assembly.

16.2.1 Trade

Nigeria, as one of the Sub-Saharan African nations, is the largest trading partner of the United States of America especially due to the high level of petroleum products imported from Nigeria. So, nearly half (about 8%) of Nigeria's daily oil production is exported to the United States. This makes Nigeria the fifth largest oil exporter to the United States. The United States' exports to Nigeria comprises of machinery, wheat and motor vehicles. The worth of such exported goods as at 2008 is \$4 billion,

while the United States' imports from Nigeria in 2008 worth more than \$38 billion which was mainly from oil exports.

16.2.2 Nature of Nigeria's Economy Dominated by Oil

There was oil boom in Nigeria by 1970s and has its adverse effect on notable Nigerian agricultural sector due to neglect. The nation's light manufacturing sector was further neglected in favour of the country's dependence on discovered crude oil. As at year 2002, both oil and gas exports accounted for more than 98% of export earnings and about 83% of the Nigeria Federal Government revenue. The consequence was a total neglect of agriculture by the rural inhabitants, high level of populace migration to the cities and invariably, notable and widespread poverty and high level of corruption. As far back as 1980, there was the collapse of basic infrastructures and social services such as road networks, power generation system and industrial estates.

16.2.3 Agriculture

Nigerian agriculture suffered from non-availability of basic infrastructure, inadequate funding, mismanagement, inconsistent and poorly conceived and poorly implemented government policies. Further, there was poor attitude to practice of agriculture from Nigerians. Despite the above-mentioned problems, the agricultural sector has contributed about 42% of the country's GDP and two thirds of employment generation. On the average, agriculture provides approximately 10% of Nigeria's non-oil growth. It has been observed that with respect to international demand, both poultry and cocoa are two areas where production is lagging behind. Fisheries is also noted to have great potentials, though it was not properly managed by its investors.

This, therefore, had poor returns from its investment. There are many peasant farmers that operate on small portion of land and even in some citizens living houses or compound. Additionally, the land tenure system is one of the characteristic features of Nigeria's agriculture system. The system does not encourage long-term investment even in technology or modern production methods. Neither does it give any opportunity to access to credit facilities.

16.2.4 Nature of Nigerian Debt

Nigeria is indebted to many nations and finance clubs, such as the United States, United Kingdom, Paris Club, London Club and even International Monetary Fund. As at 2004, Nigeria's external debt was 36% of GDP and it reduced to 4% of the GDP in 2007. By December 2005, the United States and seven other Paris Club nations agreed and signed debt reduction agreements with Nigeria worth \$18 billion in debt reduction. There was, however, a provision which states that Nigeria must pay back the \$12 billion owed by March 2006.

Summary

This chapter examined the nature of the Nigerian economy and dwelt on the following topics:

- ◆ General overview of the Nigerian economy.
- ◆ Nigerian economic activities.
- ◆ Nigerian trading activities.

- ◆ Nature of Nigeria's economy dominated by oil.
- ◆ Nigeria's agriculture.
- ◆ Nature of Nigeria's debt.

Class Activities

Students are to ask their parents to describe to them how the Nigerian economy was in the:

- (i) pre-independent,
- (ii) independent and
- (iii) post-independent period.

Revision Questions

Objective Questions

1. The Nigeria's economy can best be described as a:
 - (a) Socialist economy
 - (b) Capitalist economy
 - (c) Mixed economy
 - (d) Controlled economy
 - (e) Domestic economy
2. The magnitude of the national income of a country depends on all the following except the:
 - (a) Quantity of natural resources available
 - (b) Level of technical know-how
 - (c) Mobility of labour
 - (d) Level of productivity
 - (e) Quality and quantity of factors of production
3. The greatest foreign exchange earner for Nigeria before the advent of petroleum was:
 - (a) Mining
 - (b) Handicraft
 - (c) Agriculture
 - (d) Manufacturing
 - (e) Tourism
4. The stability of Nigeria's economy depends mainly on the export of:
 - (a) Groundnut
 - (b) Cotton
 - (c) Cocoa
 - (d) Mineral oil
 - (e) Palm kernel
5. Which of the following are examples of transfer of payment?
 - (a) Gifts and donations
 - (b) Rents and rates
 - (c) Profits and dividends
 - (d) Internal and external debts

Essay Questions

1. Describe the contributions of natural resources to the economy of your country.
(SSCE 1999)
2. Explain the nature of Nigeria's economy in terms of her trading activities.
3. What is the nature of Nigeria's economic activities?
4. In terms of oil, what is the nature of Nigeria's economy?

Glossary

Economic activities: Is the exchange of goods and services that takes place between Nigeria and other countries of the world.

Nigerian debt: Is the borrowing of money by Nigeria from rich nations of the world.

Nigerian economy: Is the composition of the different sectors such as education, health, transport and communication.