EXPORT DIVERSIFICATION: A CASE OF NIGERIAN TRADE

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ABSTRACT

This study investigates the export diversification of Nigerian trade, using a secondary time series data from various sources. Comparative diversification index, unit value index, percentage share and the real value of export were used to analyze the trend of Nigerian export. Overall evidence is strong and clear that over the years of the study, Nigerian export has not achieved significant diversification. Although the trend of the concentration index has been declining over the years still yet, it would be considered insignificant. The country's export sector has remained basically the same over the years and remained highly dependent on fuel and mineral resource.

Key Words: Export Diversification, Oil and Non Oil Export, Dutch Disease

INTRODUCTION

The modern development, is the main cause crumbling of communism in several nations and the opening up of the centrally planned economies for internalization have given a substantial momentum to international trade which has been gathering more impetus from most of the countries. This is due to the strong contemporaneous relationship between international trade and its positive collision between economic growth and development. The significance of international trade cannot be over emphasized as the world economies are integrating and conceivably globalization is taking place day by day a nation can't perform all economic activities alone. International economics still continues to flourish today because of the analytical policy issues which still demand attention in recent times. Traditional trade and export theories have always emphasized on factor abundance, factor intensity, cost and comparative advantage as a prior consideration among export trading partners which reflect on the basis of international economics as a study which deals with issues of adjusting between limited resource and ends at the international level. Nevertheless, the traditional growth and models also laid emphasis on effective combination of physical factors as an important catalyst for growth. (Jhingan , 1985) . The process of which growth is attained through expansion could be traced through various empirical findings of the traditional theories of international trade, where diversifying export expands a country production base and countries with factor intensities get comparative advantage and therefore gain specialization. The experience of the south East Asian nations highlighted the strong coexisting relationship between export diversification and growth. And of recent years the spectacular growths of some African countries like Mozambique, Ethiopia, Rwanda, and Ghana among others. Which have different sources of commodity export such as coffee, cotton, cacao, sugar, palm oil, and copper which contribute to the country's gross domestic product (World Bank, 2012)

Nigerian economy was dominated with agricultural export which includes: cocoa, palm oil, cotton, and grains such as maize, wheat and other cash and food crops in large commercial quantities which have been exported across various West African countries and even outside the Continent. This use to be the major source of foreign exchange to the country and about 3 to 4 per cent annual growth has been recorded and indeed current account fiscal balance was maintained. After the exploration of crude oil in mid-1970, it was found that the crude oil was very light and high quality and hence it could be exported in large commercial quantity. This lead to the neglect of the old existing traditional agricultural export however agricultural export began to decline rapidly were average annual growth rate of agricultural export decline by about 17 per cent and the overall agricultural export as a percentage of the total export decline from 43 per cent to slightly above 7 per cent and so it continues. (Osuntogun, 1997) The major reason for this was the "oil shock" the embargo placed by the Arab crude producing countries on the western countries over the crisis of the Israel war in mid 1970s. And Nigeria recorded a massive patronage on oil export by the western countries which generate a huge revenue to the ever since. The oil boom afflicted the economy is what is referred to the "Dutch Disease"! This phenomenon is the basis for the study, for the simple fact natural resource such as crude oil are exhaustible in nature with high vulnerability on the international market and cannot be reliable as the only means for economic growth and sustainability (Harbeger, 1983). It is generally known that United States of America and other large emerging economies like china, India consume over 80 per cent of the world crude oil, also with the recent technological progress and the inception of Nano technology where research are still on progress of extracting crude source from crops inform of oil seeds bio fuels. The feature forecast of a mono cultural economies like Nigerian who depend on single commodity as a means of generating foreign exchange would be in a dark looms . Therefore the need to diversify export becomes necessary for long lasting sustainability and a stable growth and also reaps the benefit of other avenues which are left unutilized. Export diversification has suddenly moved back to center stage in development concerns, both because of the new urgency because of the need to reduce Income fluctuation and vulnerability for nations whom depend basically on one or two sectors. Expanding international trade has been an important avenue for growth in many developing countries and export diversification is seen by many as an important channel through which trade serve as engine to economic growth; by facilitating improvements in productivity, by Capturing economies of scale, and by removing volatility since the 1950s, diversifying out of primary products into manufactures has been a Major policy objective of developing countries.

(Hesse, 2006) The process of export diversification is one of structural transformation where countries move from producing "poor-country goods" to "rich-country goods". In many developing countries, domestic demand is often very low, so exports remain one of the few channels that in the longer run significantly contribute to higher rate of per capita income growth in a country

The main objective of the paper is to find out the export diversification of Nigerian economy. The scope of this study is limited to oil and non-oil export of Nigerian economy from 1995-

2012. The research methodologies were comparative Diversification index; percentage share and annual growth rate are used with time series data from various authentic sources to capture how export diversifies and the level of concentration. The Absolute deviation of the country commodity shares, which is widely used by UNCTAD, measures the extent of the difference between the structures of trade of a particular country and the world average.

Data's obtained in this study were purely time series from various sources which include: United Nations Conference on trade and Development (UNCTAD), Nigerian Bureau of Statistics (NBS), World Trade Organization (WTO), World Integrated Trade Solution (WITS)

EXPORT DIVERSIFICATION OF NIGERIAN ECONOMY

In the early 1960s, Nigeria was the most preferred investment destination in sub-saharan Africa, exportation of agricultural products was the most active means of foreign exchange with major cash crops such as cocoa, cotton, rubber, grains and other edible commodities and basically 3 to 4 per cent annual growth rate and full fiscal balance was maintained. The Nigerian economy was essentially a free enterprise economy during the pre-colonial period, with agriculture as the mainstay of the economic activities in the country. Industrial activities were limited to indigenous small scale manufacturing activities mostly in the area of textile and clothing, furniture making, food and beverages and the like. During the colonial times some small scale industrial activities were introduced mainly processing primary commodities for exports and manufacture of consumer goods. After independence, the country continued as an agrarian economy with heavy reliance on primary commodity exports. The commodities exported included cash crops such as cotton, groundnut, rubber, cocoa and several other agricultural products, and a few mining products such as metal ores, copper, columbine etc (Fagbenro 1999)

The discovery of oil in commercial quantities in 1970s and the implications of the Arab-Israeli war where Arab countries imposed oil embargo on crude oil exports to several western countries helped Nigeria emerged as a major oil exporter to the western nations. Exports revenues surged dramatically as a result and thus the neglect of agriculture. The over reliance on crude oil exportation was made clear in the current account balance whose oil component expanded at average annual growth of 58 per cent from 1971 to 1980. Therefore since 1970s Nigeria continued as a mono-cultural economy from agrarian based economy to oil based economy, relying heavily on crude oil exports as a source of foreign exchange earnings. A number of initiatives were made to diversify the productive base of the economy through the National Development plans since the immediate post- independence period by investing heavily on critical infrastructures. These plans were implemented in order to stimulate industrial activities in the country and thus reduce over dependence on imported manufactured and intermediate products. However little results were achieved and thus the country continued to rely on primary commodities exports to generate the foreign exchange required to finance imports of industrial machineries and other consumer goods. In 1982, there was a heavy drop in oil income and the current account balances dropped by 22.7 per cent in 1982 and further by 14-16 per cent in 1983. The serious fluctuations in the prices of crude oil during 1980S led to a serious decline in Nigeria’s ability to generate foreign exchange needed to financing imports and there was a balance of payment crisis and a serious decline in economic activities in the country. By 1986 the overall capacity utilization in the Nigerian manufacturing sector was 38.8 per cent as against 77.4 per cent a decade earlier. The over-reliance on crude oil exportation becomes clear in the external sector trends. The current account balance of the nation inflated with the oil revenue trends reflecting import expansion as income from exportation of oil rises. The desire for importation reflects in the current account balance whose oil component expanded by an annual average of 57.7per cent during 1971 to 1980, 43.0per cent in 1981-1990 and 40.3per cent in 1991-1998 In order to solve the balance of payment crisis and stimulate economic activities in the country, the Structural Adjustment Program (SAP) was introduced in 1986.

Table1.1: PERCENTAGE SHARE OF DIFFERENT COMMODITIES OF NIGGERIAN EXPORT

Source: Nigerian Board of Statistics (Baased on SITC Classification)

	YEAR	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
0	Food and live animals	0.62	0.02	0.02	0	0.05	1.31	1.01	3.9	2.35	1.4
1	Beverages and tobacco	0	0	0	0.06	0	0.09	0.09	0.24	0.25	0.2
2	Crude inedible materials-fuel	0.33	0.01	1.62	0	0.37	1.04	1.14	1.61	3.02	6.7
3	Mineral fuel lubricant	93.84	97.9	94.04	99.23	92.74	94.9	91.99	89.9	87.12	88.9
4	Animal and veg oil, waxes	0	0	0	0	0	0	0	0	0	0
5	Chemicals and related products	0.15	0.05	0.01	0.04	0.13	0.29	1.4	0.63	0.62	0.2
6	Manufactured good by materials	1	0.18	0.32	0.02	0.05	1.27	1.36	1.68	4.6	1.2
7	Machinery and transport	3.34	1.79	3.96	0.61	0.82	0.46	2.63	1.11	1.18	1.2
8	Miscellaneous manufactured	0.72	0.05	0.03	0.03	0.14	0.68	0.38	0.4	0.81	0.2
9	Commodities NES	0	0	0	0	5.71	0	0	0.52	0.04	0
	TOTAL percent	100	100	100	100	100	100	100	100	100	100

Table 1.1 depicts the Nigerian export in percentage share of commodities. Mineral fuel and lubricant have been the major export carrying more than 90 per cent of the total export while other categories of commodity export share across the remaining 10 per cent. The table reveals the trend of exports shares by the standard international trade categorization (SITC) with 10 sub categories of commodity export ranging from zero to nine. Categories like waxes, oil fat, commodities not else were specified (N.E.S) and others like beverages and tobacco remain basically in active in the country's export as for most of the years their shares are remain less than 1 per cent.

In trade literature, there are various ways to measure export diversification. The measures of diversification which are commonly used are: the Concentration Ratio (Product or geographic concentration) (Absolute comparative diversification index). Other measures frequently used are: the Commodity-Specific Cumulative Export Experience Function (CSCEEF), The Absolute comparative Diversification of a Country Commodity Shares.

Table 1.2 depicts comparative diversification index for Nigerian export from 1995 to 1996 and the indication whether a trade structure of an economies are similar or not. It is computed by measuring absolute deviation of product shares between the country export product and another. The diversification index signals whether the structure of exports by product. The index ranges from 0 to 1. It reveals the extent of the diversification, a value closer to 0 implies higher diversification, and a value closer to 1 implies low diversification of the traded goods in the country. The results obtained in the above table show the comparative export diversification index for Nigeria covering the period from 1995 to 2012. The figures obtained for the indices ranges from 0.89 to 0.78 and an average index of 0.85 for the period under study. This shows that there has been very little or negligible achievement in Nigeria’s export diversification drives.

Table1.2: Comparative Diversification Index for Nigerian export (1995-20012)

YEAR	NIGERIAN EXPORT(Mil USD)	DIVERSIFICATION VALUE
1995	11734.4	0.89
1996	16117	0.88
1997	152073	0.88
1998	8971.18	0.89
1999	12876.3	0.88
2000	19132	0.88
2001	17991.8	0.87

2002	15613.4	0.86
2003	23976	0.87
2004	34766.2	0.87
2005	55201.6	0.85
2006	56934.9	0.83
2007	66039.6	0.85
2008	85729.3	0.82
2009	56120.8	0.84
2010	76733.4	0.80
2011	92503.9	0.80
2012	96237.9	0.78

Source: UNCTAD

Much information can be deduced from this analysis. First; the country has virtually remained a primary commodity exporter with high dependence on crude oil export. Secondly; expansion and value addition on traded commodities in the country was not achieved satisfactorily and this was mainly due to the failure of the various government schemes and programs. Although several policies were initiated to diversify the productive base of the economy over the past two decades, (like the National Economic Empowerment and Development Strategy (NEEDS), the Transformation Agenda etc.), the desired results has not been achieved. This goes in line with the Dutch Disease syndrome where a major primary commodities exporter fails to diversify its economy and continues to rely heavily on the commodity exports.

Table 1.3: NIGERIA's EXPORT AND CONTRIBUTION TO WORLD EXPORT FROM 2000- 2012

Year	**Nigeria's Export USD MIL**	**WORLD EXPORT (USD MIL)**	**PERCENTAGE SHARE OF Nigeria EXPORT/TOTAL EXPORT**	**ANNUAL OF NIGERIA EXPORT**
2000	19132	6431490	0.30	

				0.49
2001	17991.8	6170045	0.29	-0.06
2002	15613.4	6396373	0.24	-0.13
2003	23976	7469752	0.32	0.54
2004	34766.2	9083415	0.38	0.45
2005	55201.6	10377133	0.53	0.59
2006	56934.9	11992084	0.47	0.03
2007	66039.6	13884518	0.48	0.16
2008	85729.3	15968829	0.54	0.30
2009	56120.8	12409682	0.45	-0.35
2010	76733.4	15138616	0.51	0.37
2011	92503.9	18124950	0.51	0.21
2012	96237.9	18214681	0.53	0.04

Source: UNCTAD

Lack of infrastructural capacity and other socio political rigidities this has made the country mono-cultural economy relying solely on crude oil export as the major source of foreign exchange earnings. Lastly, the trend of diversification showing a continuous decline from 0.89-0.78 Although the average concentration ratio is still very high 0.85, the decline in the trend in the concentration ratio may be due to various efforts made by the government to enhance and support diversification which still prove abortive.

Table 1.3 explores the Nigeria export and their share in the world market and the share of Nigeria's exports in total world exports. The table indicates that Nigeria has recorded a positive trend in its share of global exports since the year 2000. The share of the country's exports in the total global exports rose from 0.30 per cent in 2000 to a margin of 53 per cent in 2005, and then later decline to .47 in 2006. This share then took on a rising trend since 2007 and stood at 0.53 per cent in 2012. This trend could be explained by the sharp increase in the prices of internationally traded commodities since 2001, with the price of mineral fuels recording the highest increased over the period. The exports revenue generated by the oil exporters has increased significantly, thus affecting their share in total world exports. Nigeria is one of the first seven top oil exporters worldwide and its share in world export revenue has grown rapidly between 2000 to date. However it is imperative to note that the increase in the Nigeria's exports revenue over the past decade is rather the result of the commodities price increase and not from increase production and exports. The country has grappled with production bottlenecks arising from increasing level of insecurity in the oil producing regions, oil pipeline vandalization and corruption in the oil sector. This often brings total production well below the capacity level, leading to loss of export revenue.

Figure1.1 PERCENTAGE SHARE OF NIGERIAN EXPORT TO WORLD TOTAL EXPORT

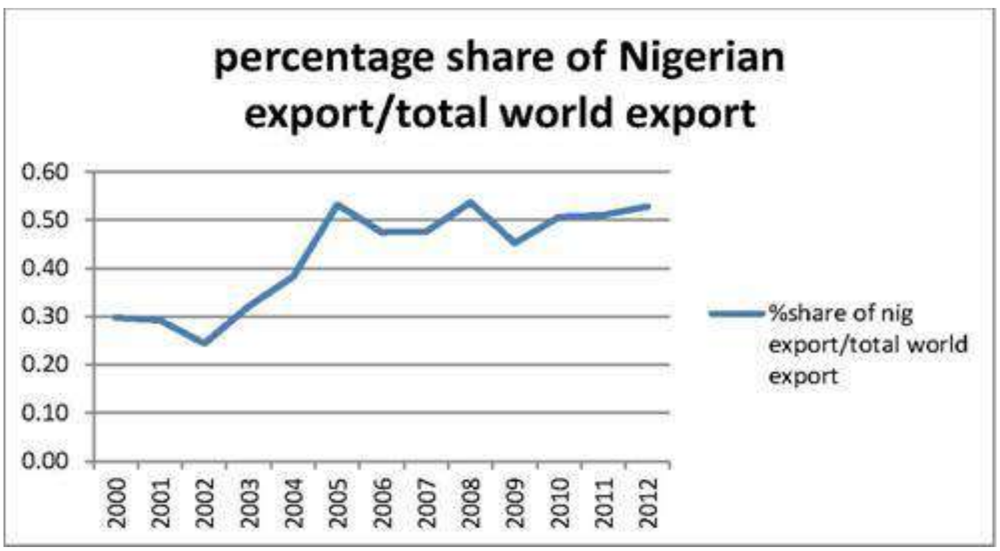

Fig 1.1 shows the percentage share of Nigerian export in the world total export. The percentage share of Nigeria in total world export has been increased from 0.30 to around 0.5 from 2000-2006 and since then there are no major changes has been occurred.

Figure 1.2: ANNUAL GROWTH RATE OF NIGERIAN EXPORT FROM 2000-20012

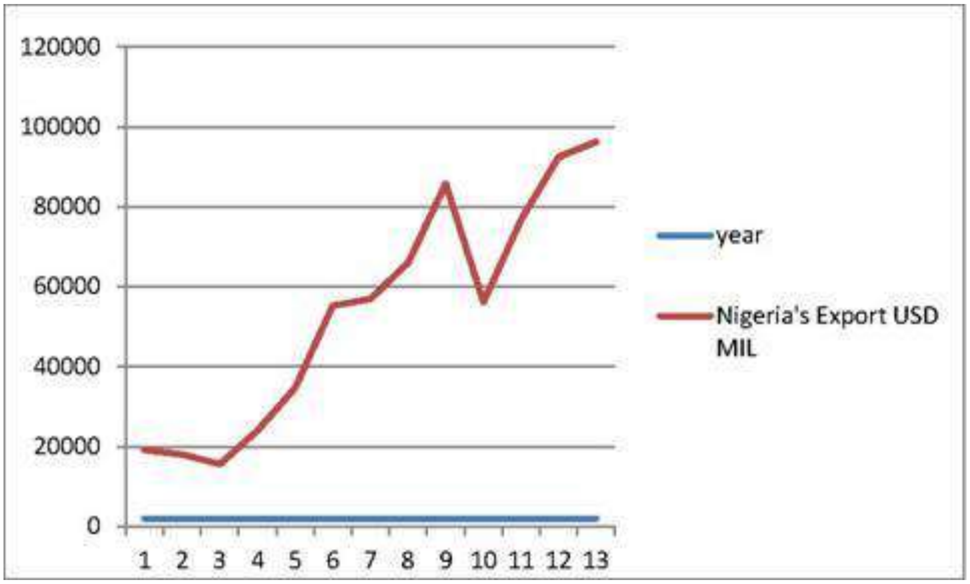

Fig 1.2 shows the annual growth rate of Nigerian export from year 2000 -2012 which reveals a lot of spikes within the covered period. The reason for the short fall in growth rate can be attributed to increase in commodity export share of the neighboring countries like Angola which is also an oil based economy, Ghana has also joined the oil club in with its first commercial output in 2011 .However, the period 2009 was synonymous to the global economic recession which affect practically all countries whom revenue was vulnerable to international market prices. Furthermore, the year 2011 and 2012 experience a decline in annual growth which was due to the oil spill and pipe line vandalization across the various oil producing states which lead to a decrease in quantity of exports in those years.

Table1.4: THE NIGERIAN EXPORT PERFORMANCE FROM 2000 TO 2012

YEAR	NIGERIAN EXPORTS (IN MIL USD)	UNIT VALUE INDEX VALUE(2000)BASE YEAR	REAL VALUE OF NIGERIAN EXPORT
2000	19132	100	19132
2001	17991.8	86.03	2091316
2002	15613.4	85.7	18219.3
2003	23976	114.6	20927.00
2004	34766.2	184.2	18876.6
2005	55201.6	240.6	22942.8
2006	56934.9	279.9	20335.3
2007	66039.6	317.5	20335.3
2008	85729.3	411.3	20842.7
2009	56120.8	270.5	20745.4
2010	76733.4	400.5	19160.5
2011	92503.9	545.9	16945.6
2012	96237.9	543.5	17706.9

Source: UNCTAD.COM

Table 1.4 contains the real value of export is computed by taking the Nigerian total value of export over the unit index value times 100 Taking year 2000 as the base year. This reveals the true value of Nigerian export in real term which indicates that the country has a corresponding increase in the external sector revenue as compared to the vales of export in nominal figures. Thus, it can be concluded to say that in absolute terms Nigerian exports remain within a certain range of 17706 million dollars to 229million dollars over the years.

CONCLUSION

Overall evidence is strong and clear that over the years of the study, Nigerian export has not achieved significant diversification. Although the trend of the concentration index has been declining over the years still yet, it would be considered insignificant. The country's export sector has remained basically the same over the years and remained highly dependent on fuel and mineral resource. And any decrease in the prevailing market prices of those commodities or a short fall in their production tends to affect the economy as it is the major source of revenue. The global economic crises bring a spillover effect which is an issue of concern to the Nigerian economy .the over reliance on few exports makes the country vulnerable to fluctuation in international commodity prices. In terms of the sociopolitical challenges in Nigeria, the primary challenge is the prevalence ineffective governments. Despite international headlines, armed conflicts and political instability have become frequent occurrences in the recent years. Political and religion fundamentalism has become a norm in Nigeria, and there are increasingly more examples insurgent and religious sects. the key business indicators remains one of the most difficult in the country, suffering from high corruption, shortages of key skills, stop-go policies, poor regulations and labor union issues. Most operators in Nigeria will agree that the poor state of physical infrastructure, especially electricity and transport, is one of the biggest impediments to business. For instance, Nigeria, with a population of 170 million, has the same power capacity as Hungary, with a population of less than 10 million. These issues have also had a profound effect on investors. (Economist 2012)

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