NIGERIA IN CONDITIONS OF INTERNATIONAL COMPETITION: ECONOMIC PROBLEMS AND PROSPECTS¹

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Purpose: the author aims to outline the current state of the national economy of the Federal Republic of Nigeria, to determine the potential and prospects for its development, taking into consideration the activities of foreign business. Discussion: the author identifies and analyzes the most priority sectors as well as industries with high growth potential, strengths and weaknesses of the Nigerian economy. Results: the author concludes that Nigeria, if implements its plans to diversify the economy, develop sectors such as agriculture, the infrastructure complex and a number of others, removes obstacles that impede the work of foreign companies in the local market, may become a major economic power in the African continent. It is concluded that the reforms carried out by the country’s leadership open up additional opportunities for foreign companies, including Russian, all of which will further very problematically increasingly compete for the Nigerian market.

Keywords: Nigeria, Africa, potential, competitiveness, international competition, investment, FDI, trade, natural resources, population, agriculture, land, infrastructure.

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1. Introduction

The clash of economic interests and the active struggle of a number of states, particularly China, the US, the EU member states (France and Germany), India, on the African continent are caused by the desire to gain access to almost unlimited reserves of mineral resources, a capacious market for products, cheap labor force [5].

Already today, the rivalry is taking place in most African countries, but primarily in the countries with the greatest economic potential. One of such

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states is Nigeria (FRN), whose national economy forms about 20% of the GDP of the entire continent and 75% of West Africa’s GDP [3].

2. Discussion

According to some forecasts, the African continent in general and Nigeria in particular have all chances to turn into the world’s largest manufacturing center, where the enterprises currently located in China will be concentrated [2]. One of the consequences of such transformations could be flow of about 85-100 million jobs from China to Africa by 2030 [20].

It is expected that by 2030 the consumption of food and beverages in the states of the continent will increase (up to USD 740 billion); the local population’s spending on education and transport will grow significantly (up to USD 397 billion), healthcare and ICT sectors will develop intensively (up to USD 175 billion and USD 65 billion, respectively). The financial services market capacity will reach USD 85 billion [20]. In the coming years, the greatest growth in demand for products and services, in our opinion, will be observed in Egypt, Morocco, in a number of sub-Saharan African countries, especially South Africa, as well as in resource-rich countries, to which the FRN belongs.

In 2018, Nigeria’s GDP at PPP amounted to USD 1.12 trillion (2nd place in Africa) [17]. Experts predict that the growth rate of real GDP in 2020-2023 will be 2.6%, and by 2050 the country’s economy will grow by 4.2 percentage points on average per year [15]. By 2050, Nigeria is expected to occupy 14th place in terms of GDP among all national economies in the world [22].

The basis of the Nigerian economy today is the extraction and export of significant reserves of mineral resources, hydrocarbons. In addition, the national economy is characterized by high agricultural, mining and, of course, human potential, and the country has an advantageous geographical position (access to the sea, location at the crossroads of West and Central Africa) [13].

Nigeria has reserves and deposits, which are currently are being developed and exported, such as: coal, gold, bitumen, iron ore and uranium, as well as oil (Nigeria ranks second in Africa in terms of oil reserves) [10]. In addition to the opportunity to advance the national economy through the influx of petrodollars, all these resources allow the country’s government, as in a number of other states, to guarantee the satisfaction of the minimum needs of the population without harming future generations demand [1].

Currently, the number of citizens of Nigeria is 193.9 million people [15]. According to forecasts, by 2030, more than half of the African population will live in seven countries, one of which is Nigeria (other states are the DRC, Egypt, Ethiopia, Kenya, Tanzania and South Africa); and by 2050, according to UN experts, the Nigeria’s population will double [19, 20]. It is worth noting that the growth in the number of citizens and the middle class today has a positive effect on strengthening the diverse services market, the share of which in the GDP is about 50% (while the fuel-and-energy sector forms only 10% of the state’s GDP) [3]. The two factors identified above are expected to become the key...
drivers of the household consumption increase to USD 500 billion in 2030 [20].

As for land resources, the share of agricultural land, according to the latest data for 2015, amounted to 77.7% of the country, in the same year arable land reached 37.3% [4, 7]. Of the total arable land, only 40% was cultivated, i.e. about 15% of the country, which in our opinion is a fairly modest indicator [16]. At the same time, Nigeria, along with six other African states (Burkina Faso, Ethiopia, Mali, Mozambique, Rwanda and Tanzania) in recent years have shown the greatest growth in agriculture, and the share in the country's GDP in 2016 amounted to 24% or USD 55 billion (for comparison, in South Africa the figures were 2.4% and USD 20 billion, respectively) [18, 20]. All that demonstrates, that the agricultural sector has a significant role in the economic development of Nigeria. Moreover, the government of the country believes, that this industry can compensate for the loss of income from lowering energy prices. In addition, local authorities are focused on ensuring the food security of citizens: currently, food imports are estimated at USD 11 billion a year, which makes Nigeria dependent on third countries [3, 12].

We should also mention another prominent sector – the film industry: in terms of sales of relevant products, the country is second only to Bollywood in India, and in the future, film production may become the «new oil» for the Nigerian economy. In addition, the industry also has a related goal – the formation of a favorable image of the state in the international arena. That, in turn, may allow to develop trade and investment cooperation, to attract foreign business to the economy [10].

In 2017, Nigeria was among the five key countries (along with Ghana, Egypt, Ethiopia, Morocco) on the African continent, that received the bulk of foreign investment [25]. This was facilitated by both the above-mentioned advantages of the Nigerian economy, and such competitive factors as: the attitude of local businesses to entrepreneurial risk, ease of hiring employees, relatively well developed customs and tariff policy, labor mobility within the country, ease of resolving conflicts of interest [21].

Same year, FDI inflows amounted to USD 3.5 billion, export of capital from the country – USD 1.3 billion. In 2018 – USD 2.0 billion and USD 1.4 billion, respectively [8, 25]. The main investor countries in the national economy of Nigeria were the US, China. In the case of the United States investments were made by companies – developers of innovative products and solutions, in particular, Uber, Facebook, Emergent Payments and Meltwater Group. As for Chinese firms, they struggled to develop the textile, car assembly plants, as well as the aerospace industry and were aimed at efficiency growth and, as a result, high returns on invested capital. The attention of another country – South Africa – was attracted by high-tech startups [25].

Despite a slight decrease in capital inflows over the past two years, accumulated foreign investments in 2018 reached almost USD 100 billion, which was USD 10 billion more than in 2015. In addition, in 2018 compared with 2017,
the number of proposed (announced) investment projects in Nigeria increased 1.6 times (from 4.8 thousand to 7.6 thousand), which indicates, in particular, the interest of the Nigerian side in diversifying the economy, creating new industries and expanding the production base [8, 25]. It should be noted that the available data indicate the demand for foreign capital, especially in the field of production infrastructure, which is much higher than the supply [6, 11].

Separately, it makes sense to focus on such an indicator as return on investment. In 2017, in African countries, the return was 6.3%, and only in Southeast Asia the rate was higher and reached the level of 10.1%. In other regions, the indicator was lower than in Africa: in developed countries – 5.7%; South Asia – 5.7%, Latin America – 5.6%, West Asia – 3.4% [25]. In Nigeria, in 2011, the rate of return on invested capital reached 36%, which was one of the highest values for the entire African continent (only Angola surpassed Nigeria) [9]. Thus, if certain risks and instability to a certain extent, which will be discussed below, were excluded, Nigeria would be highly more attractive to TNCs.

It is necessary to outline the difficulties that the Nigerian national economy is experiencing today. These include, in particular, the unstable macroeconomic situation due to the extremely high dependence on hydrocarbon trade and, accordingly, the level of energy prices (90% of revenues are formed by hydrocarbon exports in foreign markets), insufficient production, processing and energy capacities, ethnic and religious tensions, a high level of physical danger and corruption, a lack of information about the country's economic development opportunities, high risk expectations [13].

Due to the lack of confidence in the business community, 75% of corporate transactions in Nigeria are currently carried out in cash on a day-to-day basis. If they were made with a deferred payment, for example, in 30 days, about 11 billion US dollars would go into circulation. That would be an additional stimulus for economic growth.

In addition, the lack of infrastructure facilities, as well as their untimely commissioning, is due to mismanagement, especially at the regional level. This, in turn, leads to the caution of investors, who consider the various sectors of the infrastructure complex as an area of application of their capital. Experts believe: if the ratio of investment to GDP would reach 30%, and the capital would be directed to the infrastructure, the volume of gross domestic product would increase by at least USD 70 billion [14].

3. Conclusion

In recent years, the government of Nigeria, a country with significant economic potential, has been energetically developing various sectors of the economy: the focus is not only on fuel-and-energy and mining, but also on such sectors as the agriculture, infrastructure, film industry, and others. The state’s leadership expects that diversification and economic growth, the influx of investments will lead to a deepening of foreign economic relations and an improvement in the welfare of a significant number of citizens.
In our opinion, the government primarily should focus not only on the development of plans and their implementation, but also on the elimination of deficiencies in the management of the national economy, reduction of the entrepreneurial risks, more extensive provision of information about the planned projects (that are of fundamental importance for the development of the country's economy) to the interested business circles.

Despite the noted negative factors, which to some extent still hinder the accelerated development of the country’s economy as well as the new foreign investments and the expansion of trade relations with existing and prospective partners, we believe, that Nigeria will gradually be of increasing interest to foreign companies, including Russian, aimed at the expansion of international business and penetration to new markets. Over time, the struggle for this market will only intensify.

It is also important to bear in mind that the FRN itself (along with Egypt, another strong player in Africa) is aimed at strengthening the national economy in order to increase its economic weight both in the subregion and throughout the continent [23, 24]. If the country succeeds in implementing the national plans, it can become an economic leader with great political influence in Africa, which implies a change in the geo-economic landscape of the continent. This should be taken into account both by Russian state authorities and representatives of business community.

References


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НИГЕРИЯ В УСЛОВИЯХ МЕЖДУНАРОДНОЙ КОНКУРЕНЦИИ: ЭКОНОМИЧЕСКИЕ ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ

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Цель: автор ставит цель очернить особенности текущего состояния национального хозяйства Федеративной Республики Нигерия, определить потенциал и перспективы ее развития в условиях международной конкуренции, в том числе с учетом деятельности зарубежного бизнеса.

Обсуждение: автором проведен анализ, выделены наиболее приоритетные отрасли с высоким потенциалом роста, сильные, а также слабые стороны экономики Нигерии. Результаты: автор приходит к выводу, что Нигерия в случае реализации намеченных планов по диверсификации экономики, развития таких отраслей, как сельское хозяйство, инфраструктурный комплекс и ряд других, устранения имеющихся препятствий, затрудняющих работу зарубежных компаний на местном рынке, может стать ключевым игроком на Африканском континенте. Сделан вывод о том, что проводимые правительством страны реформы открывают дополнительные возможности для зарубежных компаний, в том числе и российских, которые будут со временем все больше конкурировать за нигерийский рынок.

Ключевые слова: Нигерия, Африка, потенциал, конкурентоспособность, международная конкуренция, инвестиции, ПИИ, торговля, природные ресурсы, население, сельское хозяйство, земельные ресурсы, инфраструктура.

Список источников


