

GLOBAL SHOCK ON NIGERIA AGRICULTURAL DEVELOPMENT –TRENDS AND CONTROL MEASURES

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ABSTRACT

Governments of both developed and developing countries have to focus on the bailout strategies for different sectors of an economy and more attention for financial sector in particular through expansionary fiscal policy couple with fiscal deficit. Despite the effort of central bank to normalised the upward pressure on the exchange and interest rate through momentary policy approach, profitability or gain from firms decline and resulted to decrease in savings, effective demand for labour and investment. Now the question arises what the shock means for agriculture sector? With special references to developing agricultural sector like Nigeria.

Keywords: Global, Shock, Agriculture, Development and Nigeria

INTRODUCTION

Agriculture constitutes significant sectors of Nigeria economy. The roles of agriculture in the country economic development have been discussed extensively by many authors (Olayemi *et .al* (2009)). In fact, in most periods, economic growth in the country has been highly correlated agricultural progress. Amongst the many role ascribed to the agricultural sector are the provision of food, contributing to Gross Domestic Product (GDP), provision of employment, provision of raw materials for agro- allied industries and generation of foreign earnings. Nigeria agricultural sector is known to have performed virtually all these aforementioned roles. The sector is significant, particular in terms of employment of labour, contributed to GDP and, until the early 1980s, agricultural exports were the main source of foreign exchange earnings. However, over the past three decades, the sector has undergone some rapid changes, which affect its roles significantly.

Although some the rapid changes in agriculture in Nigeria can be inferred from the genesis of the present world economic crises that occur due to irrational exuberance of the world financial sector. Excessive credit, supported by high leverage of financial sector and huge trade deficit led to overconsumption and created huge liquidity in world economy. This liquidity surfeit was chasing assets all over the world and stock prices were ballooning, followed by shortage of food and commodities. Once commodity shortage began to push up commodities price, liquidity started chasing commodity future and this triggered a series of events, now known as sub-prime crises and global shock.

Similarly, an obvious case was witnessed in 2007 when the substantial rise in food prices occurred and caused food riots in several cities, frequently in developing economy in the world. This affects stability of agricultural sector and staving off economy turndown.

The origin of the global financial and economic crisis in general is the emphasis by these economic powers on building and maintaining large but economically unproductive and expensive military industrial complexes for waging wars (Gadu, 2009). Another major cause of the global crisis was the observed benevolent policy of the United States of America to extend the American dream to the citizens by spreading home ownership after the terrorists' attack on the country on September 11, 2001 (Aluko-Olokun, 2009).

It was believed that the global economic meltdown began with the bursting of the United States housing bubble and high default rates on the "sub-prime" and adjustable rate mortgages in the periods 2005 and 2006. An increase in loan incentives such as easy initial terms and long-term trend of rising housing prices encouraged borrowers to assume difficult mortgages, believing they could easily re-finance at those favourable terms. But by 2006, interest rates had begun to rise with housing prices dropping moderately as re-financing became more difficult. Over time, foreclosures became widespread as easy initial terms expired and house prices failed to rise according to expectations.

The foreclosures in the United States went up sharply between 2006 and 2007, triggering a global financial crisis that has now assumed unprecedented dimensions in the form of global economic meltdown. Also, Nigeria has also seen their currencies devalued, making it more difficult to service their external debts and they have also experienced declines in the rate of growth of their gross domestic products. Unemployment rates in Nigeria are raising as factories close and new entrants to the labour force chase scarce jobs. These have adverse social effects, including increases in poverty and the inability to meet social goals of health care, education, water supply and environmental protection and agriculture especially when personal income and government budgets are reduced by the financial crisis.

Table 1. Trend Analysis of economic global crisis on investment in agriculture sector in Nigeria, 2000 to 2010

Year	Real GDP (N' million) [1990 = 50]	Balance of Trade (N' million)	Cumulative Investment In Agriculture sector (N' million)	Savings Ratio*	Liquidity Ratio**
2001	243,179	960,701	157,501	7.1	65.8
2002	324,914	509,774	161,440	9.3	50.9
2003	433,204	231,482	165,632	7.6	52.5
2004	455,733	1,007,651	178,279	7.5	50.4
2005	517,546	2,615,736	244,221	6.0	51.0
2006	560,931	4,445,679	324,657	8.0	50.2
2007	595,822	2,910,504	483,239	9.2	55.7
2008	714,251	3,733,208	552,499	11.1	47.8
2009	772,203	3,553,061	394,842	15.9	45.3
2010	816,950	3,610,251	440,275	22.3	32.7

Source: Central Bank of Nigeria Statistical Bulletin, 2010

Note: * Total savings as ratio of GDP at current basic prices

** The ratio of total specified liquid assets to total current liabilities

Table 1 illustrates the deepening effects of the global crisis on growth of the Nigerian agricultural sector contribution to the economy, the real rate of growth in Gross Domestic Product (GDP) has indicated sharp decreases, same observation for both balance-of-trade and cumulative investment in agriculture. The trend in liquidity ratio show sharp decreases, indicating an unhealthy environment in Nigeria agriculture banking such as cooperative bank, and the economy as a whole.

Olayemi *et.al* reported in year 2009 that real rate of growth in the Gross Domestic Product (GDP) fluctuated in year 2000 to 2004 and decreased in year 2005 to 2009 at abnormal margin due to global crisis. Similar result was observed by Aluko- Olukun in year 2009 but the only difference was that he make used of nominal rate of growth in Gross Domestic Product (GDP).

In addition, Khor Martin (2009) studied “Effects of the Global Economic Crisis on Developing Countries with special reference to agricultural sector. The finding was similar to Olayemi *et al* (2009) findings because all the developing countries experience sharp decrease in the rate of growth in Gross Domestic Product (GDP) except Ghana. The stability in Government policy and stable electrification were responsible for increase in the rate of growth in Ghana Gross Domestic Product (GDP).

Control Measures

Agriculture remains the only hope of getting out of the global economic crisis in the country, according to Dr Abba Ruma, the Minister of Agriculture and Water Resources. He said at the inauguration of the board of River Basin Development Authorities (RBDA) in Abuja on Tuesday that the sector offered opportunities for achieving food security in the country. "In face of the global financial challenge and global warming, the only option and solution open to us is the utilisation of our water resources (Vanguard, 16 April 2009)

The minister said budgetary allocations to river basin authorities had increased from N11 billion to N17 billion, while funding for agriculture had also improved. He urged the board members to strive to meet the challenges and remove any distraction that would not make them to function well. Ruma said they should also avoid any conflict between the management of the River Basins, and not be distracted by unnecessary issues, particularly relating to procurement.

Also, existing goods storage policies of Government are largely a failure partly because they rely heavily on public-sector initiative and on large scale storage operations that are based on imported technologies. A new goods storage policy is required, it need to emphasize on small-scale goods storage operations by farmer at farm level, traders and good processors through economic incentives to the private sectors. It is also necessary to promote private investment in large-scale commercial goods storage through provision of support either in cash or in kinds, it will relief the heavy financial burden on the investors.

Social and infrastructure programmes policies are required for good functioning of agricultural commodities future market. It relief both producers and consumers from problem associated procurement of inputs and distribution of goods and services. Special Economics Empowerment policies and programmes such as special training and credit programmes, special land distribution programmes enable the actors in market to acquire skills and knowledge.

Socio-Economic Growth and Development Policies is also useful to solve problem of global crisis on agricultural sector because development is multi-dimensional, involving economics, social, political and other factors that contribute to overall human well-being and quality of life, policies of socio-economic development should be multi-dimensional, but fashioned out and implemented in an integrated and holistic manner. In conclusion, policies have to be put in place to tackle the problem of global crisis specifically in a targeted form.

Gadu (2009) observes that the funds needed to save the financial institutions will have to come from sources external to these countries. Each of these countries has announced reduction in interest rates designed first to devalue foreign reserves held in the accounts of banks and to lure more foreign money into the financial trap. He also observes that because the countries massive public works require access to cheap raw materials, the cheap source of funds is aimed at financing the programme at little or no costs to these countries.

In an effort to contribute to some policy options for developing countries such as Nigeria, Khor (2009) suggests that the followings are required:

1. For countries like Nigeria that increasingly face liquidity shortage, new flows of funds are needed, and without the types of pro-cyclical conditions that previously were shown to worsen the economic situation.
2. Nigeria has fallen into new debt crisis, a new round of debt relief and cancellation is required.
3. To prevent countries such as Nigeria that are in financial difficulties from falling in debt default, an international debt arbitration system is required, with debt standstill and orderly workout and continuation of working capital.
4. Mechanisms to deal with the instability of demand and prices of export commodities.
5. An international framework that assists Nigeria in regulating capital flows to prevent or minimize speculative flows; and which enables the countries to undertake regulation of capital flows.
6. Reform of the international financial and economic organizations, to enable Nigeria a fair voice and representation, and a reform of the roles and policies of the institutions.
7. Review of trade and investment rules to make them consistent with the newly discovered need for financial and other regulation and to ensure that they do not constitute barriers to the policy measures needed to counter the crisis.

The financial crisis requires measures at the national, regional, and international levels. At the national level, the policy options for dealing with each of the specific problems of the economic meltdown (caused by the finance and trade transmission routes) could be listed and explored. At the regional level, cooperation among Nigerians is most needed. For instance, producers of a particular commodity suffering price decline as a result of surpluses could cooperate to rationalize supply.

Nigeria need to address issues concerning other multiple long-term causes of global financial crisis, including: failure to meet agreed commitments, lack of oversight, structural

imbalances in the world's largest economies, macroeconomic imbalances, and other systemic or institutional factors. In so doing, Nigeria need to be guided by the fact that global interdependence had brought about increasing inequality of which global institutions had been unable to effectively cope with. There is the need for Nigeria to address the problem of their financial system with a view to sustaining private-led economic recovery. There is also the need to engage in counter-cyclical policies.

Nigeria need to implement their own domestic-demand-boosting measures urgently. They also need a concerted stimulus package that includes such elements as production-boosting measures and technological upgrades. They need to be given its policy space to address current account deficits, using efficient institutions.

CONCLUSION

The major issue of interest in this research paper is to explain global crisis effect on performance of agricultural sector development in Nigeria and the recent spread of sabotage price arising from the observed global economic crisis in Nigeria. We recommend some strategic options for resolving the associated long-term global crisis problems. The outstanding policy options include: regional and international cooperation, regional integration, implementation of domestic demand-boosting measures, technology upgrades, exploration of new exchange rate.

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