

## Implications of Economic Diversification for Sustainable Development in Nigeria: Lessons from Covid-19 Pandemic

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### ABSTRACT

*This study tries to develop a research based solution to developmental challenges facing Nigeria's economy. This it did by leveraging on the peculiarities of Nigeria's economic environment. The state of affairs with regard to Nigeria's economic standing is a far cry from ideals. It is therefore believed that the recommendations of this study if adhered strictly to, is capable of fostering sustainable development by reducing unemployment/underemployment rate which currently stands at 55%, reduce external debt burden which is currently about \$79.5 billion through improvement in balance of payments, and generally raise the standard of living of the citizenry by improving per capita income.*

### INTRODUCTION

In view of the volatility of global crude oil price with its attendant oil price shock, there have been growing concerns and commitments among many economies and oil producing countries including Nigeria towards economic diversification over the years.

Moreso, there is a consensus among international and local experts that sustainable development will remain a wishful thinking in Nigeria if it fails to genuinely and vigorously pursue diversification as an economic policy. While some scholars like Adams (2019), Adeyinka (2015), Opeyemi (2018) and Innocent (2020) have aptly maintained that lack of genuine commitment to diversification exercise is responsible for the unimpressive performance of the Nigerian economy, it is also pertinent to note that lack of comprehensive implementable strategies among others have neutralized the efforts of the Nigerian government towards economic diversification over the years. Nigeria have been found to be an amazingly resource endowed country with about 34 solid minerals including gold, coal, iron-ore, uranium, limestone, soda ash, lead/zinc, tintomite, etc (FGN, NBS, 2016). It also has about 83 million hectares of arable land, large oil and gas reserves that rank her the 1<sup>st</sup> in Africa, twelfth largest oil producer and eight largest gas producers in the world (Osagie, 2011).

With over 70% of its population living in abject poverty according to the world Bank's benchmark of below \$2 per day, youth

unemployment/underemployment rate of 55% and public debt of \$79.5 billion as at June 2020, Nigeria appears to be a beautiful paradox in view of the quantum and magnitude of resources at its disposal.

Prior to the discovery of oil in commercial quantity particularly in the 1960's and early 70's, the Nigerian economy buoyed with agriculture as its mainstay with the export of groundnut, cocoa, cotton and palm oil. In 2014, it was reported by the federal ministry of agriculture and rural development that Nigeria's agriculture exports loses about \$15 billion annually across four major crops namely groundnut, cocoa, cotton and palm oil. Within the aforementioned period, agriculture was seen as a sector with key multiplier impact by contributing 70% to GDP, 90% share of export and employing 80% of the nation's workforce (FGN, NBS 2018). As a result of the oil boom of the 1970's and consequent neglect of the agricultural sector, agriculture's share of export declined to a mere 3% in 2019.

Nigeria's crude oil production has interestingly moved from 6,100 barrels per day in 1964 to 2.46 million barrels per day in March 2020.

As at March 2020, the activities of oil exploration represents about 50% of Nigeria's GDP, more than 80% of the export and 90% of government budgetary revenue (FGN, NBS, Q1-2020).

Between 1970 and 2020, Nigeria has recorded 9 major adverse oil shocks viz: - 1973/74,

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1978/79, 1980, 1990/91, 1999/2000, 2005, 2009, 2014/2015, 2020.

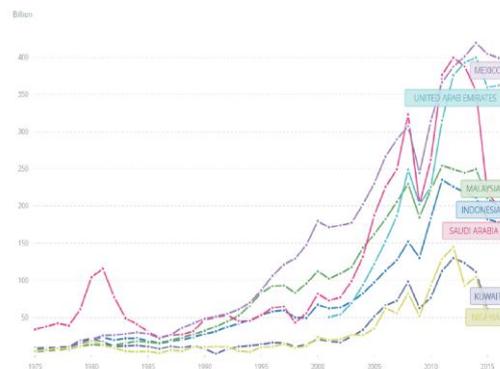
With the decline in global crude oil price from \$60 per barrel in January 2020 to \$20.62 per barrel in March 2020 as a result of the outbreak of covid-19 pandemic, it is estimated that fiscal revenue has been reduced by close to \$10

billion, and export earnings by \$19 billion. This is because the federal government budget estimates for 2020 have pegged oil price at \$57 per barrel, and production at 2.18 million barrels per day as can be deduced from the diagram below:



In view of the ugly economic realities occasioned by these oil price shocks over the years, one would have expected a proactive and robust policy approach from the Nigerian

government as in the case of other mono-economics and oil producing countries like Kuwait, Venezuela, Saudi Arabia, Malaysia, etc below:



Exports of goods and services (US\$) 1975-2015

Source: World Bank national accounts data, OECD national data 2016

Sadly, Diversification into other non-oil sectors, particularly agriculture in Nigerian context can be best described as rhetorical. This is because there is no genuine commitment on the part of the government to sustain economic diversification as a macro-economic policy among others. In spite of the huge oil Revenues since the 1970's and the availability of massive solid and liquid mineral resources, Nigeria still maintains it's paradoxical position as the poverty capital of the world as can be deduced from the aforementioned statistics. It is against that backdrop that this study seek to ask the following research question.

- What are the factors inhibiting Nigeria from successfully diversifying her economy?

- What are the best approaches through which Nigeria can pursue economic diversification to achieve sustainable development?
- What is the relationship between economic diversification and sustainable development in Nigerian context?

### LITERATURE REVIEW

In an attempt to justify the need to genuinely pursue economic diversification in Nigeria, Samson & Ikelegbe (2014) adduced three core reasons;

The first reason according to them is to insulate the economy from the risk of being vulnerable to a single commodity as the different oil prices have shown. The budget deficit experienced from March 2020 as a result of the outbreak of covid-19 pandemic affirms this position, and the high debt profile of the country is also

attributable to the absence of other non-oil export commodities that could serve as substantial source of public revenue in event of decline in the global oil prices. Under such circumstance, the government will be compelled to borrow with interest in order to finance its budget deficit as indicated earlier on. The second reason is to create jobs that can raise the standard of living of an average Nigerian. Oil and gas sector is not labour intensive and account for less than 2% of total employment. With the impressive performance of the agricultural sector which accounted for about 85% of total employment in the 1970's, diversification towards that direction will undoubtedly reduce the unemployment/underemployment rate in the country which currently stands at 55% and also raise the standard of living of the Nigerian citizenry.

The third reason is to prepare for life beyond the oil resource. The utility of oil resource is seemingly depreciating with improvement in science and innovations, leading to the emergence of solar-powered machines and technologies. It is therefore imperative for the Nigerian government to explore and harness other non-oil export commodities that could serve as a safety net when the value of oil becomes insignificant.

Agriculture is Nigeria's most important sector and it was estimated that its share of the world's agriculture export was in excess of 2% in the 1960's but has declined to less than 0.1% in 2019 (African economic outlook, 2019).

This however explains why the Nigerian economy was said to be at the same level of development as countries such as Brazil, Malaysia Indonesia etc in the 1960's and 70's, despite the fact that petroleum sector contributed less than 4% to GDP, less than 20% in value of export, less than 27% in total revenue and foreign exchange earnings.

With the impact of oil shock on the macro-economic indices, Nigeria has become one of the most heavily indebted countries in the world in spite of the magnanimous cancellation of substantial part of its foreign debt by the Paris Club of creditors in 2005.

As a result of over reliance on importation of foreign made goods including food items and refined petroleum products, jumbo oil revenues since the 1970's have not translated into prosperity and development in Nigeria, and the

country still ranks among the poorest in the world in terms of major indicators of development.

Despite the fertility of the land in the country, the agricultural activities are still far below what is needed to take care of the country's population. And despite the vast agricultural potential with the arable land of 83 million hectares, only 37 million of the hectares has been cultivated so far (FMARD Report 2019). Furthermore, despite the creation of ministry of solid minerals in 1995, no decisive progress has been made in the area of exploitation and mining of solid minerals like Gold, Coal, Iron-ore, lead/zinc, limestone, tin, etc which have been found to be in commercial quantity in Nigeria (Geological survey department of the ministry of solid minerals, 2016).

According to National Export promotion council Bulletin (2019), economic diversification as a macro-economic policy tool is only being considered and practiced in Nigerian when oil price crashed, such half haphazard approach is not only rhetorical, but also ridiculous in view of the emergency situation of the Nigerian economy at the moment.

### CONCEPTUAL EXPLICATIONS

#### Economic Diversification

Economic Diversification can be defined in so many ways, but for the purpose of this study, it is a process of shifting an economy away from a mono-income source towards multiple sources from a growing range of sectors and markets. It is believed to be a viable strategy geared towards encouraging positive economic growth and development. This it does by diversifying away from vulnerable products, markets and jobs towards income sources that are low-emission and more climate resilient.

#### Sustainable Development

The concept of development has been a subject of controversy with regard to its definition, and that makes it even more difficult for sustainable development to be defined in a crisp precise terminology. For the purpose of this study however, sustainable development can be defined as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

## **THEORETICAL FRAMEWORK**

### **The Theory of Comparative Advantage**

As explained by (Findlay, 1987), the principle of comparative advantage is believed to have not only straight-jacketed most of the economic complexities, but have also proffered some of the best solutions to many economic challenges confronting various countries of the world over the years. This is because its propositions have been tested and proven to be true (Paul Samuelson 1969).

With respect to factor proportion theory, the concept of comparative advantage advocates for countries to take the enormous advantage in focusing on the production of goods which are in abundant presence in such country. It is therefore the perspective of this study that economic diversification efforts in Nigeria should be streamlined to maximize its areas of comparative advantage. Despite having land area of 923,768 km<sup>2</sup> with a population of about 200 million (world Bank Data, 2018), the agricultural activities in Nigeria are still far below what is needed to take care of the country's population. The concomitant import dependency leads to unfavourable balance of payment and huge debt burden in spite of the supposed comparative advantage Nigeria enjoys in the production of various kinds of food and cash crops that are always imported.

Furthermore, in spite of the excellent presence of about 34 various solid minerals in commercial quantity including gold, coal, limestone, lead/zinc, iron-ore, etc the Nigerian government have surprisingly depended so heavily on income from crude oil to the total neglect of other solid minerals which could have served as a viable alternative source of public revenue.

### **Resource-Based Growth Theory**

In the mid 1990's, Sachs and Warner were able to present some points about nations with abundant resources being the poorest and that natural resources endowed nations cannot be proven to be automatically wealthy just because of the presence of the natural resources, which they both termed as "resource curse".

However, some data analysis in many countries of the world including Nigeria seem to affirm their claim, this is because there have been established negative correlations between the yardstick for economic performance such as

growth rate, human capital and investment and resource intensity in a number of occasions (Van Der Pleog, 2011).

Interestingly, the new dimension of research has shown that though there may be resource curse as claimed by both scholars, it is not to mean that the resource curse cannot be eliminated and turned to resource blessing. It is therefore deducible that resource curse in Nigeria can be mitigated and transformed to resource blessings if her economy can be diversified in a way and manner that discourages crude oil dependency and encompasses other sectors, particularly agricultural sector in view of the peculiarities of her economic environment. There should also be a genuine commitment towards exploiting other solid minerals that have been proven to exist in commercial quantity in Nigeria. Nigeria's economic policies should also be supportive of research and innovations if she really wish to mitigate the negative consequences of resource curse.

## **METHODOLOGY**

This study employs a comparative historical analysis to make causal inferences. Comparative historical analysis aims at explaining causal analysis with emphasis on process over time, and the use of systematic and contextualized comparison (Mahoney, 2003: 6).

The aim of the method is therefore providing a comprehensive explanation for outcome given specific cases (Rohfing, 2012:16). Interestingly, Nigeria was on agrarian economy before the discovery of crude oil in commercial quantity and buoyed with the export of different types of food and cash crops such as cocoa, coffee, groundnut, palm oil, cassava, maize, cotton, rubber, soya beans, cola nut, cashew, timber, etc (Federal ministry of agriculture and rural development report, 2014).

The neglect of the agricultural sector as a result of oil boom of the 1970's saw Nigeria with relatively negative economic indices with regard to growth and development as a result of the volatility of crude oil prices and high import dependency. As explained by (Mahoney 2003), understanding of each epoch with its concomitant implication for Nigeria's economy succinctly explains how that directly affects the current ugly economic situation of Nigeria. This study also employs qualitative research approach and applied chronological thematic method of data analysis. The work uses both

primary and secondary sources of data. The primary sources include interviews and archival materials, while secondary sources include journals, textbooks, government documents like information from the national bureau of statistics document, federal ministry of agriculture and rural development, CBN and World Bank Reports.

The technique of content analysis was also instrumental to analyzing these sources. The comparative historical analysis approach is however limited due to its over reliance on secondary data and its selective use of data.

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

While there is a near consensus among scholars and practitioners that there is an urgent need to resuscitate the agricultural sector by way of economic diversification in order to reduce unemployment rate and improve balance of payment in Nigeria, the need to add value to our agricultural products through manufacturing exercise has not been accorded its due focus. We shouldn't be talking about building computers or sophisticated cars at the expense of turning our primary products into consumable items. The largest export of the United Kingdom to Nigeria is petroleum product, and we are an oil producing country. Why should we export cotton to china and import textile products? Why should we export cotton and import garments? Why should we export hides and skin and import leather shoes, bags, sandals etc? The Chinese didn't start building rockets, this was the bedrock of the Asian miracle. Furthermore, despite the creation of the ministry of solid minerals in 1995, lack of genuine commitment to the exploitation of these minerals have made the campaign for economic diversification in Nigeria rhetorical.

Derivation as a revenue allocation formula to the state and local governments should be revisited as it were in the 1960's with the view of encouraging competition among the states, which will inturn lead to optimum exploitation of various solid minerals across the states.

It is also imperative for the Nigerian populace to curtail their preference for foreign made goods especially when it is not necessarily superior to our locally manufactured products. This could be achieved through socio-psychological re-orientation, public campaigns and standardization of products. This has been found to be responsible for the resource flight

experienced in Nigeria. We should therefore consume what we produce, and produce what we want to consume. Incentive schemes like low interest loans, provision of improved seedling and mass mobilization are also necessary to awaken the consciousness of people towards agriculture which has been found to be very disincentive by most Nigerians over the years.

In addition to providing loans, there should be a genuine commitment towards monitoring these loans to ensure that they are used for agricultural and manufacturing purposes.

Conclusively, our chances of making desirable progress are constantly jeopardized by the structure of governance we operate. Nigeria spends over 80% of its revenue on recurrent expenditure. On that note, the idea of having 109 senators, 360 members of House of Representatives, 42 ministers, 36 governors, 774 local government chairmen etc needed to be tinkered with. This is because it saps the resources needed to facilitate sustainable socio-economic and political development in Nigeria in form of jumbo allowances and other emoluments.

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