Sustainable Growth and Diversification in the Nigerian Economy

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ABSTRACT

The inherent abnormality in Nigeria's one-product economy, which has been a problem throughout the course of many years, was the topic of discussion in this study. In the article, the issue of the country's excessive reliance on oil as its principal source of revenue was discussed. The country fell into a recession as a result of its overwhelming reliance on oil earnings, which caused the government to ignore the needs of other areas of the economy. In the paper, we discussed themes that are related to sustainable development, such as how the economy of the country needs to be diversified in order to have good governance. Concerns were recognised and brought up in conversation, and suggestions were emphasised.

Keywords : Sustainable development, good governance, and diversification

INTRODUCTION

The export of crude oil is the primary source of revenue for Nigeria. In more recent years, Nigeria has stopped cultivating a number of its cash crops, including cocoa, wood, palm oil, groundnuts, and rubber, all of which were formerly exported at one point. Chidiadi, (2009) reported that in the 1960s and immediately before the oil boom of the 1970s, agriculture contributed 60% to Nigeria's Gross Domestic Product (GDP), 70% to export, and 95% to food needs.) Despite the fact that the country experienced a revenue windfall from the years of the oil boom, the immediate aftermath of this development was the palpable neglect of agriculture. This caused the country to become a major exporter of these crops. As a consequence of this, agriculture has been subjected to long years of neglect, mismanagement, inconsistent and poorly conceived government policies, a lack of necessary infrastructure and meaningful government incentive to farmers, as well as bureaucratic policies among government agencies in the execution of agricultural policies and programmes. As a result, agriculture has suffered greatly as a consequence of this abandonment.

As a result of the unexpected windfall from oil production, agriculture was relegated to the background of the country's economy, and the country gradually transitioned into a one-product economy that is heavily reliant on revenue from oil. In spite of this, oil has undeniably been a major contributor to the expansion of Nigeria's economy, especially when measured in terms of the country's increasing ability to bring in money from its exports. On the other hand, this has not yet materialised into a tangible and quantitative expansion of the actual economy. This is due, among other things, to the vagaries of the international market, which make oil prices exceedingly volatile, as will be shown in a moment, and will be one of the variables that will be uncovered shortly in this discourse. As a direct result of the decline in the price of oil, which went from more than $115 per barrel to less than $70 per barrel in 2014, the nation's revenue earnings continued their unrelenting downward trend throughout the year. In Nigeria, the sole contribution that oil makes as a main resource is the generation of income. However, revenue by itself is not sufficient as an index of gross domestic product in situations where there are no productive activities that generate measurable economic output.

According to Sarumi and Anyanwu (2013), the contribution of mining to the 2013 GDP report was reported at 14.3%, out of which oil and gas formed a staggering 93.4%, while coal and metal ore accounted for the remaining 5.65%. This is according to the report that was produced by the United States Bureau of Economic Analysis. On the other hand, agriculture was responsible for 21.7% of the economy, representing a 19.3% decrease from its composition of 48.27% in 1971. This suggests that the government is not making full use of its over 40 mineral endowments and 80 million hectares of arable land.

The Oil Industry's Contribution to Nigeria's GDP is the Least of Any OPEC Member

In comparison to the countries listed in the table above, Nigeria's oil sector contribution to real GDP in the third quarter of the year under consideration was less than 11%, specifically 10.45%. A reasonable conclusion that can be drawn from this is that the much-touted oil sector of the country is not productive in real terms. The disturbing consequence is not only that the contribution from the oil sector to the GDP is not much, but also that its linkage within the productive sector of Nigeria's economy is not deep enough. Since production is the centre of economic activity, the alarming meaning is not only that the contribution from the oil sector to the GDP is not much. As a direct result of this, Nigeria is unable to reap the economic gains associated with the growth of an economy that is diversified and depending on productive activity. It is necessary, as a result, to investigate the possibility of pursuing this course of action given that economic diversification is a tactic that can be used to achieve sustainable economic growth.

The authors of this study identify what they believe to be an anomaly in Nigeria's economy. In addition, it proves that an increase in oil revenues by themselves does not automatically convert into a tangible and demonstrable expansion of the economy in real terms. Once more, it discusses the problems and obstacles that need to be overcome in order to diversify the economy of the country and outlines the prospects and opportunities for diversification. This report couldn't have come at a better time since "Linking economic diversification to a policy of optimising resources and raw materials by developing a base of interlinked enterprises" (Osalor, 2017) provides Nigeria with a sure economic hope that goes beyond oil.

The Gross Domestic Product (GDP)

A country's Gross Domestic Product (GDP) measures the total monetary value of all the finished goods and services produced within her borders in a specified time (www.investopedia.com). Apart from determining overall economic output and value-added through economic processes, the GDP gauges a country's productivity, the standard of living, and economic growth. It also measures the value-added through economic processes and determines the recession. Whereas nominal GDP is a raw measurement that includes price increases, real GDP compares the economic output from one year to another, taking the inflationary trend into account. On the other hand, the economic growth rate is measured by the percentage increase in GDP from quarter to quarter in order to determine precisely how fast a country's economy is growing fourth quarter of 2016 Report of the country's GDP by the National Bureau of Statistics (NBS, 2016) corroborates this view: "As a share of the economy, the oil sector represented 7.15% of total real GDP, compared to 8.06% in fourth quarter of 2015 and 8.19% in third quarter of 2016."

The fact that petroleum makes up more than 90 percent of Nigeria's export revenue and more than 80 percent of the government's budget, and that "production generates economic activities" (Ojefia, 2016), suggests that there are no productive activities in the economy, which come from oil, at 7.15% of real GDP. This is a hint that the link is not deep enough within the productive sector of the economy.

Diversification

"Creating new avenues for economic growth" is one definition of diversification. It entails making use of the appropriate technique in order to increase revenue earned from other parts of the economy. That is, encouraging the expansion of other sectors of the economy" (Eluogu, 2017). To put it in more concrete terms, it is "the process of increasing the spectrum of economic activities both in the production and distribution of products and services…" the widening of the economy to create opportunities for diverse economic activities to create a broad-based economy" (Anyaehie & Areji, 2015). Diversification is a multi-sector economic growth strategy that can be likened to "investing in a variety of assets" (Samuelson, in Ojefia, 2016). Uzonwanne (2015), asserted that it demands active participation in a wide range of sectors … firmly integrated into different regions. Underlying economic diversification is the "idea of having multiple streams of income" by creating multiple revenue centers (Ojefia, 2016). This will, in turn, encourage the creation of different ways to increase cash flow as opposed to building a single income stream. As businesses and investments venture into various, non-correlated sources of residual income, the incidence of heavy dependence on only one source is reduced. During a recession, diversification serves as a mechanism for checks and balances. The positive performance of some sectors (or subsectors) neutralizes, balances, or cancels out the negative performance of others, thereby minimizing risks.

Development that is Sustainable

First, a cursory examination of the term development in the context of this write-up is pertinent in order to afford one a focused perspective. The view of development held here as it concerns economic diversification is "creating the necessary conditions for the realization of the potential of the human personality" (Seers, 1972). The UNDP Human Development Report (1990) describes it as the process of enlarging people's choices. These choices, as observed in the report, can be infinite – extending ad infinitum to continually emerging prospects and opportunities, and dynamic – changing over time in the light of unfolding realities. The critical choices involved hinge, to a large extent, on the need for people to acquire knowledge and the need to have access to resources required to enjoy a decent standard of living. This would presuppose active command over needed resources such as land, credit, and income. The implication is that the absence or non-availability of these essential resources makes a lot of other opportunities to be inaccessible. In essence, the choices focus primarily on what people should have and what they should do to be able to ensure their livelihood.

By implication, the process of widening people's choices in development involves the formation of human capabilities such as knowledge and skills, and the use that people make of their acquired capabilities such as for productive purposes. Consequently, given that people are the real wealth of a nation, the primary objective of development is to create an enabling local environment for people to realise all of their abilities and live creative and productive lives.

Therefore, sustainable development can be defined as "development that satisfies the requirements of the present without compromising the capacity of future generations to satisfy their own requirements." In essence, a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional changes are all in harmony and enhance both current and future potential to meet human needs and aspirations" (Brundtland Commission Report, 1983). Sustainable development focuses on three primary areas which are the physical environment, the socio-political, and the economic. These translate into three interdependent and mutually reinforcing pillars of sustainable development: environmental protection, social development, and economic development. Thus, for instance, concerning a non-renewable resource like fossil fuel, sustainable development advocates a balance between the rate of depletion and economy of use. Other areas that engage attention similarly are social cohesion and stability; cultural diversity and self-identity; individual and group uniqueness; economic and social wellbeing; pursuit of aspirations and fulfillment of purpose; freedom of self-expression and limits of liberty; social justice and equity; security and peace; health, shelter, clothing, food, and felt-needs; job, employability, and productivity.

Administration or leadership

A contemporary perspective on the concept of governance transcends how institutions, groups, or bodies of persons are formally organised, managed, and administered. This is because the concept has gained currency in international development literature in recent years. The United Nations Development Programme defines governance as follows in its Policy Paper: "The exercise of economic, political, and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes, and institutions by which this authority is exercised."

The pillars of governance can be identified as follows: first, it "occurs at all tiers or levels of society: religious bodies, political associations, corporate organizations, schools, local, state and national governments and even the family" (Egboka, 2013). Second, it is not only about processes, but it also includes ends achieved – primarily, to improve the lot of the citizenry. Third, it involves decision-making, decision-making, and implementation either by the citizens themselves, or on their behalf, or for them. As a concept that focuses on how public institutions conduct public affairs and manage public, human, and material resources (Egboka, 2013). other characteristics of governance include popular participation by the citizenry; openness and transparency; rule of law; inclusiveness and responsiveness to the needs of the people; accountability; enhancement of traditional institutions; consensus orientation through intensive grassroots orientation; economic empowerment; equitable distribution of resources; access to information on resource inflow and use; effectiveness and efficiency; strategic vision. Governance is people-centered and incorporates traditional practices and resources in driving socio-economic and political progress (emphasis mine). It could involve probity and transparency erected on a foundation of honest relationship.

Allowing people to live the kind of life they choose and providing them with the tools and opportunities to make those choices is at the heart of human development, as stated in the UNDP Human Development Report (2004). A vital development end, therefore, is allowing people full productive expression. Therefore, a critical factor in development as it relates to economic diversification is the human resource. Just like development, economic diversification cannot be realised without human resources.

Governance as a vehicle for leadership mediates the process of development, ensures proper and balanced growth, fosters equitable access to resources, defines the boundaries of responsibilities for tasks, and engenders relationships among key actors, players, and stakeholders in the economic diversification drive that are mutually beneficial and reinforcing.

THEORETICAL FRAMEWORK

The Theory of Diversification

Diversification theory was postulated by one of its proponents Nick Lioudis (2019). The theory is a model that reduces risk by allocating investments among financial instruments, industries, and other categories. It aims to maximize returns by investing in different areas that would each react differently to the same event. According to Ugulini (2019), there are two main theories of diversification. The first theory of diversification is Concentric Diversification, in which companies diversify through product diversification or market diversification. For example, a Businessman who operates a filling station and deals on petroleum products such as fuel, diesel and kerosene and lubricants such as oil, may decide to broaden its scope of business by dealing with cooking gas and its accessories such as burner and hose. The second theory of diversification is Conglomerate Diversification. Thus, the businessman mentioned above may decide to diversify through opening a subsidiary that offers products that have nothing to do with its usual business. The businessman may go into agricultural business, such as rice production, with different locations.

There are three key benefits or advantages of diversification. These are (1) minimizing risk or loss, (2) preserving capital, and (3) generating returns. However, there are problems with diversification. First, it may not be easy to manage a diverse portfolio, particularly if one has multiple holdings and investments. Second, it can put a dent on one's bottom-line. This is because the cost of investments differs from one business to another. Given the numerous natural resources such as zinc, coal, diamond, gold, cocoa, to mention but a few, that Nigeria is endowed with, yet oil is the primary revenue earner. It is, therefore, necessary and germane for her to diversify the economy by harnessing and developing those other natural resources in other to reduce risks of revenue shortfall occasioned by the falling oil prices in the international market. Thus, by diversification into these areas, she would not feel the impact of fluctuating oil prices, which negatively affect the expected revenue to administer the country.

Objections and Difficulties

There are two significant developments on the international scene, which, although seemingly ordinary and isolated, yet are interconnected in their medium and long-term implications for the growth and survival of Nigeria's oil¬ dependent economy. From the perspective of this discourse, the development that stands out more starkly and which should readily engage concerned attention is the discovery of shale oil as an alternative fuel source. Against the backdrop of global oil market volatility, the prospect of shale oil as a substitute energy resource holds out deathly economic grimness for the country. This is because "in the new global energy reality, non-conventional sources like Shale and Oil sands are redefining supply options" (Fabiyi, 2016). Onucheyo (2001) had earlier predicted that in the 21'st century, nuclear, solar, and geothermal and other energy sources would be sufficiently developed to meet most of the world's energy requirements. The other development like it is the stealthy entry (to the uninitiated) and yet steadily growing strong presence of an electric car in the international automobile market, a revolution China is pursuing with the consuming passion of an obsessive-compulsive syndrome. Over time, not long from now, this can only sound the death knell for Nigeria's fossil fuel. Juxtaposed with what Ojefia (2016) observed as "growth without development" in Nigeria over the years, the worrisome seriousness of these developments can then be fully appreciated. Given this portentous scenario, the challenge to diversify Nigeria's economy transcends sloganeering, or a mere expression of intent, and reiteration of commitment. It is a challenge that should be confronted head-on with a workable blueprint detailing implementable action plan for achieving economic diversification within phased timelines. Gratifyingly, the urgency for Nigeria's economic diversification is pervading every segment of the country's body politic.

Eluogu (2017) asserts that with the recent crash in oil prices and consequent hardship engendered by over-reliance on oil; it has become more compelling to Nigerian policy-makers and all stakeholders that diversifying the economy is not optional but mandatory. Alluding similarly to the urgency for economic diversification, Ojefia (2016) asserts that there is no doubt in which direction we should go, we do realize the urgency of the moment and the importance of getting things done quickly. Buhari (2016) emphasized that there is urgent need to diversify the economy in the light of dwindling price of crude oil in the global market. The dramatic fall in crude oil and other commodity prices has had a severe negative impact on world economies, especially countries like Nigeria, which depend on one commodity for its export earnings. The props in the strategic plan which will serve as road map are the Nigeria Industrial Revolution Plan (NIRP) and the National Enterprises Development Programme (NEDEP), (Suhari, 2016).

Nigeria ranks among nations of the world with rich endowments in human, natural, and mineral resources. These include both renewable and non¬renewable resources such as solar energy, which is grossly underutilized, and vast reserves of natural gas yet to be fully tapped. Apart from oil and gas, Nigeria is said to have an estimated 40 million tons of talc deposit in Niger, Osun, Kogi, Ogun, and the Kaduna States; 1 billion tons of gypsum deposits spread over many States; 3 billion metric tonnes of iron ore deposits in Kogi, Enugu, and the Niger States; and 15 million tons of lead and zinc deposit spread over eight States. Her arable land is estimated at 84 million hectares, with 230 billion cubic meters of water. The table below illustrates her potentials in agriculture: As with other sectors and sub-sectors, such huge potentials in both the mining and agricultural sectors have regrettably not recorded commensurate impact on real GOP. The Q1/2016 Quarterly Establishment Surveys (QES) report of the National Bureau of Statistics (NBS) attests to this:

In the period under consideration, the contribution of agriculture to real GDP was 20.48 percent, while the contribution of mining and quarrying, which includes crude petroleum and natural gas, was 10.34 percent. One can immediately deduce from the real GDP outlook in the table that the economy is not productive in general. In addition, despite being the country's primary earner, the massive revenue from crude petroleum and natural gas does not translate into tangible economic output. A striking anomaly that is intrinsic to this situation is the nearly complete absence of links inside and across different industries. There is a one-to-one correspondence between links and economic activities that are productive and generate output.

In addition, if the contribution of agriculture is compared to what it was before to the oil boom of the 1970s, it is possible to deduce that the industry has seen a significant reduction in the amount of importance it has played. Ojefia (2016) mentioned that following the oil boom in the 1970s, the agricultural sector went into a downward spiral. Adebayo (1999) attributed this to the neglect of agriculture and the rural economy, as well as the focus on economic operations in the oil sector, which resulted in the shortage of locally-sourced raw materials and, as a result, enormous imports of raw materials and food items. Adebayo's theory was that this was caused by the neglect of agriculture and the rural economy, as well as the focus on economic activities in the oil sector.

SUGGESTIONS

It is the considered opinion of this article that the process must first address specific problems at stake if it is to ensure that Nigeria does not let this historical necessity of progress through economic diversification slide through its fingers. Diversification poses difficult questions for a population and an economy such as Nigeria's, questions to which, if appropriate answers are provided, will allow for an insightful appreciation of the reality of the country's present economic situation as well as provide anchors for direction in exploring prospects and ealizeding on opportunities. Diversification also raises the possibility of new opportunities and prospects. The solid substructure on which recommendations for the economic diversification of the country would stand will be provided by this.

1. The government ought to take her personal experience at the national level into consideration when operationally defining economic diversification.
2. There ought to be a vision that outlines the current policy status, and suitable legislation ought to be passed.
3. An agency tasked with the implementation of economic diversification ought to provide institutional, legal, and administrative props in order to propel the process forward. The agency should, in conjunction with the Raw Materials Research and Development Council, map out the resources and raw materials for specific sectors and sub-sectors. It should also identify the local resources and raw materials, regardless of whether they are used in the primary sector (agriculture and the extraction of natural resources), the secondary sector (processing and manufacturing), or the tertiary sector (trade and services).
4. The prospects and potential for each factor/resource/raw material cum product and service will be evaluated, and those products and services that are found to have an opportunity cost advantage in the near or short term will be chosen as pilot products and services for an initial investment.
5. To effectively address new difficulties, efficient monitoring and reporting mechanisms together with suitable follow-up apparatus should be put into place as soon as possible. Participation in a proactive manner with the actors and parties involved in the many sectors and sub-sectors through direct monitoring, oversight, and subsequent action. Citizens are encouraged to participate in this endeavour by means of government-wide cooperation and agency-level commitment. The Economic Diversification Implementation body or agency and her Field Offices will actively engage the sectors

and sub-sectors by working with them to ensure that the vision and purpose of the diversification programme are ealized. This will be accomplished by actively engaging the sectors and sub-sectors in the economic diversification programme.

CONCLUSION

Diversification offers a number of benefits, and these benefits can be particularly useful for a country like Nigeria that is trying to re imagine and diversify its economic profile in order to lessen its reliance on conventional industries and to capitalise on new opportunities presented by an increasingly globalised world. The advantages of economic diversification extend far beyond protecting a nation's economy from the ups and downs of the global oil market. This will result in jobs being created in the private sector, will boost the growth of businesses, and will increase the economy's ability to respond. In order to have a deeper comprehension of the idea of economic diversity, the diversification theory was put into practise. Concerns and difficulties were brought up in the conversation. In conclusion, some suggestions were offered.

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