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FORTIFYING ECONOMIC FOUNDATION VIA ECONOMIC DIVERSIFICATION IN NIGERIA: A FOCUS ON ECONOMIC EXPANSION

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ABSTRACT
This paper explores the imperative of fortifying economic foundations through the lens of economic diversification with a specific emphasis on fostering economic expansion. In an era of volatile global markets and unforeseen crises such as the recent pandemic and fluctuating oil prices, the need for economic resilience has become increasingly apparent. This study delves into diversification's critical significance in enhancing economic stability and mitigating vulnerability to external shocks. It underscores the essential role of fiscal savings derived from sources beyond crude oil sales, alongside the significance of expanding the manufacturing sector in driving sustainable economic growth. By examining the challenges hindering the growth of the manufacturing industry and its minimal contribution to GDP and export earnings, this research aims to identify strategies and opportunities for bolstering economic diversification through expansion.

INTRODUCTION

In today's interconnected and rapidly changing global economy, pursuing economic diversification has emerged as a paramount strategy for countries and regions aiming to fortify their economic foundations and secure long-term prosperity. Economic diversification represents a fundamental departure from traditional models of economic development, which often hinge on the overreliance on a single industry or sector. This strategic transformation involves expanding and broadening an economic base to encompass a spectrum of industries and sectors, thereby reducing the inherent risks of a one-dimensional economic structure.

Economic diversification's primary objective is to enhance an economy's resilience. When an economy heavily relies on a single industry, such as oil production, agriculture, or manufacturing, it becomes vulnerable to external shocks, whether in the form of volatile commodity prices, shifting market demands, or global economic downturns. These vulnerabilities can result in significant economic setbacks, job losses, and financial instability. In contrast, diversified economies are better equipped to weather such storms, as they possess a range of revenue streams that can compensate for losses in one sector with gains in others.

Beyond resilience, economic diversification is also a catalyst for sustainable economic growth. By investing in and nurturing various industries, countries can stimulate innovation, increase productivity, and boost competitiveness on the global stage. This not only fosters economic growth but also enhances their citizens' living standards, as it creates new opportunities for employment and income generation across a broad spectrum of fields. A diversified economy is like a diversified investment portfolio; it spreads risk and minimizes exposure to potential downturns in any sector. This approach becomes even more critical in today's rapidly evolving economic landscape, characterized by rapid technological advancements, changing consumer preferences, and emerging global challenges such as climate change. Countries that embrace economic diversification are better positioned to adapt to these shifts, seizing new opportunities while mitigating risk.

Nigeria is the largest economy in Africa, boasting a Gross Domestic Product (GDP) exceeding $478 billion. It ranks among the world's fastest-growing economies, maintaining a long-term average growth rate of 7.7%. With an estimated population of 223 million in 2023, Nigeria is the seventh most populous nation globally and represents Africa's largest marketplace. The country possesses a dynamic and innovative young population that, if nurtured appropriately, could transform Nigeria into the world's premier trade hub.

Since the middle of 2014, oil prices have fluctuated due to oversupply, diminished demand, and crises in major oil-producing nations, such as the ongoing tensions between Russia and Ukraine. These fluctuations have resulted in unstable revenue streams for Nigeria.

Nigeria has relied on its oil-driven economy long before the onset of the COVID-19 crisis. The country's encounter with oil dates back to the 1950s, establishing itself as a significant producer following the conclusion of the Biafra War in the late 1960s. Since then, its economic reliance on oil has steadily grown. Initially, government revenues were at 10% of GDP during the 1960s, escalating to 30% in the 1980s due to increased oil production, rising prices, and a surge in oil exports from 5% to 24%. However, these percentages have averaged 10% and 16% in the past decade. Despite this, these figures do not suggest a notable shift towards diversification, as oil's portion in total fiscal and export revenues persisted at 47% and 84% in 2019, respectively.

The emergence of the COVID-19 pandemic, coupled with the recent plummet in oil prices, has underscored the urgency for Nigeria to diversify its economy more profoundly than ever before. Given the markedly uncertain trajectory of global oil demand, Nigeria finds itself again at a critical juncture. While the pandemic represents a crisis, it also presents an opportunity to propel the long-delayed diversification of the economy. The choices made by Nigeria at this pivotal moment will significantly impact the nation's trajectory for decades to come.

There is a pressing need for diversification to invigorate the economy and reduce dependence on crude oil. Nigeria's inherent potential extends far beyond oil, encompassing various sectors. Notably, the technology and digital sector emerge as a promising avenue for economic growth. It is no surprise, then, that the Nigerian government, under the leadership of President Buhari, established the Ministry of Communication and Digital Economy to tap into the substantial revenue opportunities offered by this sector.

RELATED LITERATURE

Economic diversification refers to a country or region expanding and broadening its economic base by reducing its dependency on a single or limited number of industries or sectors. Economic diversification aims to create a more stable and resilient economy that can withstand shocks and promote long-term growth. Here are some critical points about economic diversification.

Reducing Dependency: In Search for A Viable Option

In 2022, Nigeria's age dependency ratio, which indicates the percentage of the working-age population, stood at 85.25%, as reported by the World Bank from credible sources. Information regarding Nigeria's age dependency ratio, including historical data, current values, and future forecasts and projections, was obtained from the World Bank in November 2023. Similarly, in 2020, Nigeria's potential support ratio (20-64 per 65+) was recorded at 15.8, indicating the number of individuals aged 20-64 per individual aged 65 and above. Over the years from 1950 to 2020, Nigeria's potential support ratio experienced significant fluctuations, generally displaying a decreasing trend and culminating at a 15.8 ratio by the end of the 2020 period.

Economic diversification aims to reduce the over-reliance on a single industry or sector, such as oil, agriculture, or manufacturing. This over-reliance can make an economy vulnerable to fluctuations in global commodity prices or changes in demand for specific products.

Given the intricacies of today's global dynamics, influenced by the rise of neoliberal globalization, this research focuses on "dependence" and its implications. In the opinion of Dos Santos (1970), dependence is "a situation where the economic fate of certain nations is determined by the progress and expansion of another nation's economy to which the former is subservient" (Dos Santos, 1970). Addressing the challenge of rectifying the "growth of dominant economies and the stagnation of subordinate ones" (Bourguignon, 2015) and the "structure of dependence" (Dos Santos, 1970) was not only a formidable task but also a contentious subject of debate within the dependency school of thought. Some advocated and aligned with achieving global equality through a socialist revolution inspired by Marxism, while others leaned towards reforms in the international economic system (Herath, 2008; Matunhu, 2011). Despite these debates, this essay primarily concentrates on the fundamental tenets of dependency theory to assess their relevance in comprehending contemporary global inequalities. The differentiation between "core" and "periphery" nations forms the core of dependence. Most dependency theorists employ "the international system" or "world system" as their analytical framework, with a specific emphasis on the role of the global capitalist system in perpetuating underdevelopment in peripheral regions (Sekhri, 2009; Kay, 2011). In line with the world-system perspective, Arno Tausch draws a connection to dependency theory and concludes that "poverty and backwardness in the 'periphery' and semi-periphery are the direct result of these nations or regions consistently occupying a peripheral or quasi-peripheral position in the international division of labor since the advent of the world system (Tausch, 2010).

Economic Expansion: A Potential Antidote to Over-Dependence

Extensive research has examined smart growth to achieve regional convergence and economic expansion through diversification (Jermolajeva et al., 2017). While the significance of this matter is indisputable, more systematically organized information is still needed regarding the positive and negative impacts of investments in high technology as a means of economic expansion.

Empirical findings suggest that regions that invest in developing infrastructure to attract foreign investors tend to attract a notably higher proportion of high-tech investments when compared to other regions (Raluca & Alecsandru, 2014). Furthermore, there is a discourse surrounding policies that could facilitate the accessibility of equity financing for high-tech firms, including avenues like venture capital, and encourage the growth of stock markets catering to small high-tech enterprises (Carpenter & Petersen, 2002). It is prudent to revise industrial policies to nurture the high-tech industry (Ślusarczyk, 2015).

Again, tailoring policies specifically to attract high-tech investments can allure foreign investors by considering a blend of factors and investment profiles, encompassing natural resources-seeking, market-seeking, strategic asset-seeking, efficiency-seeking, and return-seeking investments. In the context of the high-tech sector's expansion within the framework of European integration, proposals have emerged advocating for the rational specialization of each high-tech sector within national or regional economic systems, along with introducing the 'oases' concept and comprehensive clustering (Melnikas, 2014). There has also been a strong emphasis on public policies that should incentivize private research and development (R&D) activities, thus facilitating a transition towards high-tech specifications within the manufacturing sector (Karahan, 2014).

Additionally, as argued by Moreira (2016), it is recommended that governments display a heightened commitment to addressing the credit needs of Internet and high-tech small and medium-sized enterprises (SMEs) to achieve more rapid and sustainable economic growth. This will aid significantly in expanding and diversifying the economy.

CONCLUDING REMARKS

During the pandemic's peak, countries that had amassed substantial savings could swiftly support households and businesses without significantly accumulating extensive public debts or relying on bailouts. While diversification is pivotal in fortifying economic resilience and reducing susceptibility to external influences, the accumulation of fiscal savings from revenues generated by crude oil sales is equally crucial. A comprehensive discourse on economic diversification necessitates addressing the manufacturing sector. Ultimately, a rapid and substantial expansion of Nigeria's manufacturing industry, both in terms of production output and exports, stands as the catalyst for job creation, elevated income levels, and sustainable economic growth in the long run.

Regrettably, Nigeria faces considerable challenges within this sector. According to data from the National Bureau of Statistics (NBS) for 2021, the manufacturing sector accounted for merely 9% of the total real GDP and a meager 5.2% of export earnings. Moreover, the percentage of manufactured goods exported from Nigeria stood at only 4% in 2021 and dropped to 2% in the initial three quarters of 2022.

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