Diversification of Nigerian Economy; A Panacea of Economic Recession.

How Economic Diversification Can Be Integrated Into Sustainable Development

Bashir Babangida Kurfi¹, Professor Dr. Zakaria B. Abas²

¹School of Othman Yeap Abdullah Graduate School of Business, Universiti Utara Malaysia Sintok, Malaysia.
²Universiti Utara Malaysia Sintok, Malaysia

Abstract: Recently, a remarkably recession engulfed the Nigerian state, the causes as well as sense of threat and uncertainty induced by the crisis have been differently interpreted, particularly from the macro-economic, leadership and strategic stand points. This study would focus on the impact of the economic recession on Nigeria in the socio-economic context, its concepts, causes and implications for the wider economy and the need for economic diversification and how it can be integrated into sustainable development. The study will use multiple regression analysis of time series data on selected macroeconomic variables in two econometric models. With the research findings; policy makers and regulatory agencies/bodies in the country such as Central Bank of Nigeria (CBN), Office of the Economic adviser and the Ministry of finance, would be well equipped to guard and guide against future occurrence, the study will synthesize technical information on the concepts and theories of economic diversification to enhance the understanding of the subject which could be very significant to students, researchers and scholars who are interested in developing further studies on the subject matter.

Keywords— Recession, Inflation, diversification, food security, unemployment, poverty, export, imports, Industrialization, Manufacturing and Economic Recovery, gross domestic product, and corruption

I. INTRODUCTION

The study will present the empirical findings on the impact of economic recession on macroeconomic stability in Nigeria; its concepts, causes and implications for the wider economy and the need for economic diversification and how it can be integrated into sustainable development. The Nigerian economy has been hit hard by a recession, caused by excessive imports, plunging oil revenue and sharply low investment inflows. A recession is an economic crisis in the business cycle contraction, which results in a general slowdown in economic activities in two or more quarters six months and above [34] Macroeconomic indicators get worse, the Gross Domestic Product (GDP), investment and consumption spending, savings rate, imports and exports, capacity utilization, household income, trade, capital flows, business profits and inflation decline, while indebtedness, illiquidity, bankruptcies and the unemployment rates raised. The [35] defines recession as "a significant decline in economic activity spread across the macro economy, lasting more than a few months, normally visible in real gross domestic product (RGDP), real income, employment, industrial production and wholesale-retail sales". Usually, recession may be triggered by financial crisis and or credit crunch, as well as demand and supply side shocks [28]; Under ideal condition, a country's economy should have the household sector as net savers and the corporate sector as net borrowers, with the government budget nearly balanced and net exports near zero. When these relationships become imbalanced, recession can develop within the country or create pressure for recession in another country [30].

Current Global Crisis started as a financial crisis but now a Global Economic Crisis. According to [29] The financial crisis started in the U.S in August 2007 with sub-prime mortgage crisis as households faced difficulties in making higher payments on adjustable mortgages, by the first quarter of 2008; there was widespread credit contraction, as financial institutions in the US tightened their credit standard in light of deteriorating balance sheets [29]. In the fourth quarter of 2008, increased delinquency rates affected not only sub-prime loans but also spilled over into real sectors and other credits, policy makers are still sorting through the wreckage following the financial crisis that roiled the world in 2008 and the ensuing global recession, the deepest in generations. In Nigeria the policy maker respond to the likely effects of this crisis was meek initially, either they did not understand the crises or underestimated its magnitude. In general, they thought of the crisis as a financial issue that could be solved shortly without leading to economic crisis; however the effects on the oil sector cannot be underestimated. The adverse impact of the crisis is more direct and more evident on the international price of oil. The recent movement of the oil price is apparent in its unprecedented decline from record highs of about USD 147 per barrel in July 2008 and decline to USD 28 per barrel in 2016. [14] And this one of the remote and immediate causes of the economic recession in Nigeria, which is a symptom of monoprodut economic structure.

Traditionally, economic diversification has been used as a strategy to transform the economy from using a single source to multiple sources of income spread over primary, secondary...
and tertiary sectors, involving large sections of the population [44]. The objective has always been to improve economic performance for achieving sustainable growth, reducing vulnerability to income loss due to volatility of product price on the international market, creating job opportunities and alleviating poverty.

1.2 Statement of the problem

Recent economic recession in Nigeria was a manifestation of long-term ills in the structure of the economy. The recession seems to affect socio-political structures, Nigeria’s credit condition, food security, general living standard, imports, production as well as consumption demand in Nigeria. Fast developing economies like China, India, Brazil, including Malaysia depend on exports to drive their economies. Nigeria cannot afford to do otherwise.

For many years, The importation of petroleum products covers 30 percent of Nigeria’s GDP, importation of toothpick, rice, fish, cassava starch, sugar and processed tomatoes take 20 percent; importation of garments and fabrics 15 percent, importation of cars and electronics 20 percent; resulting to sky-rockets inflation of 17.8 percent in 2016 and the demand for foreign exchange and imports (including imports of petroleum products) remained high in the face of dwindling oil revenue. [15]

Many researchers has discussed about economic recession, implication, causes and solutions. Such authors include [33], [43], [8], [14], [3], [26] and [15]. However, most of these studies pay attention on macroeconomic implications and solutions; unemployment, exchange rate, poverty, inflation and fail to pay specific attention to the pressing causes of recession in Nigeria which is a symptom of monoproduction structure, lack of economy diversification and over-reliance on imports, this necessitates further study. Hence, this study pays more attention towards economic diversification and how it can be integrated into sustainable development.

1.3 Objectives of the Study

- The main objective of this study is to examine the short-run and long-run causality between the recession and the Nigerian economy. Other specific objectives are:
  - To evaluate the transmission channels of the global economic crises to Nigerian economy
  - To examine the macroeconomic policies models adopted by the affected countries to mitigate or insulate their economies from its heinous impact and lessons for future reformatory policies.
  - To determine how critical economic diversification is and how it can be integrated into sustainable development.

1.4 Research questions

The issues of economic crises which have serious impacts on government revenue, employment, inflation, poverty and income vulnerability this become major policy discourse globally. To this extent the research work will generate a set of questions which include the following:

- What are the root causes, consequences and implications of economic recession to the economy?
- What are the linkages of the global economic crises to Nigerian economy crises and the macroeconomic policies models adopted by the affected countries to mitigate or insulate their economies from its heinous impact?
- What macroeconomic policies are suitable to move Nigerian economy from Monoculture economy to diversified economy, and how economic diversification could be integrated into sustainable development?

These are the research questions which the study

1.5 Significance of the study

This research amongst other reasons would be conducted with a view to determine the impact of economic recession on the Nigeria economy. With the findings, policy makers and regulatory agencies/bodies in the country such as CBN, Office of the Economic adviser and the Ministry of finance, would be well equipped to guard and guide against future occurrence. The study will synthesize technical information on the concepts and theories of economic diversification to enhance the understanding of the subject, and provides general guidance on how to approach economic diversification initiatives. And the findings would be very significant to students, researchers and scholars who are interested in developing further studies on the subject matter.

Korea, is largely attributed to their export-promoting policies rather than import-substitution strategies [49].

In spite of no clear consensus on the measures that are necessary to achieve economic diversification. The most compelling conclusion based on recent studies and confirmed by the practical experience of most successful countries, such as Chile, is that the most important step a government can take is to focus on the fundamentals, that is: to maintain macroeconomic stability and improve the business climate (control of inflation, an open trade policy, transparency and good governance, a conservative and countercyclical fiscal policy, a healthy banking sector, etc.); to invest in infrastructure (roads, communication and access to electricity and water); to improve the business climate and encourage private investment; and to invest in people, especially in education at all levels [21].

Following this introduction, section II is the statement of problem. Section III presents the literature review, section IV contains the methodology
II. LITERATURE REVIEW

The history of economic recession is as old as the history of humanity itself, dating back to the 3rd Century known as imperial crisis (AD 235-284), The 14th Century economic crisis, Tulip mania, peace time Credit Crisis of 1772, post-Napoleonic depression, 1907 Knickerbocker crisis, great depression of 1930, the global financial crisis (GFC) In the 21st century, Preceding to Nigeria economic recession 2016/2017. (CBN, 2012) [14]

Globally, there is geopolitical tension around the world, causing global crisis and commodity prices dropping, the drop in crude oil prices, Russia-Syria crisis, ISIS, illegal migration and refugee crisis which are remote but important causes of the recession as Nigeria is an integral part of the global economy. As identified by [2] Following mortgage crisis of 2009 which started in the USA, there have been a couple of actions which, given the size of US economy in the world, has had certain impact, both positive and negative on emerging markets and frontier markets where Nigeria unfortunately stands today. Amongst the immediate causes, the current recession in Nigeria is a symptom of monoculture economic structure, lack of economy diversification and over-reliance on imports.

The Nigerian economy contracted due to global oil price shocks and volatility, worsened by oil pipeline vandalism and depletion of foreign reserves by the previous governments [17]. Similarly, [31] confirms that Nigeria’s recession was triggered by a sharp drop in government revenues and /or a drop in consumer spending. A drop in global oil prices (which Nigeria cannot control), triggered a drop in revenue and government spending due to Nigerian government not being able to earn what it used to earn before the drop. Nigeria is not the only country that has experienced economic recession. Several other countries have also gone through recession in different phases and have recovered in varying degrees. They include: Korea, Hong Kong and Southeast Asia 1997-1998, United State of America 1974-1975, double deep recession in 1949 and 1980-1982, Japan in 1993-1994, Thailand 1997-1998, Australia 1931-1932, United Kingdom in 2000 and Venezuela double deep 2015-2016, [12]. If any known market economy would have escaped a recession, it would have been the US economy, however, despite prudent economic management, the US economy experienced periodic recessions and the last global economic crisis was triggered by the collapse of the sub-mortgage sector [2].

2.1 Review of Nigeria Economic history

Nigeria became politically independent of British Monarch 1st October, 1960, and on October 8, 1960 she made her first appearance on the international arena when she joined “United Nations General Assembly and became the 99th member nation of the organization. Nigeria’s foreign policy is “non-alignment in foreign relations”, As member of comity of nations, Nigeria is represented on many committees and commissions of the United Nations committee of Twenty-One Disarmament Committee, UNESCO,UNICEF, WHO and UNTAD. Nigeria also belongs to the International Bank for Reconstruction and Development (JRB) and the International Monetary Fund (IMF) as well as the International Development Association, (IDA) Perhaps and African Union (AU), Nigeria has diplomatic relations with countries in Europe, Africa, America and Asia [51].

Nigeria’s economy before the discovery of oil in 1956, Nigeria’s economy was essentially agrarian through which agricultural produce such as cash crops were exported, thus making the nation a major exporter in that respect. [5] Observed that "agriculture assumed the mainstay of Nigeria's economy in the decade spanning 1960 and 1970s, when it was nationally reckoned and utilized as the major income earner for both the people and the government". Thus, agricultural sector offered, amongst other things, vast opportunities and employed over seventy per cent of the Nigerian labour force; provided the basic food requirements for the country with the population of over one hundred and thirty million people; and provided raw materials for local industries. Moreover, exportation of the agricultural products helped Nigerian in taking giant strides towards her economic growth; there by the role of agriculture can also be conceived in terms of its contributions to the process of economic development.

However, following the discovery of crude oil in the late 1950s, petroleum production and export play a dominant role in Nigeria’s economy and account for about 90% of the nation’s gross earnings. Put differently, upon the discovery of crude oil and its subsequent exportation, there was a boom on the economy of Nigeria as it accounted for over 90% of the country’s foreign exchange earnings. Furthermore, the emergence of petroleum oil production in the 1970s significantly altered the structure of the Nigerian economy and consequently led to a new political-economic orientation as national wealth was expanded with new opportunities for rent-seeking behaviors [5]

2.2 Economic diversification

Realizing that economic diversification contributes positively to economic performance, much of the economic and sustainable growth policy discussion revolves around the development of strategies designed to induce greater economic diversification [20] Studies are continuously being undertaken by researchers to understand the complexities, linkages and performance of implemented economic diversification policies, including: developing and testing reliable empirical methods to measure economic diversification; understanding the performance of various determinants driving economic diversification; and understanding the effect of various policies on sustainable development (e.g. impact on labour market, employment generation, export growth). However, owing to the complexity created by differing national circumstances, standardized conclusive strategies are not advised; there are
only lessons learned from experience to be tested and followed up on.

The World Bank reviewed various drivers of economic diversification in various studies and grouped them into three categories: economic reforms, structural factors and macroeconomic variables. A recent study on 212 exporting firms classified the drivers as internal and external; internal drivers include export commitments and the experience level of staff and the structure of human resources; while external drivers include competitive intensity and distances between the export firms and markets [36].

2.3 Conceptual review of Recession in other countries

Recession is common occurrence in the world; Countries go in and out of it. The typical antidotes are (a) inflate the economy through a stimulus package; (b) increasing attractiveness to foreign investors; (c) cutting down on wasteful spending and corruption; (d) increasing employment opportunities; (e) strengthening infrastructure for improved production and delivery of goods and services and (f) providing strong leadership by example at all levels of the system. As explained by [41]. The latest economic recession that started in 2008 and affected many European countries has hit hard Portugal and produced evident signs of economic contraction. From 2011 to 2013, the country lost approximately 7% of (GDP) and the recession period was characterized by rising deficits, which corresponded to 11.2% of GDP in 2010 and declined to 4.4% in 2015, still above the 3% established limit of the European Union Stability and Growth Pact. Significant levels of government debt amounted 129% of GDP in 2013, a value maintained in 2015

- **Recession in United State of America**

According to [25]. The last recession started in 2007 and ended in 2009. The one before that started and ended in 2001. The two previous recessions ran from 1990 to 1991 and from 1981 to 1982. In these cases, the time between the end of one recession and the start of another was about eight years on average. Between 1945 and 1981, recessions were much more frequent, but obviously something has happened to extend the time between them. During those nearly 14 decades, the United States has been in recession 29.8% of the time. Fortunately the economic conditions have gradually improved over this timeframe.

- **Impact of the recession in UK:**

According to the report of [10] following six consecutive quarters of negative growth, the year to 2009 Q2, unemployment levels were adversely affected by the recession at different times in each area. The West Midlands and North West regions saw the largest rises in the unemployment rate (4.7 and 4 percentage point rises respectively). The redundancy rate rose in every English region. The rise was greatest in the West Midlands, where the rose from 5.9 redundancies per 1,000 employees to 15.9 redundancies. During this period the Manufacturing, and Wholesale and Retail Trade industries had the greatest loss of jobs. Workforce jobs decreased over all English regions and in Wales between 2008 Q2 and 2010 Q2. The West Midlands saw the largest percentage of job losses, a 4 per cent decrease equating to 116,000 jobs. House prices declined between 2007 Q3 and 2009 Q1 in England and Wales. The level of net international migration into the UK reduced during the recession.

- **Effects of the Asian Financial Crisis in Malaysia**

In a publication of [24] During Asian Financial Crisis in 1997-98, the stock market in Malaysia crashed 75 percent and the currency plummeted 40 percent to a 24 year low. One billion dollars in foreign reserves were blown trying to prop up the currency. Ethnic Chinese tycoons were hit hard by the Asian financial crisis. Many remained technically bankrupt for years afterwards. At the peak of the crisis in Malaysia bank credit equalled 160 percent of GDP; Debt collectors received more work than they could handle and number of Mercedes sold in Malaysia dropped 60 percent. Malaysia was forced to delay its ambitious construction plans, stretching out loan payments to banks on the airport and other infrastructure projects, factories reduced their output or were closed, construction ceased and development projects were scrapped. Spending on the environment fell from 67 cents per person to 53 cents. The Malaysian economy contracted by nearly 7 percent in 1998. By 1999, the economy had rebounded. Growth was 5 percent that year.

2.4 Conceptual and Empirical Impact Review of Economic Recession on Nigeria:

As explained by [31], economic recession stagnate wage growth and increases the proportion of people on low pay, as well as swelling unemployment and underemployment. [33], pointed out that economic recession has a negative effect on the unemployment and a negative significant effect on the imports and exports of manufacturing firms in Nigeria. Based on the findings of [39] that economic recession has negative impact on standard of education (r = -.89, p = .000), teaching process (r = .82, p = .000) and students’ academic performance in Physics (r = -.84, p = .000). Similarly, the findings of [38] revealed three major effects of economic recession on the Nigeria building construction industry (NBCI); high rate of employment (RII= 0.93); high rate of bankruptcy (RII= 0.89) and reduction in mortgage lending rate (RII= 0.89), concluded that economic recession has negative effects on the NBCI.

Other findings showed that recession has negatively impacted the health of children, particularly those who were socioeconomically vulnerable [43]. It has been established that there is a proliferation and prevalence of Ponzi schemes in Nigeria and the wide acceptance or patronage has been attributed to the economic recession in the country [22].
III. THEORETICAL UNDERPINNING

3.1 Industrial organization theory (absolute specialization indices)

This theory assumes that the organization of the industrial sector in a country accounts for its level of economic diversification. A greater number of sectors in a country represents less market concentration meaning higher diversification. More diversified sectors (i.e. less concentrated) are more competitive (Scherer, 1980). The common empirical methods under this theory are the ogive index, the entropy index, the Herfindahl-Hirschmann index and the Gini index, which measure absolute specialization.

\[ \text{Ogive index} = \sum_{i=1}^{N} \frac{(S_i - 1/N)^2}{1/N} \]

where \( N \) is the number of sectors in a country and \( S_i \) is the sectoral share of economic activity for the \( i \)th sector. An even distribution of economic activity among sectors represents higher economic diversity. With \( N \) sectors, an equal distribution implies that \( S_i \) is equal to 1/N, the ideal share for each sector, and the ogive index equals zero, meaning perfect diversity. The ogive index can also be explained as a linear transformation of HHI. [40], cited in [49]. A graph within a graph is an “insert,” not an “insert.” The word alternatively is preferred to the word “alternately” (unless you really mean something that alternates).

3.2 Economic development theory

According to economic development theory, economic diversification is driven by simultaneous changes in production, consumption and trade patterns. It has been argued that diversification may be expedited by forces of unbalanced growth, especially the faster growth of sectors with high income elasticity of demand. To evaluate growth and instability impacts, knowledge of the types of sectors and intersectoral linkages is needed. Economic diversification can be viewed in terms of changes in an input–output (I-O) matrix or based on intersectoral linkages detailed in an I-O matrix. Input–output model: a unified framework. [47] Cited in [49] suggested an I-O model that incorporates elements of portfolio theory be used as the integrating framework for the analysis of economic diversity and diversification.

Import substitution is a popular diversification strategy and its impacts can be modeled using the I-O model. These impacts can be measured for the economy as a whole as well as for specific sectors. The sectoral distribution of growth and stability impacts can also be derived. This will allow policymakers to rank different policies on the basis of their growth and stability objectives and preferences with respect to growth and stability trade-offs.

3.3 The Keynesian theory (aggregate demand and the liquidity trap), and the classical (mercantilist theory)

Monetary and fiscal policies, are derived from both the Keynesian theory (aggregate demand and the liquidity trap), and the classical (mercantilist theory) and concept of macroeconomic equilibrium. The classical theory was the main body of economic theory (Say’s Law and the Quantity Theory of Money) accepted by Economists from the 18th Century until 1936 when Keynes published his book, the General Theory of Employment, Interest and Money. In the Classical theory, market forces operated in the system such as to maintain full employment and productive resources and consequently keep the aggregate output at the level produceable under conditions of full employment. The factors which determine the productive capacity of an economy are the quantity and quality of available resources in the economy, skill and efficiency (technology) with which these resources are combined. However, Keynes disagrees with the Classical on the concept of self-regulatory equilibrium. The focal points of the Keynesian theory are increasing aggregate demand, money supply, planned spending, interest rates regulation, devaluation, increasing government spending stimulus/injection. Deficiencies in effective demand cause unemployment, inflation and economic recession. Unemployment is not just a short-run voluntary issue as claimed by the classical theory, but a problem caused by ineffective demand and bad economic planning, [9]; [7]; [48] and [32]; [23]. Others are decreasing taxation and stabilization policy in compliance with expansionary monetary policy [42]; [6] and [16]. The classical theory advocates absolute and comparative advantages in free international trade, in line with the mercantilist aggressive policies to stimulate exports, reduce imports and the accumulation of capital through trade and exchange rate manipulations. This has facilitated the imperialist unipolarity of the world in a term coined globalization or liberal marketization.

IV. METHODOLOGY

4.1 Secondary Data Collection

In order to enhance this study and give the most recent literature on the research subject, the researcher intended to consult the works of experts in the field of economics, finance and globalization in context of economics through the use of journals from different electronic sources such as Emerald, Science-Direct, EBSCO, Blackwell Synergy, B Journal, World Bank E-Library and search engines such as Google-Scholar to source secondary data for this study. Similarly, journals authored by economics experts such Professor Chukuma Soludo, S.L.Sanusi, (Dr) Yemi Kale, Robert Aliber as well as recent conference proceedings would be use by the researcher to obtain latest updates on the research subject in financial crisis in order to harmonize the research.
4.2 Method of Analysis

The study will use multiple regression analysis of time series data on selected macroeconomic variables using econometric models with the data obtained by secondary research from literature to determine the impact of the economic recession on microeconomics stability in Nigeria. [50]; I will adopt the ordinary least square (OLS) method for data analysis [18] and [19]

Two models and two functions are formulated from the model thus: Equation 1 is going to measure the impact of recession on economy, while equation 2 will measure the diversification variables.

\[ \text{GDP} = f(\text{UMEMR, INFLR, BOP, APOV}) \]

\[ Y = a0 - a1\text{UMEMR} - a2\text{INFLR} + a3\text{FDISR} + a4\text{APOV} + \mu \]

(1)

Where \( a0 \) is the intercept of the model, \( a1, a2, \) and \( a3 \) are the slope of the respective independent variables in equation one, \( a1, a2 \) and \( a3 < 0 \)

\[ Y = \text{Gross Domestic Product} = \text{GDP} \]

\[ \text{UMEMR} = \text{Unemployment rate} \]

\[ \text{INFLR} = \text{Inflation rate} \]

\[ \text{FDISR} = \text{Food insecurity rate} \]

\[ \text{APOV} = \text{Aggregate poverty rate} \]

\[ \text{RGDP} = f(\text{EXHEL, EXEDU, EXINFRAS, GRMAN}) \]

\[ YR = \beta0 + \beta1\text{EXPOW} + \beta2\text{EXEDA} + \beta3\text{EXINFRAS} + \beta4\text{GRMAN} + e \]

(2)

\[ \text{YR} = \text{Percentage Real Gross Domestic Product} = \text{RGDP} \]

\[ \text{EXPOW} = \text{Aggregate expenditure on Power} \]

\[ \text{EXEDA} = \text{Aggregate expenditure on Agriculture} \]

\[ \text{EXINFRAS} = \text{aggregate expenditure on infrastructure} \]

\[ \text{GRMAN} = \text{Percentage Growth in Manufacturing index} \]

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