Diversification Towards Industrialization: A Pathway to Building a Resilient Nigerian Economy

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Abstract

Successive governments have made various attempts at diversifying the Nigerian economy to foster economic resilience and competitiveness, albeit with suboptimal outcomes. This paper, therefore, presents diversification toward industrialization as the sustainable pathway towards building a resilient and competitive Nigerian economy. The finding revealed that the Nigerian industrial sector's contribution to aggregate output, employment and exports is at a low ebb, suggesting the need to revamp the sector for improved performance. Lessons are drawn from international experience in this regard and policies to achieve this goal are outlined in this paper.

Introduction

Diversification towards industrialization is central to structural economic transformation and building a resilient economy. Notable economies that employed this route to drive structural economic transformation, resilience and competitiveness, which have established them as a major global force, are China, Singapore, Malaysia and South Korea, among others (Adeoti, 2020). While shocks are somewhat inevitable, industrialised economies appear to be less affected by internal and external shocks than natural resource-based economies. Many countries in Sub-Saharan Africa, including Nigeria, are largely natural resource-based, import-dependent and small open economies (Ogunjimi, 2020a). These features make them more susceptible to external shocks and explain the pervasive macroeconomic instabilities and uncertainties common in these countries. The 2008 global financial crisis and the recent COVID-19 pandemic are typical examples of global shocks, which had varying impacts on different economies, subtly testing their level of resilience.

Nigeria, a small open economy and a major oil-exporting and oil-importing country, have had series of booms and busts in recent years owing to the persistent volatility of oil price in the international market (Ogunjimi, 2020b). With crude oil as its major export product, source of foreign exchange and government revenue, the Nigerian economy has faced series of business cycles that threaten its macroeconomic stability. Nigeria's boom and bust revenue cycles, associated with oil price movements, essentially steer the fiscal management of its economy as the government's spending patterns often mirror the dynamics of international crude oil price. This procyclical fiscal policy behaviour undermines macroeconomic stability and could heighten the precarious macroeconomic woes of Nigeria. Nigeria's high unemployment rate, wide income gaps, high poverty level and low economic competitiveness need to be addressed and not compounded.

The disruptive effects of external shocks have further accentuated the diversification imperative in Nigeria. Consequently, there have been growing concerns on building resilience in the Nigerian economy, especially with the bleak future the country faces if pragmatic strategies are not deployed expeditiously to save the economy from its impending collapse. Economic diversification, particularly through industrialization, offers great hope in this regard and has been presented as a sustainable panacea to the various economic conundrums bedeviling the Nigerian economy (Afolabi and Ogunjimi, 2020, Awotunde, 2020). Successive governments have made numerous policy efforts toward building resilience in the Nigerian economy but with little success. Nigeria's poor responses to recent global shocks, which led to economic distortions, are testaments to the fragile nature of the country's economy hence, the need to build resilience that helps construct a bulwark against shocks and aids macroeconomic stability.

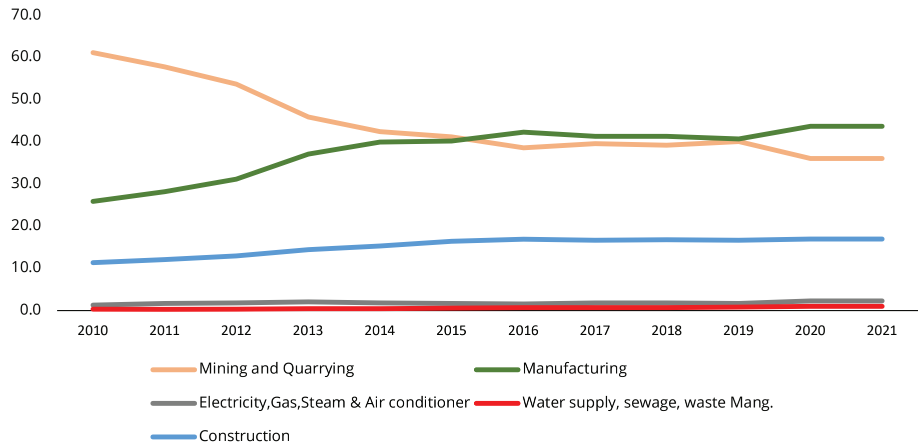
Evidence shows that industrial-based economic diversification fosters resilience to external shocks (Andreoni, 2021). Against this backdrop, this paper explores how Nigeria can build economic resilience by powering industrialization to achieve its age-long desire for economic diversification and competitiveness. A situation analysis is carried out in the next section to show the present state of Nigeria's industrial sector and its performance. The following section details the pathways industrialized countries trod to build resilience and draws lessons for Nigeria from the international experiences. Finally, the last section provides pragmatic approaches to powering industrial-based economic diversification in Nigeria.

Overview of the Nigerian Industrial Sector

The industrial sector is critical for structural economic transformation as it is the real sector that engages in the extraction and conversion of raw materials into finished and semi-finished products. The sector does value addition and promotes forward and backward linkages to spur growth. The industrial sector output could serve as an input in other economic sectors, which could also provide input factors to the industrial sector. The Central Bank of Nigeria (CBN) disaggregates the Nigerian industrial sector into five key subsectors: mining and quarrying, manufacturing, electricity supply, water and construction. However, the manufacturing and mining and quarrying subsectors are the most prominent in terms of their contribution to industrial output in Nigeria (see Figure 1). The development of the industrial sector has great potential to foster inclusive growth through its job-generating and welfare-improving prowess. However, the Nigerian industrial sector has been performing below par over time.

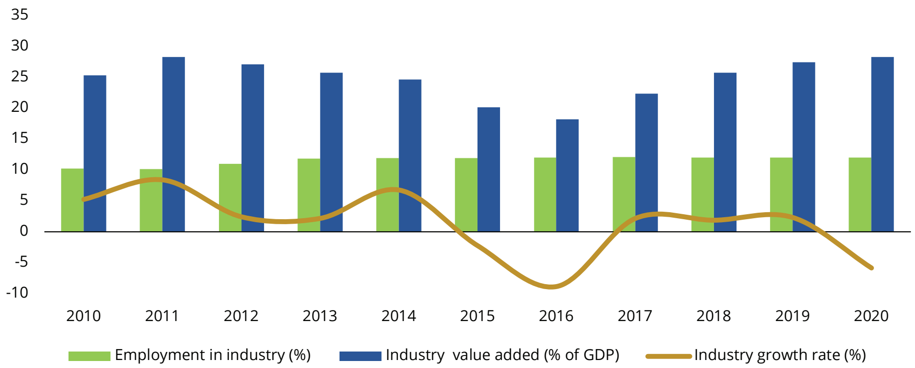
The sector's contribution to national employment and aggregate output is comparatively low (see Figure 2). Specifically, the sector's share in total employment is significantly below 15 percent and its share in aggregate output averaged 25 percent between 2010 and 2020. This signals that the sector's job-creating and growth-enhancing potentials are yet to the effectively harnessed despite Nigeria's growing unemployment and growth challenges. The volatility in the sector's growth rate, as shown in Figure 2, reflects that the sector needs urgent attention for improved performance. However, some of the factors constraining the Nigerian industrial sector from maximizing its full potential include epileptic power supply, limited access to financial support, unfavourable government policies, low adoption of technological innovation and an unfriendly business environment (Adeoti, 2020). These factors have not only crippled industrial development in Nigeria but also frustrated every effort towards economic diversification.

Figure 1: Share of Industrial Subsectors' Output in Total Industrial Output (percent)



Source: Central Bank of Nigeria (2021)

Figure 2: Performance of the Nigerian Industrial Sector



Source: World Development Indicators (2021)

The manufacturing subsector, a key growth driver and employment creator in industrialized countries, has been pinpointed to effectively lead the quest towards economic diversification and competitiveness (Nyor and Chinge, 2014; Newman et al., 2016). However, Nigeria's manufactured products constitute an insignificant share of Nigeria's export basket (see Figure 3a). The meagre percentage contribution of the subsector to Nigeria's total export signals that Nigeria either has a low capacity to produce exportable manufactured products and/or its manufactured products are less able to withstand the stiff competition in the international market. Given that products that enter the international markets are often subjected to series of tests to ensure they comply with international standards, many Nigerian products fail global standard tests and are denied entrance into the international market (Roy and Yasar, 2015). The Nigerian manufacturing subsector, like many other Nigerian economic subsectors, is highly import-dependent as reflected by the high volume of manufactured imports in total merchandise imports (see Figure 3a). The high share of manufactured imports in Nigeria's merchandise import gives further credence to Nigeria's low capacity to domestically produce input factors that could drive productive operations in the country's manufacturing subsector.

While technological innovation has been integrated into industrial processes across many developed countries, Nigeria appears to be a laggard in the production and deployment of technology innovation. This implicitly reflects in the low share of high-technology exports in Nigeria's total manufacture exports (see Figure 3b), which indicates that Nigeria's manufactured products are less sophisticated to compete with complex technological products from other countries. It is, however, essential to note that Nigeria's high-technology products were relatively high in 2015 and 2020, the years when Nigeria was severely hit by oil price shock (dwindling global crude-oil price) and twin shocks (oil price and COVID-19 pandemic shocks), respectively. This trend suggests that technology played a crucial role in boosting Nigeria's manufactured exports during shocks and could help build bulwarks against external shocks. Thus, integrating technological innovation into the Nigerian industrial sector and other economic sectors, by extension, will not only foster economic diversification but also help the sectors build resilience against shocks.

Figure 3a: Manufactures Trade (percent of Total Trade)

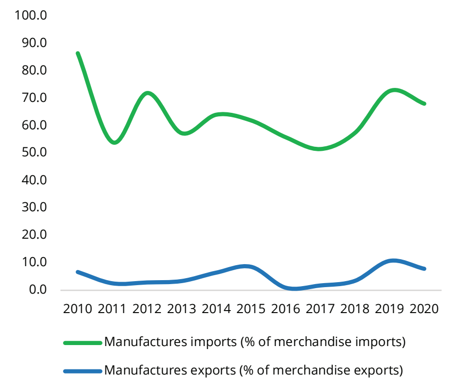
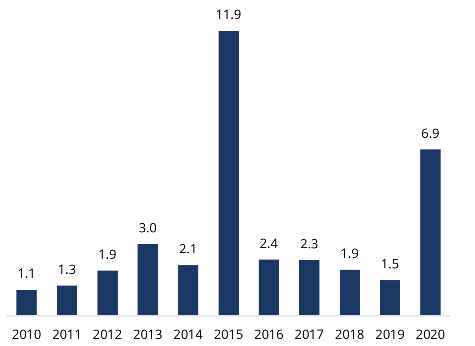


Figure 3b: High-technology exports (percent of manufactured exports)



Source: World Development Indicators (2021)

Building Resilience through Industrialization: Lessons from International Experience

Some countries have powered industrialization and rapid economic progress, presenting lessons to foster industrial development and build the resilience in the Nigerian economy. Asian countries (such as China, Singapore, South Korea and Taiwan) are notable for their dramatic economic transformation and industrialization despite being considered third-world countries in the 1960s. They evoked an Asian miracle that made them record unprecedented growth rates and heightened industrial development. From the intensive government intervention to the high private sector participation and strategic industrial policies, these Asian countries present models that could be studied and adopted for dramatic industrial development. The countries used both horizontal and vertical diversification approaches to transform their economies (Seric and Tong, 2019). While horizontal diversification entails expanding the production of primary products and basic manufacturing goods, vertical diversification involves upgrading towards more technology-intensive production.

Notably, different countries applied different strategies in their pursuit of industrial development. For example, the South Korean government used trade restrictions to protect infant industries; rationed foreign exchange to support importation of intermediate and capital goods; gave export subsidies to high-performing exporting firms; and used foreign direct investment to foster knowledge transfer to domestic firms (Chang and Zach, 2019). Similarly, the Malaysian government fuelled industrial development by financing factory construction in industrial zones; providing tax incentives to export-oriented firms and investment subsidies to local producers; and formulating flexible industrial policies. The narrative is not too different in China, where the government provided numerous incentives to attract foreign direct investment into export processing zones; extracted concessions from multinational corporations with respect to joint venture, skill and technology transfer, and local sourcing; used export processing zones to integrate domestic firms into the global market; gave subsidized credits to industrialists through government financial institutions; introduced trade barriers to protect domestic infant industries; and introduced the "Made-in-China" initiative to increase local production and raise export performance (Afolabi and Oji, 2021).

Overall, Chang and Zach (2019) identified four strategies that fostered industrial development among Asian countries. The first factor is the degree of pragmatism characterizing their industrial policies as the countries adopted industrial catch-up methods even when the approaches negate their ideology. Second, the countries were flexible enough to modify their policies in line with the structures of their economies and the nature of their interactions with the rest of the world. Third, the countries imposed appropriate industry-enhancing monetary and fiscal policies to fuel industrialization. Fourth, the countries exhibited high state capacity as the governments were committed to achieving policy goals, which powered industrialization. These strategies are crucial for industrial development and could be deployed in the Nigerian industrial sector to actualize industrialization and build resilience in the Nigerian economy.

Conclusion and Policy Recommendations

This paper has shown that the Nigerian industrial sector has been performing sub-optimally and needs dramatic resuscitation, given its potential to transform the Nigerian economy structurally. The following recommendations are made to aid the realization of this noble goal:

1. Design new industrial policies that account for current realities and pursue the effective implementation of extant industrial policies. Policymakers should design, implement, monitor and regularly evaluate new and extant industrial policies to prevent policy summersault and to improve the performance and competitiveness of the Nigerian industrial sector. Precisely, the government needs to regularly and closely interact with industrialists to identify their problems and proffer plausible solutions to these problems through policy interventions. Free-market policies that will facilitate increased private sector participation should also be implemented to further improve industrial development.

2. Deploy fiscal and monetary frameworks to power economic diversification. The complexity involved in economic diversification makes deploying a blend of fiscal and monetary policy instruments imperative to drive diversification through the industrial sector. Specifically, the strategic interplay between expansionary fiscal policy (such as an increase in government expenditure to the industrial sector) and monetary policy (such as charging low lending rates for industrialists) will aid the actualization of the age-long industrialization dream of Nigeria.

3. Integrate technological innovation into the industrial sector's operations. This can be done by increasing investment in technological innovations, particularly those that will facilitate industrial production. Investment in industrial technologies and infrastructures should also be prioritized to boost industrial output and increase the quality of Nigeria's manufactured products. Policymakers should also design and implement policies that will ensure manufactured products meet certain international standards. This will make these Nigerian-made products become more exportable and competitive in the international market, and also promote the industrial sector's contribution to aggregate output, exports and employment.

4. Foster knowledge and technology transfer to boost industrial production. The government should encourage interactions between foreign and domestic firms in a bid to foster knowledge and technology transfer among the firms. More so, platforms that will facilitate interactions between industrial firms and research institutions (domestic and foreign) should be created to enable knowledge and technology transfer from researchers/innovators to industrialists. Certainly, this will tremendously aid industrial development in Nigeria.

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