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Economic Restructuring: An Imperative for Diversification of the Nigerian Economy

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ABSTRACT
Economic diversification is an essentially necessary option to overcoming pending dangers of mono-culture practice. As a mono-culture economy, Nigeria is susceptible to the vicissitude of market forces, because if the single product of the economy is no longer viable, or no more valuable to consolidated consumers, the single-product economy is at threat of recession (fall in gross domestic product). Unfortunately, the Nigeria political economy has been structured to have heavily centralized its economic resources making it impossible for active economic participation of interest groups (including professionals). Where the Federal government has more than 50 percent of accrued revenue, there is obviously no incentive to devolve economic resource control, so long as crude oil continues to provide the needed revenue. This study adopted the political economy methodology. Findings of the study revealed that devolution of economic resources (economic restructuring) is a sine qua non for diversification of the Nigerian economy for sustainable growth and development.
Keywords: Economic Restructuring, Diversification, Nigerian Economy, Political Economy, and Mono-culture Economy.

JEL Codes: E71, P14, P26, P35, P48

INTRODUCTION

The need for diversification of the Nigerian economy cannot be over emphasized. Nigeria is just exiting economic recession she found herself in 2016 on the instance to 60 percent loss of revenue from crude oil export in 2015. The reality is that the global economy is currently stagnating with so much uncertainty about its future. This has serious economic implication for mono-economies like Nigeria that depends mainly on the production and export of crude oil, or small range of products, or that sell products in only few overseas markets. The prices of Nigeria's export basket have also declined sharply. These call for urgent need for diversification strategies that can deliver sustained, job intensive and inclusive growth in Nigeria (Fruman, 2017).

Recently, countries like India, France, Britain and Norway made public their plans to switch completely to alternative energy for their automobiles between 2030 and 2040. Thus sending shivers down the spines of oil producing countries. This should rather serve as a wakeup call for members of the Organization of Petroleum Exporting Countries (OPEC) who had hitherto relied entirely on crude oil sales as a major foreign exchange earner to diversify their economies as a matter of urgency.

Good as diversification of the Nigerian economy many sound, the reality is that the current political economy structure of Nigeria does not offer genuine operating, conducive environment for economic diversification strategies that could yield the expected sustained, job intensive and inclusive growth. Nigeria is richly endowed with varieties of mineral resources**.** There is no state of the federation that does not have at least one solid mineral in marketable quantity (Onigbinde, 2017).

In the past, Nigeria had relied heavily on agricultural produce for her foreign exchange earnings. What is now the situation? Couldn't part of the oil proceeds be ploughed back into agriculture for greater productivity? What was the structure of Nigeria's political economy when agriculture was the main stay of the Nigerian economy?

Nigerian political economy is largely centralized with most economic resources under the control of the central government. Hence each time the government attempts to diversify, she had to first deregulate for private sector participation. Unfortunately, political jobbers and elites catch in on the opportunity for rent seeking, in the process; genuine investors with expertise and financial capacity are schemed-out. A case in point is the power sector deregulation that ended up transferring public investments to private, political elites, creating regional monopolies in the power sector. Diversifying economic resources among the federating units of states and federal government will mean competition among the states for revenue generation from available resources. Competition leads to innovation, which further brings about increase in output, and consequently, boosting the export basket of the nation both in variety and intensity. An example is Chile that became independent in 1965, five years after Nigeria's independence, relied mainly on few agricultural produce for foreign exchange earnings on early stage of their nationhood. Today, Chile has diversified her economy, exporting more than 2,800 products to more than 120 difference countries, while Nigeria exports about 780 products to 36 major trading partners.

Chile's success story in diversification is basically as a result of her effective competitive product markets that subsequently engendered private sector driven diversification (Fruman, 2017). The reality for Nigeria is the direct opposite of Chile's experience in diversification. The current structure of Nigeria political economy cannot, guarantee effective product market competition, and therefore, cannot bring about the needed robust economic diversification that is inextricably linked with economic development and poverty reduction, where successful diversification of the Nigerian economy is crucial in increasing the number and quality of jobs in the face of a rapidly growing youthful working population. No doubt, economic restructuring will unlock Nigerian immense potential for genuine diversification that will bring about innovation, increase in output, job intensive, inclusive and sustainable growth.

The major objective of this study is to investigate the influence of economic restructuring on diversification of the Nigeria economy for sustainable growth.

Literature Review

Diversification

This is a strategy for penetrating into a new market in which the trade does not currently operate, in which case new product(s) is created for the new market. Diversification requires the acquisition of new skills, knowledge, new insights into market behavior of the new market, and new infrastructural facilities.

Product diversification is the addition of new products to existing products either in terms of manufactured goods or services. The expansion of existing product line with related products is one way of diversification by businesses. This could either be brand extensions or product extension to increase the volume of sales and the number of customers.

Diversification could be backward, when the business divest into production of inputs in the business, forward diversification, when the firm venture into activities which are concerned with a company's output; while horizontal diversification occurs when a company develops interest complementary to its current activities.

Economic diversification

This refers generally to the process in which a growing range of products are produced. It also refers to the diversification of markets for exports or the diversification of income sources away from traditional economic activities. Economic diversification is either in terms of the diversity of economic activities or markets. Economic diversification has become a significant issue for many developing countries, like Nigeria, as their economies are generally characterized by the lack of it. They have traditionally depended heavily on the production and export of primary commodities that are predominantly vulnerable to climate variability and change.

Economic Restructuring

Restructuring is a drastic or fundamental internal change that alters the relationships between different components or elements of a system. In the world of business, restructuring is the act of reorganizing the legal, ownership, operational or other structure of a business concern for the purpose of making more profit, or better organized for its present needs.

Nigeria is presently a federation, but what kind of economic structure does the Nigerian federation have today? The current structure of Nigerian political economy is not really that of a federation. The idea of a federation is that the various distinct parts of a country should be made a federating unit (or state). Each state should have the constitutional power to manage its unique problems and concerns, to develop its own resources for its people, and to make it own kind of contributions to the center. The central government should manage common matters like the defense of the country, international relations, the country's currency, the relationship between the states of the country, and general principles like defense of human rights. That, essentially, was the federal arrangement that the founding fathers of our country, Nigeria (Azikiwe, Ahmadu Bello and Awolowo) agreed upon in the 1950s (Gboro, 2017).
The military since 1966, have gradually distorted and destroyed the true federal structure and replaced it with a structure in which the federal government is the controller of virtually all power and resources as well as the power to develop all resources, and the states have no control over their resources and must depend on federal allocations of funds to exist. The federal government is over burdened, controls too much money, and has become egregiously inefficient and corrupt. The states are impotent, cannot develop their resources, cannot effectively fight poverty in their domains, and cannot make meaningful contributions to the progress and prosperity of the Nigerian state (Gboro, 2017).

Characteristics of Private –Sector –Driven Diversification

Elements that provide the foundation for private –sector- drive diversification according to Fruman (2017) include:

(i) An appropriate incentive framework based on a clear, transparent and predictable business and investment climate. This means reviewing trade policies to remove bias against export, and ensuring effective competition in product markets and in key services such as transportation, power and communication.

(ii) Investments in infrastructure and coordinated policy reforms to reduce trade costs. Reducing trade costs and increasing efficient trade logistics were at the heart of the success of East Asian countries in integrating into the regional and global economy and achieving more diversified economies

(iii) Effective policies to support the reallocation of economic resources to new activities. At the heart of this are labour-market policies and access to finance. These determine the match between workers and jobs, they help move economies away from declining sectors and from informal economic activity. Success comes by overcoming constraints to mobility, including barriers that limit the entry of women into the workplace.

(iv) Government interventions that target specific market, policy and institutional failures that address shortcomings in the marketplace. Information deficiencies and asymmetries, such as lack of knowledge of overseas market standards, are likely to be a key factor behind the comparatively low survival rate of new export flows in developing countries.

Over centralization is stifling the Nigeria Economy

The military created a highly centralized political and economic structure, with enormous power and resources concentrated at the centre. Instead of using the resources to build a solid diversified economic base for Nigeria, over-bloated federal government recurrent expenditure, almost 80% of budget year-on-year, subsidized government owned monopolies (Nitel; Nepa; Nigerian Railway; Nigerian Airways; NNPC; Nigerian Gas Company etc) with huge unfunded pension funds were foisted on the nation.

Empirical Literature Review

Oluwo (2016) in his study "A Case for Political and Economic Restructuring of Nigeria" came to the conclusion that; "the present structure of governance, where petrodollar money is shared every month encourages no state to develop its resources. It should be noted that before the advent of oil in Nigeria, the various regions were encouraged to invest heavily in commodities like cocoa, groundnuts, coffee, palm oil, etc. But fiscal federalism was sacrificed at the altar of the oil-boom. Nevertheless, no political restructuring can move the nation forward without first dealing with the economic malfunction of the Nigerian fabric. It seems settled that regional autonomy belies the real economic independence for survival of the states. The time has come to refocus the restructuring debate on a workable model that advocates appropriate political and economic reforms that is complementary and reinforcing."

Ikemitang (2017) synthesized the general views on restructuring in his study "Nigeria: Political restructuring or economic restructuring?" The study though was favorably disposed to economic restructuring, did not decisively conclude on the mode of economic restructuring as he concluded with the Minister of Industry, Trade and Investment, Okechukwu Enelamah's position on government current peripheral business environment reform.

Onigbinde (2017) in his address delivered to the First annual conference of the guild of Editors of corporate online publishers (GOCOP) titled "Diversification of the Nigerian Economy, Restructuring as First Principle" asserted that economic restructuring remains the first principle to diversification, and economic restructuring remains the requisite infrastructure procurement for diversification to flourish.

Muttaka (2015) examined the effect of Nigeria's oil dependency on economic growth. He observed that Nigeria has wasted much of its opportunities to break away from underdevelopment despite its massive natural and human resources endowment due to heavy reliance on her huge crude oil resources, regrettably mismanaged, as the major source of revenue. He identified and discussed on some key drivers of economic diversification such as investment, governance and regional dimensions of economic diversification as well as human and natural resources. He maintained that of all the other drivers, good governance remains a prerequisite in building an enabling environment for such diversification.

Young (1995) was of the view that the higher growth of output in the newly industrialized countries of East Asia than the rest of the world is almost entirely due to increasing economic diversification which increases labour force participation and empowerment in labour quality (through knowledge accumulation) and not attributable to rapid technological progress.

METHODOLOGY

The researchers employed the political economy approach, considered most appropriate because of the subject matter (economic restructuring).The term political economy is used largely in two ways. Firstly, is what Akpakpan (1991) described as "an attempt to revert to the original name to the subject and with this to the types of problems which were the concern of the subject and its philosophers at the time." Scholars like Nikitin (1983) Abalkin et al (1983), Eaton (1966), Howard and king (1975) all cited in Tamuno (1993) considered economics to have lost its social relevance, and that relevance can only be regained by reverting to its original name. Secondly, a method of economic analysis, that is, as a method of carrying out research studies. Ake (1981) used the term political economy in this second sense. In his words, "this method based on dialectical materialism assures the material conditions, particularly the economic system, as the decisive formative system, as the decisive influences on social life, and constituted the essential point of departure for discovering the laws of motions of a society and for explaining it." Thus, the researchers use the term political economy in this second sense as a method of economic analysis for this research study.

The three main features by which political economy can be identified as research method are:

- It recognizes the importance of non economic factors in its study of any economic problem and actually takes such other factor(s) into account.
- It attaches more importance to the history of the problem that is being studied as a background to the work.
- It does not rely exclusively on any particular technique of economic investigation, e.g. quantitative or non – quantitative technique considered appropriate in the particular circumstance (Akpakpan, 1991).

Economic restructuring and Diversification Nexus in Nigeria

Economic restructuring entails pruning the existing structure, devolving more responsibilities to the state governments, and the federal government divesting itself of some unwarranted administrative responsibilities. These will allow for greater participation, more competitive product markets, innovations, diversification and increase in output.

In specific terms:

Federal government should cede control of dams to state governments for massive participation in all-year round farming. This no doubt will lead to food sufficiency, cutting down on the huge foreign exchange needed for food importation as is the case currently. This will further deepen diversification in agriculture sector, bringing about increase in agricultural output which will not only lead to food sufficiency for the nation but will also provide raw materials for the industrial sector, and export for foreign exchange earnings (Ikemitan, 2017).

Federal government should limit the responsibilities of the Ministry of Solid Minerals to that of regulation, and cede control of solid minerals to states, thereby abolishing the law that vests all mineral resources under the soil of the Nigerian state to the federal government. This will allow states to partner with the private sector to exploit mineral resources and while paying an agreed derivation to the federal government. This will in the overall allow for greater participation and increase in revenue for all participants including the federal government.

Nigeria will gain immensely from the diversification of revenue in the natural resources that abound in all states of the federation, which will engender the much desired fiscal federalism and put states in a position to invest in the solid mineral sector. Kogi State, for instance, has tantalite deposits. Tantalite is used in the electronics industry for capacitors and high power resistors. It is also used to make alloys to increase strength, ductility and corrosion resistance. In the international commodity market, tantalite traded above USD250 per kilogram which has now fallen to USD132 per kilogram compared to crude oil price at below USD80 per barrel. However, this precious metal has remained idle underground unexploited (Oluwo, 2016).

Federal government must divest itself from involvement in the distribution of value added tax (VAT). For instance, we have an abysmally low level of tax revenue to GDP (estimated at 1.6% in 2012 and currently 7%) compared to other African countries. Ghana's tax revenue as a percentage of GDP is 14.9%, Kenya – 15.9%, South Africa – 25.5%, Egypt – 12.5% while Nigeria stands at 1.6%. From the above statistics, anything less than 200% increase in tax revenue, in the first instance, will still be sub-optimal. To effectively close the gap in the above statistics, there is the urgent need to come up with effective tax reforms.

The federal government must divest from the Transmission Company of Nigeria and break the national grid to regional grids. This will allow more private sector participation and eliminate the subsidy distortions. The power sector is another key sector that seems to hold the ace for the Nigerian economy. Relative stability in electricity supply will go a long way in boosting industrial productions and indeed Small and Medium Scale Enterprises (SMEs), which will ultimately improve Nigeria's GDP growth and youth employment. However, with less than 4,000MW power generation, Nigeria will need to generate a minimum additional 20,000MW. While the generation and distribution have been privatized, the transmission still remains in the tight grip of the federal government. Beyond mere privatization, what will ultimately unlock value and attract investors into the sector is full deregulation where states are supported to generate their own power through regional grid transmission structure or off-grid embedded power programme. Yet, the federal government has continued to artificially fix the price for power as well as the feed stock, thus stifling the emergence of a competitive trading in bulk power where market forces determine price and allocation of power resources.

CONCLUSION/RECOMMENDATIONS

The study findings revealed that economic restructuring is the fundamental infrastructure for product markets competitiveness; greater private sector participation which drive innovations and subsequently, diversification that will deliver sustained, job intensive and inclusive growth in Nigeria. The study therefore recommends that the federal government cannot continue with the present economic structure and the time to take the bitter pill is now. Accordingly, the federal government should cede control of dams and solid minerals to state governments. Divest from the Transmission Company of Nigeria (TCN) and put up holistic reform in the power sector. Finally, federal government will need to reform the tax system in Nigeria and divest itself from involvement in the distribution of value added tax (VAT).

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