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The Political Economy of Oil and Coronavirus Disease in Nigeria: Imperatives for Diversification

Akinyetun Tope Shola,[†] Bakare Kola,[‡] Ahoton Aihonsu Samuel,[ℐ] & Oke Solomon Jijoho[ɬ]

Abstract
Nigeria runs a mono-petrodollar economy, and the government has persistently ignored the calls for diversification except for when the price of oil plummets. Indeed, there has not been a tangible effort to sincerely shift the focus from being perpetually oil-dependent to developing the non-oil sectors of the economy and increase foreign exchange earnings. However, the outbreak of the Coronavirus pandemic revealed the volatility of the Nigerian economy and its susceptibility to oil shock and natural disasters. Situated within the context of the Cobweb Theorem, this paper explores how oil dependence has exposed the Nigerian economy to oil price fluctuation and the threat of an impending recession. The paper which relied on secondary data also examines the imperativeness of diversification as a way forward in Nigeria and concludes that the government must take advantage of her abundant resources and pay critical attention to other sectors of the economy such as agriculture.

Keywords: Covid-19; Diversification; Economy; Nigeria, Oil
JEL Classification Codes: P48

[†] Correspoding author, Department of Political Science, Adeniran Ogunsanya College of Education, Oto/Ijanikin, Lagos State, Nigeria, akinyetuntope@gmail.com | http://orcid.org/0000-0002-1906-3410
[‡] Email: kolabakare101@gmail.com
[ℐ]Department of Political Science, Adeniran Ogunsanya College of Education, Oto/Ijanikin, Lagos State, Nigeria, Email: sam_ahoton@yahoo.com
[ɬ] Department of Political Science, Adeniran Ogunsanya College of Education, Oto/Ijanikin, Lagos State, Nigeria, Email: solotone78@gmail.com

1. Introduction

Nigeria relies heavily on earnings from oil exports to finance its budget which leaves the country's economy highly unstable and vulnerable to shocks from volatility in oil price. The accruals from crude oil sales account for ninety per cent of the country's foreign currency income while eighty per cent of government revenue is realized from oil exports (Aregbeyen & Fasanya, 2017; Onoh & Ndu-okereke, 2018). In 2008 when the price of crude oil fell to $37.81 per barrel having hit a peak of $147, there were substantial cuts in the budget. This is due to the connection between the international crude oil market and budgetary operations in Nigeria. These cuts, however, had a resultant extensive effect on the Nigerian economy (Babalola, Akindele & Rotimi, 2018; Oriakhi & Iyoha, 2013).

As expected, therefore, the global financial meltdown of 2009 exposed the weakness of the economy when the revenue derived from oil plummeted to ₦4.84trillion; a nominal 39% reduction in annual revenue. The global economy recorded a convalesce in 2010 just as the price of crude oil. As a result, there was an increase in the Nigerian government revenue in the succeeding years; 2010 and 2011, to ₦7.3trillion and ₦11.1trillion respectively. In 2015, there was another global shock which also negatively affected Nigeria's economy with a substantial compression of the Gross Domestic Product (GDP) by 50 per cent from 578 billion dollars to 290 billion dollars, while per capita income plummeted from $3,100 to $1,500 (Adigun, Anumihe, Sanyaolu, Ebije & Ojo, 2016). This buttresses the direct relationship that exists between fluctuations in oil price and the immediate reaction of the Nigerian economy (Aliyu, 2009; Babalola et al., 2018; Joseph, 2013).

Regrettably, no country that overly depends on oil revenue alone can improve its economy, let alone, achieve sustainable economic development (Nweze & Edame, 2016; Onoh & Ndu-okereke, 2018). Therefore, as alternative energy becomes popular and oil-importing countries continue to explore and discover oil deposits, there is a need for the Nigerian government to diversify from oil to other sources of foreign exchange to grow and sustain the economy in case of oil shock (Igberaese, 2013). Diversification remains Nigeria's most strategic and logical option, given her developmental challenges and tortuous economic background. This will help Nigeria utilize her abundant –yet– redundant resources, give way for sectoral linkages, open new opportunities, explore technological prospects, reduce operational costs, build human capital, increase foreign exchange, improve the standard of living and enhance the general wellbeing of the people (Suberu, Ajala, Akande, & Olure-Bank, 2015).

Diversification has become the unending rhetoric of the Nigerian government; filled with empty promises (Iwalehin, 2020). Yet, to place the Nigerian economy on a pedestal of economic growth, she must increase the volume and value of non-oil exports, encourage local manufacturing for the home-grown market, boost food sufficiency through agriculture, has to be boosted, embolden entrepreneurship and save more by importing less (Hassan, 2016). As a result, President Muhammadu Buhari declared inclusive growth and the development of the non-oil sector such as agriculture as one of the cardinal points of his administration. He argues that the administration will explore resources in the country and turn it into a hub for industry and commerce, with an inclusive economy. The administration will also improve infrastructure in the country, enhance security, create an enabling business ambience, as well as support existing businesses (The Nation, 2018).

This in itself is rhetoric as nothing is yet to be shown for the 'promises'. Anyways, whilst grappling with this, Nigeria –with other countries of the world– received a greater shock; the outbreak of Coronavirus in Wuhan, China. Nigeria happens to be one of the worst-hit nations by this pandemic due to its relationship ties with China. Nigeria not only exports crude oil to China, but also imports infrastructure, labour, and basic amenities from her (Iwalehin, 2020). Coronavirus pandemic, over the past months, has upturned the achievements recorded through oil sales as a result of the reduced demand for oil around the world (Blakemore, 2020). To be sure, after the United States of America, China is the largest consumer of oil, with 13.5million barrels per day (14.5 per cent), of the 93 million barrels per day consumed around the world. This explains the continuous decline in the oil price since the outbreak of the virus in China. Besides, China also happens to be the largest importer of Nigerian oil after India (Iwalehin, 2020). The effect of this on Nigeria is enormous as her foreign reserves are practically unstable. It stood at $37billion in December 2019, then $33.42 billion as of April 2020. Following a jump in crude oil prices to about $40, it now stands at $36.57 billion (Adesina, 2020b; Iwalehin, 2020). Undoubtedly, the Nigerian economy is unstable due to the price of oil as currently affected by the Coronavirus pandemic.

The thrust of this paper, therefore, is that the economic effects of the Coronavirus pandemic in Nigeria are daunting. This is worsened by her dependence on oil and can be best ameliorated by dire, albeit, sincere diversification from the mono-product. The paper is divided into six subheadings. The present subheading; the introduction is followed by subheading two which examines the theoretical framework that underpins the economic effect of the pandemic on the Nigerian economy. Subheading three focuses on the political economy of oil in Nigeria and subheading four measures the economic effect of the Coronavirus pandemic in Nigeria. Subheading five assesses diversification as the way forward in post-Covid-19 Nigeria, while subheading six contains the conclusion and resultant recommendations.

The remainder of this paper is organized as follows. Section 2 presents the theoretical framework which provides insight into how the Coronavirus pandemic exposed the volatility of the Nigerian economy due to its reliance on oil revenue. Section 3 examines the political economy of oil in Nigeria beginning with oil discovery and the contributions of the sector. Section 4 is an in-depth analysis of the political economy of the oil and coronavirus pandemic in Nigeria, while section 5 advocates for diversification as the way forward in Nigeria, post Covid-19. The last section, 6, contains the conclusion and consequent recommendations.

2. Theoretical framework

2.1 Cobweb Theory

This study is necessitated by the need to answer questions bothering oil volatility, external shock (i.e. Coronavirus pandemic) and diversification in Nigeria. For instance, how volatile is the Nigerian oil industry to external shock such as the coronavirus pandemic? What is the role of economic diversification in mitigating the effect of external shock on the oil industry in Nigeria? Then what are the effects of diversification on the Nigerian economy? These questions form the crux of this study and will hereby be examined within the lens of Cobweb Theory.

Cobweb theory; otherwise cobweb model, cobweb cycle or cobweb theorem, was developed in 1930 by three economists: Henery Schultz, Jam Tinbergen, and Althus Hanau but was first suggested by Nicholas Kaldor in 1934 and popularized by Mordecai Ezekiel in 1938 (Charles,

Jonathan & Obiorah, 2016; www.economicsonline.com). The pattern of operation of the theory was likened to a spider's web wherein supply adjusts itself to fluctuating conditions of demand which are demonstrated through price changes after a certain period known as lag (www.economicsonline.com). Cobweb theory is based on the notion that supply fluctuation is a result of price fluctuations and this leads to cyclic price uncertainty. (www.economicshelp.com). Ezekiel (1938), in his paper "The Cobweb Theorem" published in 1938 hypothesizes that there is a connection between price cycles and delay in the response of production to supply lag (difference between demand and supply) and adaptive expectation (difference between predicted and actual prices) (Kemp, 2014).

Cobweb theory expounds price fluctuations according to the market. It explains the cycle of demand and supply in markets where production precedes price-fixing (Akinleye & Adesina-Uthman, 2014). The theory posits that the behaviour of economic agents (buyers and sellers) determine price differentiation. The adherents of this theory posit that even though producers are aware that the price of the product is subject to fluctuations, they still model their production on the current price, exhibiting a 'naive expectation'. According to Pashigan (2008), Cobweb theory clarifies why markets respond differently to periodic fluctuations. For example, the global oil market responds to global events in a different way. The theory also describes producers' price projections based on the current price.

Concerning Nigeria, the volatility of the price of Nigerian oil is susceptible to external shock which can be best explained by prevailing factors in the global commodity market. These factors, among others, are financial, price-related, fundamental and circumstantial. Oil price contributes to its volatility which implies domestic inflation (Charles et al., 2016). In a simple cobweb model, it is assumed that the supply of goods in the international market is fluid due to inconstant dynamics such as pestilence, weather and pandemic. An example of the sudden shock and circumstantial occurrence being referred to here is the Covid-19 pandemic which saw a fall in global crude oil price following a decline in the demand and supply of the commodity as a result of lockdown declared in many countries of the world.

The decline in oil prices often transcends the usual range of economic and market influences (Bloomberg, 2018). Kemp (2014) submits that price expectations in the oil industry is predominantly backwards-looking. This is because when the price of oil remains high for some time, producers tend to assume that the high prices will remain for a long time into the future and vice versa. Kemp observes that many oil-based researchers and analysts rather than explain their projections from theories to prices, often act contrarily. The plummet provides an insight into the structural changes experienced by a market that is affected by the spread of Covid-19 which has induced a fall in demand and supply of oil in the international market. This explains why the Nigerian 2020 budget was predicated on $57 per barrel judging from the price of oil in the previous year. The reality of the present pandemic has forced the government to reconsider and cut the budget in line with the new projected price of $30 per barrel.

Although suitable for analysis in other areas, the theory is majorly applicable in an agricultural market where the lag between planting and harvesting is obtainable (Akinleye & Adesina-Uthman, 2014). It thrives on the supposition that there exists a perfect competition wherein producers assume several things: a. that the current price of commodities will persist; b. that the market is

not affected by production and; c. that price results from the supply of the preceding period. However, like several other theories in the social sciences, the cobweb theory is criticized for its bland assumption that output is solely governed by price. This ignores the fact that output is determined not only by price but by several other factors—weather, prices of the factors of production, pestilence, and even a pandemic such as Covid-19. Regardless of this shortfall, the theory is adequate in asserting that present events control output, demand, and supply. Covid-19 has impacted negatively on the price of oil, its demand, and supply.

3. Political Economy of Oil in Nigeria

Before the discovery of oil, the agricultural sector was contributing 70% to our GDP but now contributes barely 30% (Onoh & Ndu-okereke, 2018). Nigeria's economy rested on the production and exportation of cash crops, thus making it a predominantly agrarian economy. More so, agriculture served as Nigeria's mainstay during the period between 1960 and 1970s. As a major earner, the agricultural sector alone accounted for about 70% of employment of the total labour force. This sector also provided raw materials for indigenous industries and was sufficient in meeting the essential food requirements of the country. The exportation of agricultural products also emboldened Nigeria to undertake developmental projects geared towards economic growth and the development of the health and educational sectors (Akpan, 2012; Dickson & Ezirim, 2017). This trend, however, became short-lived when crude oil was discovered in large commercial quantity following the commencement of oil exploration and field development in 1937 (Nigeria Extractive Industries Transparency Initiative [NEITI], 2019).

The history of commercial oil activities in Nigeria dates back to 1956 when Royal Dutch Shell-BP discovered it in Oloibiri, present-day Bayelsa State. By 1958, when Nigeria had become a producer of oil, her first oil field produced 5, 100bpd. After 1960, other foreign companies had acquired the rights to explore the onshore and offshore areas of the Niger Delta for oil (Asagunla & Agbede, 2018). The Nigerian oil sector thus experienced remarkable growth over the years as both production and exports recorded an exponential increase following commercial production that began in 1958. In specific terms, the production of crude oil increased to 776.01 million barrels in 1998 from the initial 395.7 million barrels in 1970. This increase continued to 2006 when production hit 919.3 million barrels until a monumental decrease was recorded in 2009 when production plunged to 777.5 million barrels. Like production, crude oil exports also recorded a significant increase as the oil exports reached 807.7 million barrels in 1979 from 139.5 million barrels in 1966. Although there was a sharp reduction in 1987 when oil exports plummeted to 390.5 million barrels, this was upturned by the increase in oil exports to 675.3 million barrels in 1998. This trend of continued increase in production and exports remained till the 2000s and years after (Akinlo, 2012).

According to Dickson & Ezirim (2017), the total foreign exchange earned by Nigeria from oil sales between 1999 and 2016 was N93 trillion. NEITI (2020) observes that Nigeria has approximately 2% (40 billion barrels) of the world's proven oil reserves and that oil continues to play a prominent role in the nation's economy with a production capacity of 2.5 million barrels per day and over 50 years of oil exploration activities. As the largest producer of oil in Africa and the 13th largest in the world, crude oil accounts for nearly 65% of the government's total revenue. NEITI (2019) submits that the oil industry has contributed enormously to the economy of Nigeria (Omoregie, 2019). As of 2018, the oil sector contributed 7.8% ($32.703b) of the total GDP ($ 418.123b).

Meanwhile, the industry accounted for 93.5% ($29.245b) of total revenue ($31.266b). NEITI further notes that concerning exports, oil made up 30.6% ($19.129b) of the total ($62.493b). Regarding employment, the sector employs 0.03% (19,820 people) of the total employment (69.54m) in the country. Furthermore, due to an increase in the price of crude oil in the global market, there was a significant 47.82% increase in revenue in 2018 following the sales of 55.858million barrels of crude oil which gave the government revenue of $4.022billion. This was also true of the quantity of export which increased by 11.17% in the same year compared to the previous year 2017 (NEITI, 2019; Omoregie, 2019).

The transformation of the Nigerian oil industry is substantial. It moved from being a supportive economic sector in the 1960s to being the nation's major foreign exchange earner as well as to granting veritable access to international investment opportunities in the '80s and '90s, thus overtaking all other resources' contribution to the economy (Iyohu cited by Asagunla & Agbede, 2018) and presenting the country with increased opportunity for investment; even though the proceeds made the economy oil-dependent (Akinlo, 2012). Meanwhile, the incidence of oil dependence has made the Nigerian economy vulnerable to the dynamics and shocks of the international market (Odularo, 2008).

Oil wealth is capable of creating economic volatility by making government revenues unstable. Unmanaged external shocks, however, lead to disequilibrium, budget deficit, exchange rate depreciation, inflation and a negative balance of trade, with far-reaching implications for the other sectors of the economy. Thus, an unstable and volatile oil sector can lead to unstable government revenue in an oil-dependent nation. Herein lies the difference in response to oil price fluctuations by various governments. Even though all oil-rich countries are subject to these fluctuations, not all oil-rich countries are oil-dependent and have a mono-product economy like Nigeria. That is, the level of a government's dependence on oil determines its level of vulnerability to fluctuations in the international oil price (Ross, 2003; Sinha & Lipton, 1999). The effect of oil price fluctuations in Nigeria has been made worse by the insignificant contributions of the non-oil exports and excessive reliance on oil earnings (Ross, 2003).

This is evident in light of the contractions experienced in Nigeria's foreign exchange earnings due to the Coronavirus pandemic which led to a decrease in crude oil price and demand respectively. Due to its oil-dependent state, Nigeria's economy is highly susceptible to this external shock as occasioned by the reliance on oil-driven foreign exchange economic activities which sustains the country and drives its fiscal revenue (Klynveld Peat Marwick Goerdeler [KPMG], 2020). The Covid-19 pandemic strains Nigeria's economy, as Brent crude's value has dropped by half since the pandemic started in early 2020. If effectively contained, GDP growth is estimated to be -3.4%, and if not, the Nigerian GDP growth is predicted to fall to -8.8% as a result of a decline in consumer spending (Adesina, 2020a).

Due to the Covid-19 outbreak, the oil price has become drastically low, leading to a revision of Nigeria's 2020 budget with a 50% deficit of the total budget, which is hoped to be funded with a combination of domestic and foreign debt (Adesina, 2020a). There is however no gainsaying that oil dependence puts Nigeria at risk of low GDP and shortage in revenue as a result of the pandemic. Hence, diversification of the economy is beyond a necessity.

4. The Political Economy of Oil and Coronavirus Pandemic in Nigeria

Several pneumonia cases reported in Wuhan, China was tested using a deep sequencing analysis and a novel virus was discovered. This virus was named severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) (Huang et al., 2020; Lu et al., 2020) and reported to have an ecological origin in bat populations (WHO, 2020b). Although, the first human cases were reported in December 2019 (WHO, 2020b), it was in February 2020 that the World Health Organization (WHO) named the resultant disease of SARS-CoV-2, 'Covid-19'. Over this period, Covid-19 had spread to many countries of the world and had led to numerous deaths. By March 2020, 114 countries had reported over 118, 000 cases of Covid-19 and over 4000 deaths which led the WHO to declare the disease as a pandemic (WHO, 2020a).

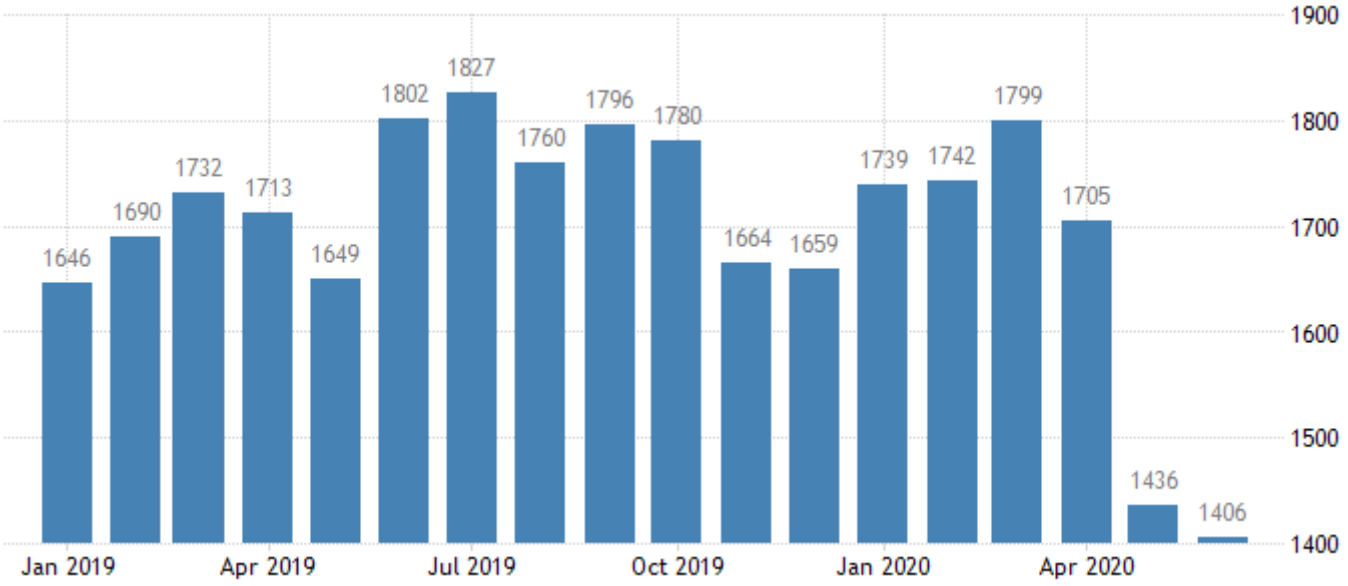
According to Lu, Stratton & Tang (2020), this is the first coronavirus to be reported. The Middle East respiratory syndrome (MERS)-CoV was discovered in September 2012 while an epidemic of a severe acute respiratory syndrome (SARS)-CoV was reported in Guangdong, China in November 2019. The cases nonetheless, the present outbreak has been largely destructive and dangerous to human life. As of May 27, 2021, the virus has claimed 3,492,673 lives of the 167,958,998 confirmed cases reported to WHO globally (WHO, 2021).

In Nigeria – in the same period –, there are 166,146 confirmed cases, 7,546 active cases, 156,529 discharged cases, and 2,071 deaths; while the figures continue to increase (Nigeria Center for Disease Control [NCDC], 2021). The first case confirmed in Nigeria was on 27th February 2020 and the cases rose steadily since then. This made the Federal Government of Nigeria in addition to border security and healthcare measures, declare a lockdown in Abuja (the federal capital), Lagos State (the economic hub), and Ogun State (the gateway to other states in Nigeria), with effect from Monday 30th March 2020 (CNBC Africa, 2020). The resultant economic effect of these actions has been unprecedented and daunting. For instance, the outbreak of coronavirus forced companies in the upstream sector to stop operations thereby causing the price of crude oil to fall drastically within a short while and forcing the stocks of notable oil companies to take a plunge; leading to the loss of billions (Farmer, 2020).

On Monday 9 March 2020, Brent crude oil experienced its worst experience since 1991 when the price of oil fell to $33 per barrel (bbl). The pandemic reduced Chinese oil demand more up to 20%, thus complicating the matter. As a member of OPEC, Nigeria's ability to increase production is largely limited by infrastructure, operational and regulatory challenges. Although the non-oil sector has recorded an increase in contributions to GDP growth over the years, Nigeria still depends on oil for 90% of her foreign exchange, and her naira, a Petro currency is tied to global oil prices. Nigeria's present economic approach is to defend the naira. This, however, led to a decline in Nigeria's foreign reserves as the Central Bank set a $30bn devaluation threshold for foreign reserves (Akinkugbe-Filani, 2020).

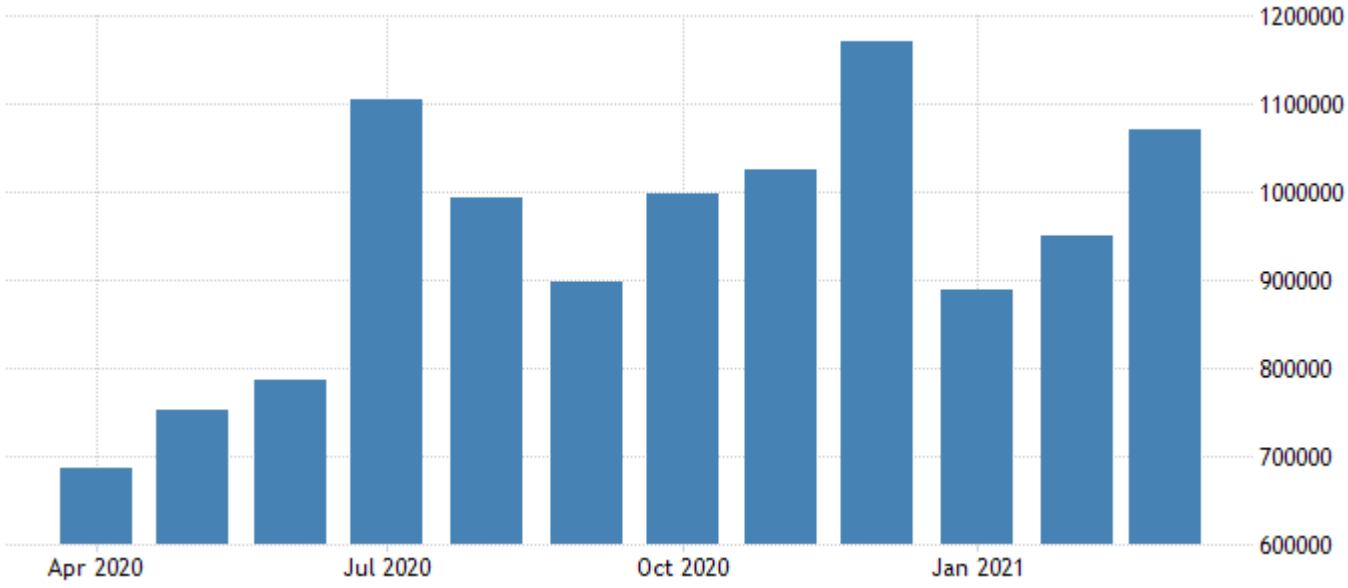
Due to the travel constraints occasioned by the Coronavirus pandemic, the use of aviation fuel is limited – meaning less oil is being demanded and sold. As expected, the Covid-19 pandemic also negatively affected global oil leading to a y-o-y (year over year) decline of 6.4 mb/d (million of barrels per day) in the first quarter of 2020 and by 17.3 mb/d y-o-y in the second quarter of 2020. This does not come as a surprise as various countries i.e. US, Europe, India, and the Middle East –due to lockdown– have reduced demand for gasoline and jet fuel (OPEC, 2020).

Fig. 1 – Nigeria Crude Oil Production 2019-2020



Source: tradingeconomics.com & OPEC (2019)

Fig. 2 – Nigeria Crude Oil Exports 2019-2020

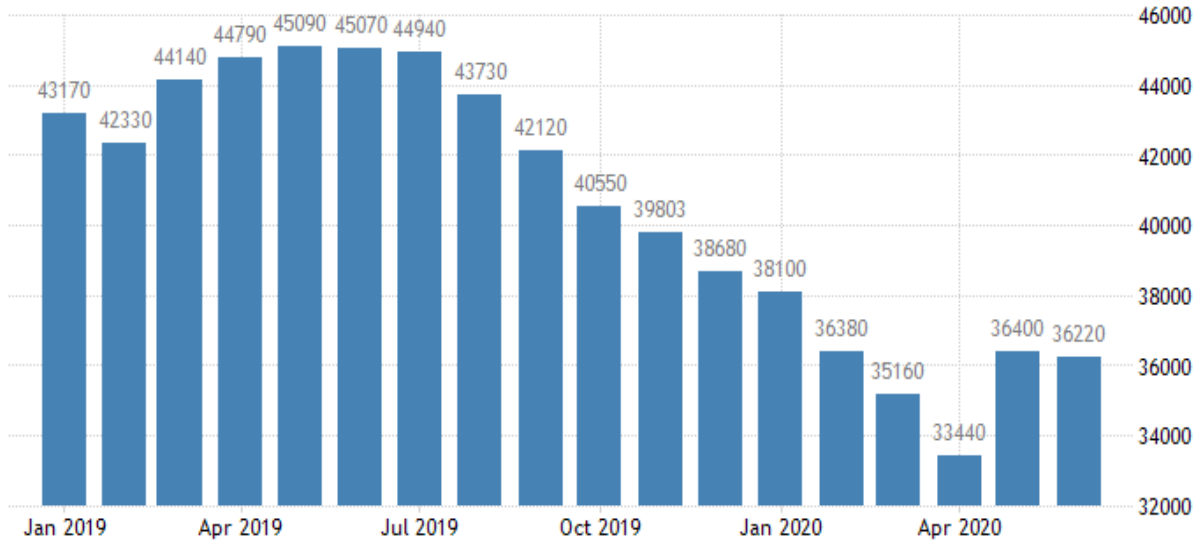


Source: tradingeconomics.com & OPEC (2019)

More so, foreign exchange is being hampered by low crude oil prices and worsened by the Covid-19 pandemic (Olisah, 2020). Data shows that since 2019, Nigerian foreign exchange reserves has

been experiencing a depletion until May 2020 when there was a sharp increase from $33.42 billion to $34.78 billion due to the $3.4 billion emergency fund the Central Bank of Nigeria (CBN) received from the International Monetary Fund (IMF). Yet, the foreign reserves continue to witness a decline in the following months i.e. June 2020 (Olisah, 2020; tradingeconomics.com, 2020). Figure 3 below shows the Nigerian Foreign Exchange Reserve:

Fig. 3 – Nigeria Foreign Exchange Reserve 2019-2020



Source: tradingeconomics.com | Central Bank of Nigeria [CBN]

Another causational impact of Covid-19 on crude oil price in Nigeria is the government's inability to fund the 2020 budget, forcing her to reconsider the key assumptions of the budget. The 2020 budget was predicated on an average benchmark crude oil price of $57 bbl, which in April 2020, was revised to $30 bbl by the Ministry of Finance and Budget. This – in response to the continuous impact of the pandemic on the global oil industry – was further revised to $20 bbl in May 2020 (Akwagyiram, 2020; KPMG, 2020).

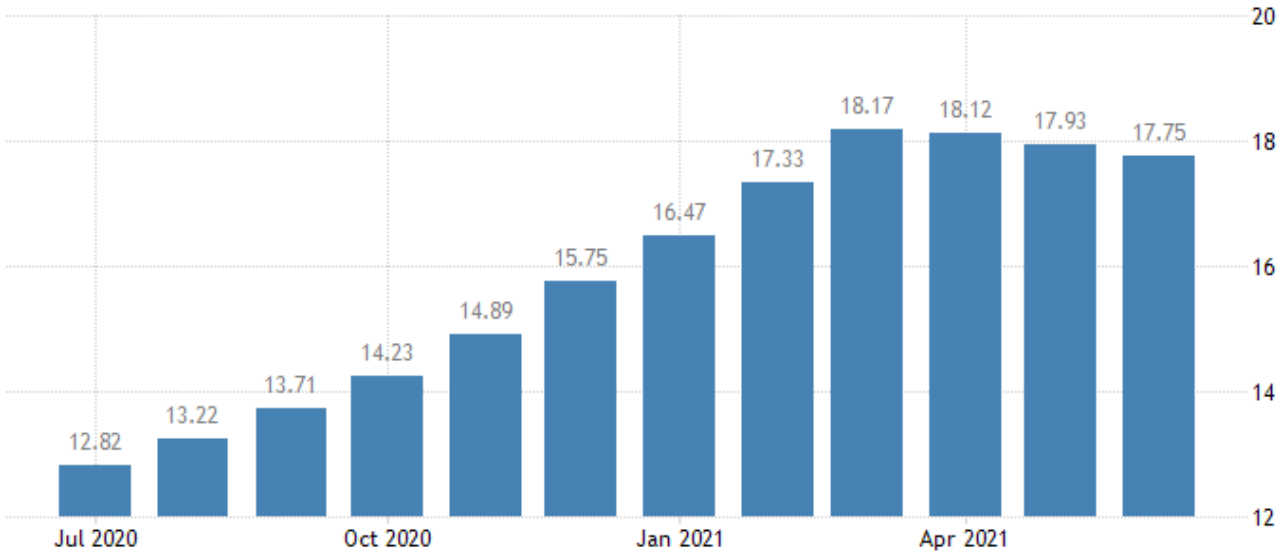
Since the Covid-19 pandemic forced Nigeria to halt crude oil sales, the inflation rate in the country continues to rise steadily. CPI (consumer price index) which measures inflation was 12.26% in March 2020. This increased by 0.03 points to 12.34 per cent in April 2020. However, by May 2020 it further increased by 0.06 points to 12.40 per cent. The inflation index increased on a month-on-month basis from 1.02% in April to 1.17% in May 2020; representing a 0.15% increase within a month. This has led to a rise in all items (less farm produce). For instance, the food index (bread, potatoes, cereals, fish and meat, yam, fruits, oils, and fats) increased from 1.18% in April to 1.42% in May; indicating a 0.24% increase. Meanwhile, inflation of all items (less farm produce), increased from 9.98% in April to 10.12% in May; showing a 0.14% increase. The highest incidence of increase in prices of commodities was noticeable in areas such as passenger transport by road, motor car, sea and inland waterways, medical services, pharmaceutical products and paramedical services (National Bureau of Statistics [NBS], 2020; Oyekanmi, 2020).

Table 1 – Nigeria Consumer Price Index 2020

		All Items Index			All Items less Farm Produce			Food		
		Monthly	Month-on change (%)	Year-on change (%)	Monthly	Month on change (%)	Year-on change (%)	Monthly	Month-on change (%)	Year-on change (%)
Weight		***1000***			***513.1***			***507.06***		
2020	Jan	310.2	0.87	12.13	282.9	0.82	9.35	343.2	0.99	14.85
	Feb	312.6	0.79	12.20	285	0.73	9.43	346.2	0.87	14.90
	Mar	315.2	0.84	12.26	287.3	0.8	9.73	349.5	0.94	14.98
	Apr	318.4	1.02	12.34	290	0.93	9.98	353.6	1.18	15.03
	May	322.2	1.17	12.40	292.5	0.88	10.12	358.6	1.42	15.04

Source: NBS (2020)

Fig. 4 – Nigeria Inflation Rate of 2019-2020



Source: tradingeconomics.com | National Bureau of Statistics [NBS]

Another devastating effect of Covid-19 on the Nigerian economy is the level of unemployment and poverty. Before Covid-19, Nigeria's unemployment rate stood at an alarming 23.1 per cent (20.9 million people) while underemployment was 16% (Okunlola, 2020). However, the federal government through the Ministry of Labour and Employment, forecast an unemployment rate of 33.5% by 2020 (Premium Times, 2019). Due to the outbreak of Covid-19, the unemployment situation has worsened as the Federal Government projected that about 39.4 million jobs will be lost by December 2020 (Okunlola, 2020). Although, considering that small-medium scale enterprises (SMEs) account for 96% of Nigeria's employment and 84% of jobs; contributing about half of Nigeria's GDP, the unemployment figure is likely to be higher. This is because these small

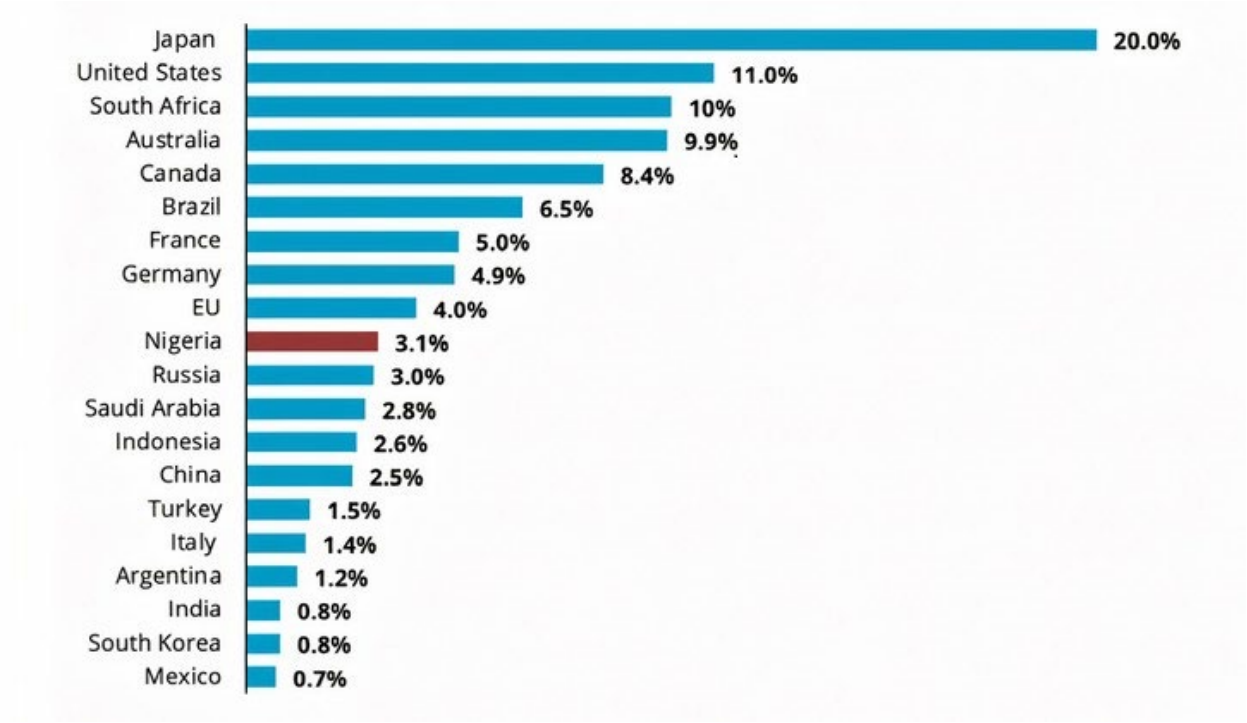
businesses are not equipped for this magnitude of business shock as the various restrictions in place have –and continues to– hinder the capability of these businesses to function adequately and generate revenue (Shittu, 2020).

There is no gainsaying that an increase in unemployment will lead to an increase in the poverty level of the country. In 2019, the NBS stated that 40% of Nigerians lived on below 137,430 Naira ($354) a year, which is below the poverty line. This implies that four out of every 10 Nigerians live on less than $354 a year (Okunlola, 2020). Although, it is not as if the Nigerian government is not making efforts to stem the tide of economic woes resulting from the coronavirus pandemic. For instance, the Federal Government plans to support micro, small, and medium enterprises by reducing the registration fee of food, drugs, medical devices, and cosmetics by 80%. The government also proposed setting up a survival fund to support small and medium-sized enterprises and to promote the technology hubs and the use of domestic gas (Olarewaju, 2020). The Central Bank of Nigeria earmarked N50 billion ($129 million) to firms affected by Covid-19 while intensifying its effort in credit transfer to the health sector. The Bankers Committee also promised to provide N3.5 trillion ($9 billion) to pharmaceutical companies and to assist in the procurement of raw materials to enhance the production of drugs locally (Ogunpolu, 2020). However, as laudable as these plans seem, it fails to acknowledge the fundamental problems that inundated previous economic plans. In a bid to cushion unemployment, the government has sent the Emergency Economic Stimulus Bill 2020 to the legislature. This is meant to provide incentives to businesses to retain employees (Shittu, 2020).

This plan by the government, however, does not take cognizance of critical sectors such as education and power, and the plan fails to lay down implementation strategies. More so, the 0.34% stimulus package compared to GDP presented in Nigeria is too small in comparison with other nations of the world. Japan gave a 20% per cent share of her GDP as a stimulus package, the United States 11%, South Africa 10%, and Brazil 6.5% (Nigerian Economic Summit Group [NESG], 2020). The United States government approved the payment of $1200 to citizens with an income of less than $75000 in addition to a relief bill of $2 trillion. China made salary payment to workers incapacitated by illness. Ireland, Singapore and South Korea approved sick leave for the self-employed. Meanwhile, the UK government paid statutory sick pay to diagnosed individuals and a three-month payment holiday for anyone challenged with rental payments (Ogunpolu, 2020).

These relief packages are tailored towards having a direct and positive impact on citizens, casual workers and low-income earners. This will no doubt improve the living standard of the citizenry and mitigate the effects of Covid-19 on income. Besides, the success of the plan is still dependent on oil wealth (Olanrewaju, 2020). Thus, this is the right time for the government to intensify its efforts to source alternative sources of revenue (Shittu, 2020). It is as a result of this that this study turns to appraise the imperativeness of diversification as the way forward beyond the post-COVID-19 period, in Nigeria. Figure 5 below shows the Value of the Covid-19 fiscal stimulus package as a share of GDP:

Fig. 5 - Value of COVID-19 fiscal stimulus package as a share of GDP as of April 2020



Source: NESG (2020)

5. Diversification: The way forward in Nigeria, post-COVID-19

The shutting down of the economy and the overburdening of the healthcare system –due to the COVID-19 pandemic– is a clear indication that the economy and the public healthcare system need a total overhauling. Nigeria cannot afford to waste this opportunity to revamp the country's infrastructure by diversifying from oil (Ozili, 2020). Diversification refers to the shifting of focus from a single sector to multiple sectors; from a single income source to several sources of income (Iwalehin, 2020). Diversification involves the strategic redirection from a product and/or market to various or other products and/or markets using either internal or external development (Adams, 2016). Diversification offers Nigeria the opportunity to maximally utilize its abundant natural resources. It offers the benefit of rebuilding the economy, build human capital, explore new opportunities, increase foreign investment profile, grow the standard of living of the people and increase national competitiveness (Suberu et al., 2015).

Export diversification, as an economic strategy, has been a topic of political discourse in Nigeria since the early 1970s when the Nigerian government adopted varied instruments such as fixed exchange rates, credit ceiling on deposit money banks, and government-administered interest rates to stimulate the economy. These instruments were intended to channel the flow of loanable funds to the real sector to enhance domestic output growth and diversify the economy from its dependence on agricultural export (Ifeakachukwu & Alao, 2018). These strategies were however jettisoned following a global increase in the price of oil which made the government; and successive administrations, abandon other sectors of the economy and depend solely on oil (Adams, 2016; Anyaehie & Areji, 2015; Ifeachukwu & Alao, 2018; Riti, Gubak & Madina, 2016).

Given the volatility of oil price and its implications for the instability of the Nigerian economy, it is imperative to diversify the Nigerian economy from being oil-dependent to a plural economy with foreign exchange earnings from various sources. This the government can do by taking advantage of the agricultural potentials of the country which has been abandoned due to oil discovery. The government can also profit more from other non-oil resources such as minerals deposit – among others (Aregbeyen & Fasanya, 2017). To be very sure, before the discovery of oil, Nigeria produced and exported cash crops such as cocoa, groundnuts, timber, rubber, and palm produce. Nigeria had the largest herds of cattle in Africa and cocoa production had increased from about 180,000 tons to 350,000 tons annually (Adams, 2016). With the collapse of global oil price from $39 per barrel in 1980 to $11.575 per barrel in 1986 came a decline in foreign exchange revenue from N12, 353.3m to N8,107.3m in the respective years. Undoubtedly, this led to the depletion of Nigeria's foreign reserves and a surge in the budget deficit. This once again rekindled government interest in diversification until –not surprising– it was abandoned as a result of a rebound of oil price at the international market (Ifeakachukwu & Alao, 2018).

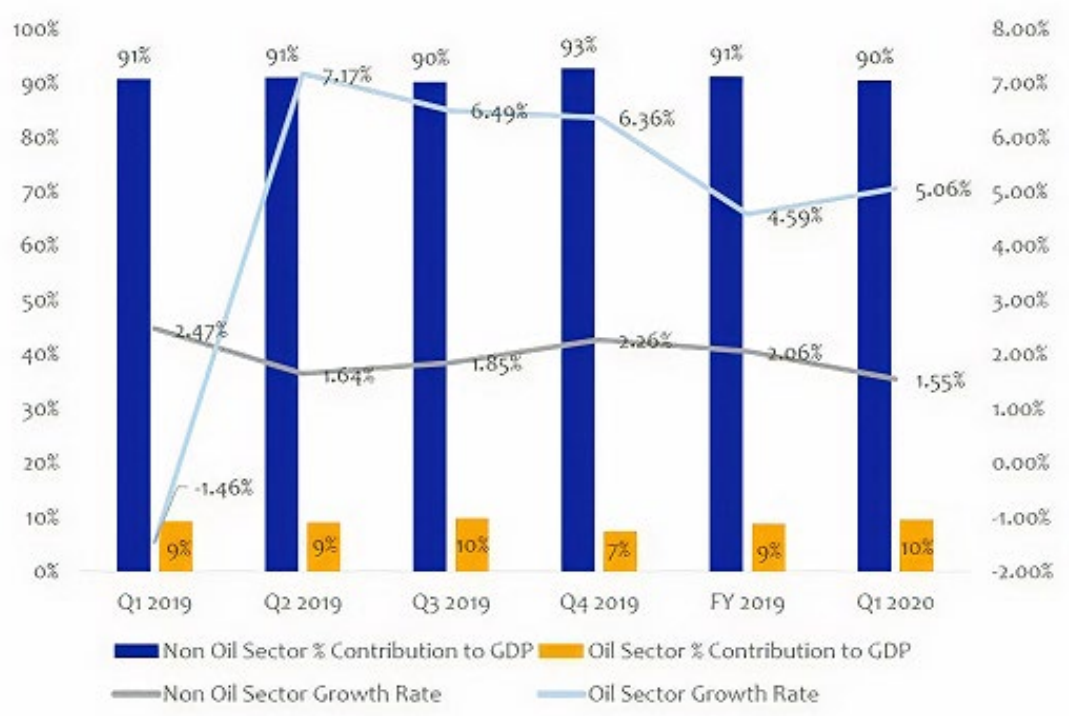
The calls for diversification once again resurfaced between March 2012 and December 2013, when the price of oil witnessed a plummeting from $124.45 to $110.72; and further to $30.7 in Jan 2016. This led to a contraction of economic growth from 6.3% to 4.2% within the same time frame, thus provoking a decline in foreign exchange earnings; increase deficit financing; depleting of foreign reserves; devaluation and depreciation of Naira and increase in exchange rate volatility (Ifeakachukwu & Alao, 2018). Because of the COVID-19 pandemic and its attendant effects on the price of oil and economic activities globally, President Muhammadu Buhari has become a preacher of the gospel of diversification when he appealed to the private sector to liaise with the federal government to maximize the negative impacts of the outbreak of coronavirus by intensifying moves to diversify the economy, reduce reliance on oil and boost investment in agriculture (Ogunmade, Adedayo, Eze & Ifijeh, 2020).

Truth is, whether the government is playing politics or lip service to diversification or not, the economic realities of the country justify its imperativeness. Besides, countries such as Saudi Arabia, with 13% of the global supply of oil are working assiduously towards diversifying their economy away from oil, Nigeria, however, producing 3% of global supply has not made any noticeable effort towards this ideal (Onoh & Ndu-okereke, 2018). As a result, the Nigerian government must pay dire attention to the non-oil sectors. The non-oil sector is used to describe a group of economic activities which are not linked to and are undertaken outside petroleum. These include tourism services, export trade health services, telecommunication services, manufacturing, power, research and development, information and communication technology, mineral activities, agricultural activities, etc. (Onwualu, 2012; Riti et al., 2016). Unfortunately, the non-oil sector in Nigeria is characterized by an undesirably dismal performance in the last three decades with a pitiable low 1% share of the total export earnings of the country in 2008 (CBN, 2013).

The percentage share of agriculture to GDP which was 64.27% in 1960 had taken a plunge to 20.61% in 1980. Meanwhile, the percentage share of agriculture in total GDP has been hovering around 42% (Suberu et al., 2015). According to Proshare (2020), the non-oil sector has been growing at a steady rate, albeit, with a little decline in Q12020 due to the Covid-19 pandemic. More so, the services sector has contributed more to the GDP than agriculture and industries combined. Services contributed 54%, 54%, 49%, 54%, 53% and 54% in Q12019, Q22019,

Q32019, Q42019, FY2019 (Full-year 2019) and Q12020 respectively. Another sector that holds great potential for foreign exchange earnings is solid minerals. The sector contributed 3.38% (₦11.16 billion) of the total contributed by non-oil exports to export (₦330.01 billion) and 0.13% of total export (₦8.53 trillion). Limestone and granite accounted for 49.35% and 31.32% of the solid mineral sector contribution in 2016. The sector is growing steadily with a minimal contribution to GDP over the years. The sector contributed 0.11%, 0.12% and 0.13% in 2014, 2015 and 2016 respectively and 0.3% to national employment in the same period (NEITI, 2016). This is a clear indication that if the government can intensify its efforts in these areas, it would have succeeded in placing the economy on the pedestal of positive economic diversification, post Covid-19 (Proshare, 2020).Figure 6 below shows the Sectoral % Contributions to GDP:

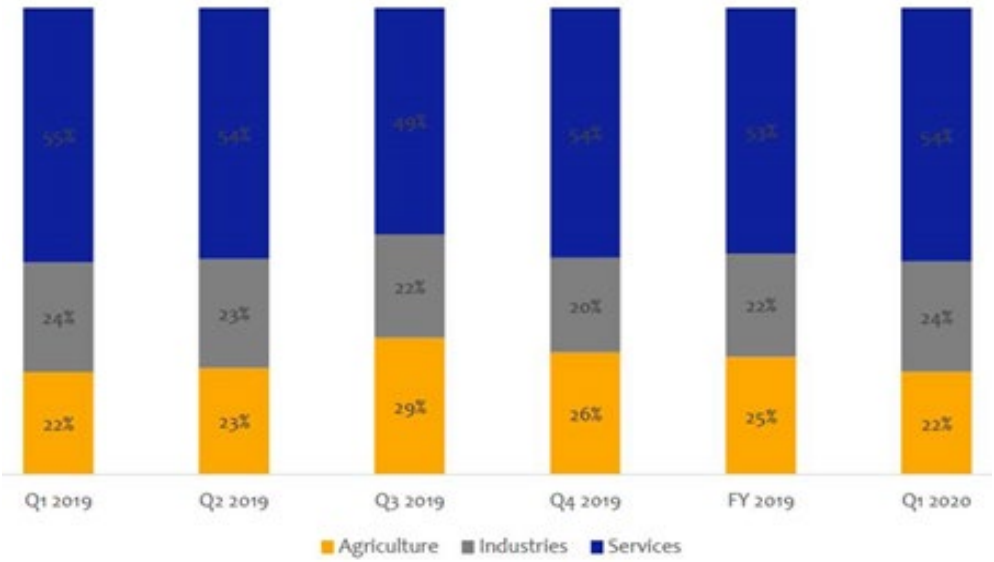
Fig. 6 – Sectoral % Contributions to GDP



Source: Proshare (2020)

Figure 7 below shows the Sectoral % Contributions to GDP:

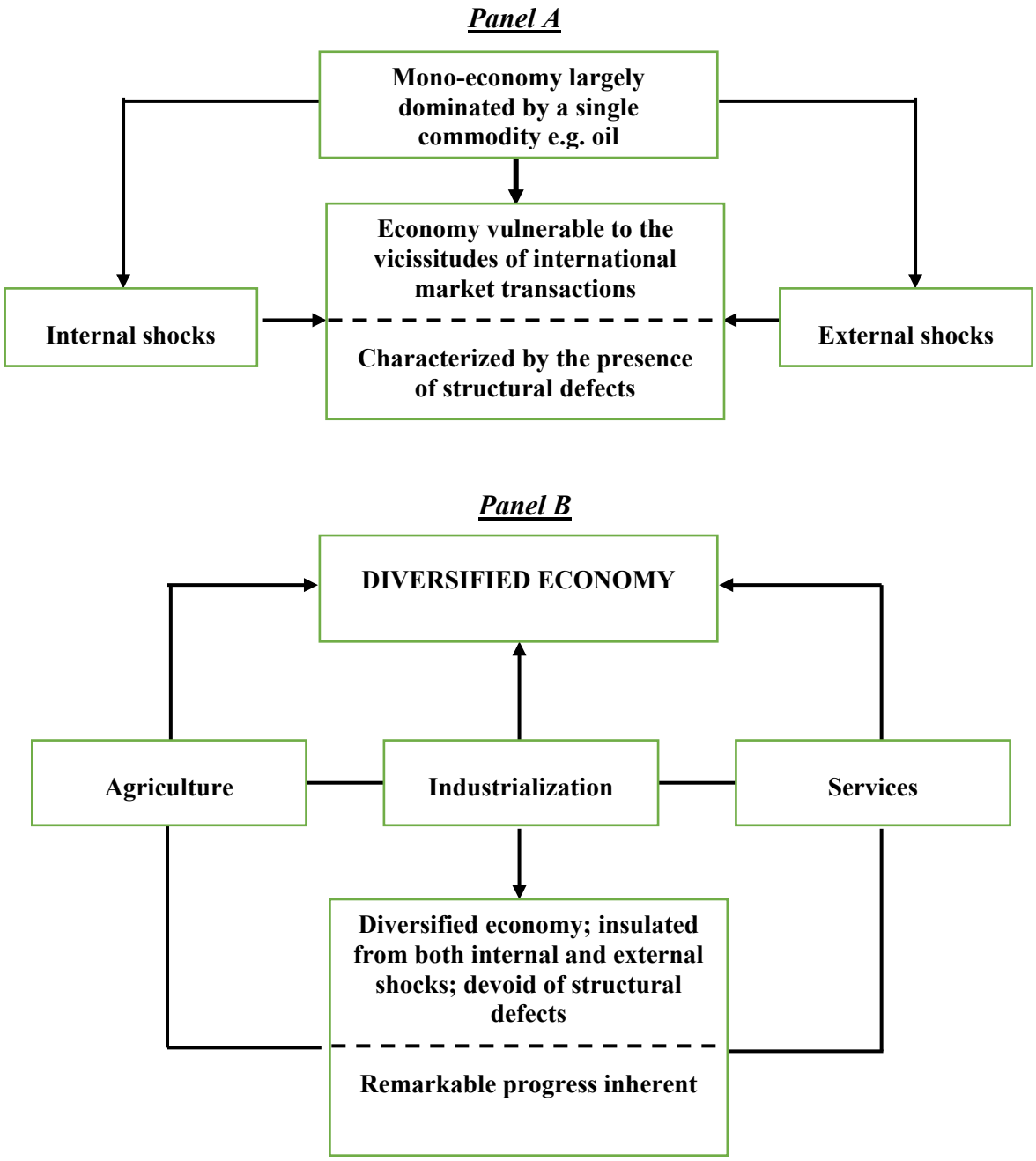
Fig. 7 – Sectoral % Contributions to GDP



Source: Proshare (2020)

At this critical time, diversification from oil to services, agriculture, industrial activities, mining, and technology, is imperative to increase our foreign exchange earnings, maximize opportunities inherent in other sectors, reassert Nigeria's place in the comity of nations and shield the economy from both internal and external shocks (Adesina, 2020a; Suberu, et al., 2015).

Fig. 8 – The effects of diversification on an economy



Source: Sunday (2013)

The diagram above shows that the dependence on a mono-product makes the economy susceptible to internal and external shocks which will engender structural defects (as is the case with Nigeria, especially during the pandemic lockdown period), unlike running a diversified economy that is based on the promotion of agriculture, industrialization, and services which not only shields the economy from shocks but also promotes growth.

6. Conclusion and Recommendations

Nigeria has, since the discovery of oil, neglected other sectors of her economy including agriculture which was the main driver of the economy and largest employer of labour before the oil boom. The implication of which has placed the country at the mercy of volatile oil prices in the international market. Although several attempts have been made to diversify, most of these plans are drafted without political will, hence its failure. The spread of Covid-19 across the world has, however, exposed the weakness of the Nigerian economy. This paper, therefore, advocates that, as a matter of state emergency and national priority, the Nigerian government must pursue diversification of the economy with all vigorousness. Diversification alone holds the key to Nigeria's future and economic survival. As such, Nigeria should focus all its attention on agriculture, industries, and services as non-oil revenue-generating sectors to cushion the effect of the impending recession, post Covid-19.

Nigerian government should take advantage of her large population, vast arable land, and agricultural profile by harnessing her human and material resources to induce diversification in agriculture, industries, and services. However, to avoid the pitfalls of other plans, it should develop a self-sustaining structure or framework that will ensure the continuous performance of these plans regardless of who is in power. That is, her diversification plans should be built around strong, formidable, and easily assessable institutions, rather than around powerful individuals. It must also be noted that without adequate attention paid to critical sectors such as power and education, her dreams of diversification might as well be an illusion because no meaningful and citizen-friendly development can take place in the absence of power.

To reduce the unprecedented unemployment and poverty that would follow the ongoing pandemic, it is pertinent for the government – in collaboration with the private sector and NGOs – to provide meaningful stimulus packages targeted particularly at Nigeria's vulnerable citizens. The Federal Government of Nigeria should provide post-lockdown relief funds to Nigerians who lost their jobs and business during the pandemic. This will enable them to cope with the effects of the pandemic and cushion the aftermath.

In addition to this, other schemes such as unemployment benefits, tax relief, social assistance benefits, and employee retention should be designed and tailored towards the needs of the extremely poor, unemployed citizens, small-scale business owners, and the aged. This will not only reduce the socioeconomic burden of Covid-19 on the citizens, but it will also ensure encourage citizens to stay at home, thereby reducing the spread of the virus.

As Covid-19 has exposed, the health sector is in a dearth of adequate and up-to-date technologies needed to deliver world standard health care services. The government should therefore invest in the health sector and introduce a health insurance scheme for the teeming population. This will further reduce medical tourism and help retain the foreign exchange that would otherwise be spent in other countries.

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