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SUSTAINABLE DEVELOPMENT, ECONOMIC DIVERSIFICATION AND POVERTY ERADICATION – TRANSITIONING NIGERIA TO A DEVELOPED ECONOMY

Dr AMIEYEOFORI VALENTINE FELIX, PhD.
Entek Integrated Resources Limited, 2025

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ABSTRACT

Nigeria is endowed naturally with human capital and natural resources; however, it hasn't successfully converted these assets into sustainable economic development through diversification into an industrial economy driven by a strong import substitution and export led growth. It has therefore lagged in most development ranking globally, with most of its population, about 61%, living under poverty line in 2025, with a projection to 62% in 2026 according to the World Bank. While the Nigerian Bureau of Statistics 1st-3rd quarters economic performance showed the non-oil sectors making up to 95% of GDP, the data also showed that crude oil and petroleum products still accounted for 85% of total export proceeds during these periods, an indication of its continued reliance on the petroleum sector for its revenue. Unfortunately, due to the typical volatilities associated with commodities export, Nigeria could only earn a total revenue of N10.7 trillion as against a projected N40.8 trillion in 2025 due to underperformance in crude oil and gas earnings. This paper therefore presses further for government to take very pragmatic steps at diversifying its revenue base by ensuring favourable business environment; strategically pursuing measures to promote industrialization, such as ensuring security, power, infrastructures, and fiscal incentives to promote investments. It must also embark on data acquisition and carry out evaluation of the various value chain investment opportunities for its solid mineral, crude oil and gas, and agricultural produce for Nigerian private sectors to participate in global value chain, and to also support the import substitution and export led economic growth plans. Finally, the country must also ensure regulatory stability and seamless access to information and licenses, review its land tenure systems, pursue research and development, embark on focused human capacity development, and deliberately invest and also encourage investment in technology, especially in artificial intelligence, data centers, and innovations to propel its economic growth trajectory.

Keywords: Diversification, Sustainable Economic Development, Industralization, Import Substitution, Export Led Growth

1.0 INTRODUCTION

The concept of sustainable development received its first major international recognition in 1972 at the UN Conference on the Human Environment held in Stockholm. The term was not referred to explicitly, but nevertheless the international community agreed to the notion - now fundamental to sustainable development - that both development and the environment, hitherto addressed as separate issues, could be managed in a mutually beneficial way. The term was popularized 15 years later following the 1987 Brundtland Report in Our Common Future in

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1987, the report of the World Commission on Environment and Development, which included what is deemed the 'classic' definition of sustainable development: "development which meets the needs of the present without compromising the ability of future generations to meet their own needs". For the first time, the Brundtland Report introduced the need for the integration of economic development, environmental protection, and social justice and inclusion. (SDCommission)

The Brundtland Report's definition contains within it two key concepts: (i) the concept of 'needs', particularly the essential needs of the world's poor, to which overriding priority should be given; and (ii) the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs

2.0 SUSTAINABLE DEVELOPMENT GOALS, SDGs

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. (UNDP). The SDGs are the world's shared plan to end extreme poverty, reduce inequality, and protect the planet by 2030. Adopted by 193 countries, the SDGs emerged from the most inclusive and comprehensive negotiations in UN history and have inspired people from across sectors, geographies, and cultures. (UN Foundation). The Sustainable Development Goals are a call for action by all countries – poor, rich and middle-income to promote prosperity while protecting the planet. They recognize that ending poverty must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection. (UNO)

The 17 development goals are 1. No Poverty; 2. Zero Hunger; 3. Good Health and Well-Being; 4. Quality Education; 5. Gender Equality; 6. Clean Water and Sanitation; 7. Affordable and Clean Energy; 8. Decent Work and Economic Growth; 9. Industry, Innovation, and Infrastructure; 10. Reduced Inequalities; 11. Sustainable Cities and Communities; 12. Responsible Consumption and Production; 13. Climate Action; 14. Life Below Water; 15. Life on Land; 16. Peace, Justice, and Strong Institutions; 17. Partnership for the Goals (Sinay Maritime Association, 2021)

3.0 PILLARS OF SUSTAINABLE DEVELOPMENT, SD

The concept of SD rests, fundamentally, on three conceptual pillars. These pillars are "economic sustainability", "social sustainability", and 'environmental sustainability.

3.1 Environmental sustainability

Environmental sustainability is concerned on how the environment remains productive and resilient to support human life. Its sustainability relates to ecosystem integrity and carrying capacity of natural environment. It requires that natural resources must be harvested no faster than they can be regenerated while waste must be emitted no faster than they can be assimilated by the environment. This is because the earth systems have limits or boundaries within which equilibrium is maintained (Mensah, 2019)

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3.2 Social sustainability

Social sustainability encompasses notions of equity, empowerment, accessibility, participation, cultural identity and institutional stability. The concept implies that people matter since development is about people, connotes a system of social organization that alleviates poverty. Social sustainability relates to the nexus between social conditions such as poverty and environmental destruction. The theory of social sustainability posits that the alleviation of poverty should neither entail unwarranted environmental destruction nor economic instability. It should aim to alleviate poverty within the existing environmental and economic resource base of society (Mensah 2019)

3.3 Economic sustainability

Economic sustainability implies a system of production that satisfies present consumption levels without compromising future needs. Traditionally, economists assuming that the supply of natural resources was unlimited, placed undue emphasis on the capacity of the market to allocate resources efficiently. They also believed that economic growth would be accompanied by technological advancement to replenish natural resources destroyed in the production process. However, it has been realized that natural resources are not infinite; besides not all of them can be replenished or are renewable. The growing scale of the economic system has overstretched the natural resource base, prompting a rethink of the traditional economic postulations. This has prompted many academicians to question the feasibility of uncontrolled growth and consumption. (Mensah, 2019)

4.0 SUSTAINABLE ECONOMIC DEVELOPMENT

Sustainable economic development now focuses on meeting the basic needs of the poor, advocates cultural sensitivity, and encourages “grassroots” participation in the development process. It stresses that economic development cannot be complete without guaranteeing a sustainable environment. (Barbier E.B (1987).

This is however, in contrast to the traditional model of economic development which prioritizes immediate gains, sometimes to the detriment of the environment or social wellbeing. An economy that seeks to boost productivity and local employment may not be considered as sustainable unless it integrates these three dimensions, economic, environmental, and social wellbeing, such that any progress in one area does not undermine the others. This delineation is key to understanding its core meaning. Over the years, economic policy have shifted, in order to accommodate a broader view of economic development as the process whereby the real per capita income of a country increases over a long period of time, subject to the stipulations that the number of absolute poverty line does not increase, and that the distribution of income does not become more unequal. This view has led to the following features of economic development:

a. It is an integral part of the total development of society, but can be treated separately’
b. It is measured quantitatively through economic accumulation, or growth in real per capita output;
c. Its qualitative dimension is associated with technological and institutional change, or innovation broadly

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d. It should ideally be measurable, i.e., economic development is associated with direct and readily measurable economic gain.

According to Barbier E.B (1987), the concept of "total development of society" involves not only changes in economic activity but also political, social, and cultural, transformations. Economic development therefore is an all-inclusive concept that involves not only more output but also different kinds of output that were previously produced, as well as changes in the technical and institutional arrangements by which output is produced and distributed. Also, in addition to the invention and diffusion of new technology, these innovations would include changes in organization, government policy, patterns of ownership, human skills and tasks and consumer tastes and preferences.

Sustainable economic development is therefore the process in which the exploitation of natural resources, the direction of investment, the orientation of technological development, and institutional change or reform are all in coordination and harmony and enhance both the current and future potential for meeting human needs. Economic development without sustainability is not efficient or effective in the long run (Yu-Yun Wang 1996).

Yu-Yun Wang, 1996, further posited that sustainable economic development requires new approaches to economic life, in terms of both production and consumption, as it seeks new levels of efficiency that will produce more with fewer resources and less waste. The fight against waste and pollution requires new production processes, that involve more use of recyclable materials, and the development of regenerative or recyclable output components. Sustainable economic development concerns itself on how goods are produced, marketed, delivered, and thrown away, and consider the impact of economic development on natural and biological processes to see how the production process can be improved. Economic growth, especially in developing nations, must bring together the various institutions, technological innovations, and the market economic system. Sadly, developing countries, owing to the pressure of population increase, have had to pursue economic progress despite its negative impacts on the environment and overall ecology, and have little sense of the problem of sustainability. In the true sense, sustainable development is not simple, as countries differ in time, space, and level of economic development, making sustainability issues quite different for different countries. The obstacles to sustainability are shaped by many factors: social issues, market mechanism, environment, resources, population, industrial structure, urban and rural hierarchy, infrastructure, and geographic conditions. (Yu-Yun Wang 1996).

Sustainable economic development in general terms, has the primary objective of reducing the absolute poverty of the world's poor through providing lasting and secure livelihoods that minimize resource depletion, environmental degradation, cultural disruption, and social instability. (Barbier E.B (1987),

4.1 The benefits of adopting sustainable economic development pathway.

The economic dimension of sustainable development focuses on achieving inclusive and equitable growth. It emphasizes the importance of generating wealth, creating job opportunities, and reducing poverty. To appreciate the import of Sustainable Economic Development is to consider the consequences of unsustainable practices. Resource depletion, climate change, and growing social inequalities are not abstract threats; they are real challenges

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impacting communities and economies worldwide. For instance, deforestation exposes the soil to erosion and loss of biodiversity, undermining agricultural productivity and ecosystem services. Similarly, unchecked industrial pollution can cause health problems and environmental damage, impacting both human well-being and economic sectors like tourism and agriculture. Sustainable Economic Development offers a pathway to mitigate these risks and build a more resilient and prosperous future.

4.1.1 Industry-Specific Applications: Contextual Significance

The table below delineates how the principles of Sustainable Economic Development translate into concrete actions within different industries. The important thing here is that sustainability is not a one-size-fits-all concept; it requires industry-specific strategies and solutions. Understanding these contextual nuances is crucial for effective implementation. The substance of Sustainable Economic Development lies in its adaptability and relevance to diverse economic sectors. (Sustainability Directory, 2024).

Table 1: Industry Specific Actions

Industry	Sustainable Development Focus	Examples of Sustainable Practices
Manufacturing	Resource efficiency, waste reduction, circular economy principles, clean production	Implementing closed-loop systems, using recycled materials, designing for durability and recyclability, reducing energy consumption in production processes
Agriculture	Sustainable land management, water conservation, reduced chemical inputs, biodiversity protection, climate resilience	Implementing agroforestry, using precision agriculture techniques, adopting no-till farming, promoting organic farming, diversifying crops
Energy	Transition to renewable energy sources, energy efficiency, grid modernization, carbon capture and storage	Investing in solar, wind, and geothermal energy, improving building insulation, developing smart grids, exploring carbon sequestration technologies
Transportation	Electrification, public transportation, fuel efficiency, sustainable urban planning, reduced congestion	Promoting electric vehicles, investing in public transit infrastructure, improving vehicle fuel economy standards, designing walkable and bikeable cities

Source: (Sustainability Directory, 2024)

4.2 Technological Innovation and Sustainable Economic Development

Technological innovation is one of the cornerstones of sustainable economic development, especially for natural resource-endowed economies, as it extends the economic lives of natural resources, since consumption causes resource depletion and environmental damage and reduced economic growth. Technological innovation thus promotes sustainable economic growth by improving productivity, creating new jobs, and increasing access to resources. Technological inventions also offer solutions to help make better use of resources, such as

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renewable energy sources, improved water usage, and waste reduction techniques. They also help to develop products that are more efficient and cost-effective. (Wang etal, 2023).

Whereas not all economies are naturally endowed with abundance of resources, it is important that such economies invest strategically in their human capital to maximize economic output from available resources. Developing nations therefore must invest in education and training programs to equip workers with the skills needed to take full advantage of available resources. A clear example of such scaling up is China, which from 1990 to 2022, embraced technological innovations as a major driver of the country's economic development. The country embarked on advancements in technologies such as renewable energy, efficient water management systems, and smart agriculture techniques, which enabled China to increase resource efficiency and reduce environmental impacts. It has also helped the nation to reduce air pollution levels and improve air quality. In addition, Chinese authorities have implemented an array of measures to reduce water use and protect local ecosystems. These policies have been instrumental in helping to make China a more sustainable nation. Sustainable economic development is the way forward, and we must consider the interconnected nature of resource efficiency, technology, and ecosystems in this pursuit. It is increasingly evident that traditional development pathways have caused significant environmental harm, and we must act fast to transition to more sustainable practices. (Wang etal, 2023).

5.0 ECONOMIC DIVERSIFICATION

According to the IMF, Diversification is the transition from a dependency on traditional sectors, such as agriculture and mining, to a variety of sectors and high-quality services, and is therefore critical for industrialization or for transitioning toward a high-productivity, service-oriented economy. Further, it helps to create an economic structure adaptable to global market fluctuations and resilient to global challenges. Properly implemented diversification strategy will broaden the range of economic activities within a country, and by extension foster sustainable economic growth and improve standards of living. For developing economies, this shift is especially pertinent because it increases their capacity to absorb economic shocks, while also creating new opportunities for innovation, investment, and job creation. Economic diversification is therefore essential in promoting sustainable growth and improving living standards in developing economies (Delechat et al, 2024)

5.1 Types of diversifications

Diversification can happen both at the macroeconomic or national level and at the microeconomic or organizational level. At the macroeconomic level, Esanov, 2012, defined economic diversification as the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets. It is generally the process in which the economy becomes more diverse in terms of goods and services it produces and falls into two major types: economic (product) diversification and export diversification.

5.1.1 Export diversification

This refers to deliberate policies intended to change the shares of commodities in the existing export mix, introduce new products in the export portfolio, and/or break into new geographical markets. No country has experienced sustained growth and significant reduction in poverty

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without integrating into the global economy. Export diversification is closely associated with a broader range of production activities. However, Poverty-reducing trade- driven growth has been particularly difficult to achieve in countries whose economies are concentrated upon commodities and natural resources. On the other hand, economic diversification, at the national level, takes place by reducing a country's overdependence on a narrow economic base (Esanov, 2012).

5.1.2 Economic diversification

This centers around two competing strategies of industrialization: import substitution industrialization and export-led industrialization. Import substitution industrialization promotes domestic industries to replace foreign-made goods with domestic goods; export-led industrialization on the other hand speeds up the industrialization process by opening domestic markets for foreign competition and by supporting export sectors. Import-substitution strategy relies on direct government interventions, while the government only creates needed incentives to indirectly influence the behaviour of economic agents under export-led industrialization structure. At the industry level, the diversification debate boils down to the selection of industries that have the potential to expand and ultimately develop sufficient capacity to compete with advanced economies in the global market. Although governments possess powerful policy instruments to stimulate structural change and the diversification process, choosing the right instruments determines success in the long run (Deléchat etal, 2024)

5.1.3 Business Diversification

This is a subset of the macroeconomic diversification; it is diversification at the microeconomic, or business level. Ofcourse at that level, the main goal of diversification, regardless of the type, is to reduce risk, increase revenue, access new markets, and utilise competencies across different business units. (Ballardsllp (2023).

Diversification at the business level requires thorough and careful evaluation of the risks and rewards as expanding into unfamiliar areas come with new risks that could destabilize existing operations. If not properly implemented, companies stand to lose focus, spread themselves too thin, take on excessive debt, without gaining any advantage in the new market. However, when done thoughtfully and strategically, diversification allows companies to expand revenue opportunities and mitigate reliance on any single product, market, or industry. Cyclical industries may pursue diversification to smoothen earnings over economic cycles. For investors, diversification reduces portfolio volatility and concentration risk. Overall, diversification tends to reduce risks more than maximise returns, as diversion from specialization comes at a cost. Companies must find the right balance for their situation and objectives. (Ballardsllp (2023).

Diversification, at the business level, requires that there are sufficient financial, physical, and human resources to support diversification. Strong leadership and clarity around the rationale and execution plan are also critical. Setting expectations on costs, timeline, growth rates, and financial returns is important. It is evident that diversification without a strategic rationale or adequate commitment of resources is unlikely to pay off. It is therefore important for companies to carefully weigh costs and benefits as the strategy substantially increases complexity. This is because diversification can meet objectives around risk management,

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revenue growth, market expansion and use of competencies with careful planning and disciplined execution, Consequently, at the business level, four main types of diversification are known: concentric, horizontal, vertical, and conglomerate. Each has its own rationale and associated risks and rewards, (Ballardsllp (2023)

5.1.3.1 Concentric diversification

This involves expanding into product and service offerings that are closely related to the current offerings. For example, a soft drink manufacturer launching bottled water brand leverages similar production and distribution capabilities. The key benefit is the ability to utilise existing competencies in the new business area. However, significant differences in marketing, competitive dynamics, and other factors can still make concentric diversification challenging. Simply having production similarities does not guarantee success in the new market.

5.1.3.2 Horizontal diversification

This refers to entering a new business area that serves the same customer base, but with an unrelated offering. Supermarkets providing an ever-expanding range of products from groceries to clothing demonstrate this strategy. It allows companies to leverage their existing customer relationships and distribution channels to cross-sell new products. However, it also requires developing expertise in very different product areas, which increases risk and complexity. Just because a customer shops at a store does not mean they will purchase unrelated products from the same retailer.

5.1.3.3 Vertical diversification

This includes forward and backward integration along the supply chain. For example, an automobile manufacturer may acquire a steel manufacturer to control inputs or a dealership network to control distribution. This can allow for lower costs, improved coordination, and greater differentiation. However, it also concentrates exposure within a single supply chain, loses benefits of specialisation, and requires learning very different businesses. Owning the entire chain is not always optimal.

5.1.3.4 Conglomerate diversification

This involves expanding into completely unrelated businesses to spread and mitigate risk. Many investors actually oppose this level of diversification at the company level, as they can achieve diversification themselves across stocks. Conglomerates also rarely have any synergies across business units, instead operating largely as financial holding entities. There are few competencies to leverage, so the businesses must largely stand alone.

5.2 The benefits of Economic Diversification

Economic Diversification is strategic in the economic trajectory of an economy to move it to a less concentrated production and trade structure. Lack of economic diversification causes increased economic vulnerability such that external shocks can undermine the development process, and this is typically the conditions for low-income countries, with least varied economic structures, that heavily rely on farming or minerals, such as fuel oils, gas, copper and

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other metals. Economies are exposed to sector specific shocks, such as weather-related shocks in agriculture (droughts, floods, pest infestation, disease outbreaks) and sudden price shocks for minerals. Growth also tends to be unbalanced in the case of mineral dependent countries or slow and difficult to sustain in agrarian economies. Poverty-reducing trade-driven growth has been particularly difficult to achieve in countries whose economies are concentrated upon commodities and natural resources. Diversification therefore helps to manage volatility and provides a more stable path for equitable growth and development. (World Bank, 2017).

According to Deléchat et al, 2024, Economic diversification denotes a shift from a dependence on traditional sectors, such as agriculture and extractives (oil and mining), toward a broader array of sectors and high-quality services. Diversification is intimately related to the process of structural transformation, that is, the dynamic shift of resources from less productive to more productive sectors, including knowledge-based industries. This process, which involves both capitalizing on a country's current comparative advantage and building the capabilities required to create new comparative advantages, is essential to economic development. Diversification therefore serves as an essential pillar for fostering sustainable growth and improving living standards, particularly in developing economies. Recent global challenges, including climate change, technological change, and geoeconomic fragmentation, have highlighted the critical role of economic diversification in ensuring sustained growth:

Specifically, diversification's numerous economic benefits have been widely documented:

i. Diversifying domestic production, exports, and imports enhances resilience to external shocks
ii. Diversification stimulates faster economic growth, especially in countries at early stages of development.
iii. Successful diversification leads to reductions in poverty and inequality, through the emergence of new industries generating jobs that require new labor, thereby boosting income levels.
iv. Diversification into technologically advanced sectors may result in higher wages and improved job opportunities.
v. Economic diversification becomes more salient due to climate change, as certain sectors, especially in agriculture, become less viable owing to shifting environmental conditions. Diversifying into other sectors will help economies stay resilient. Incorporating green technologies and sustainable industries into diversification strategies is therefore critical.

Historically, developing economies have largely relied on a limited range of primary products, often involving exhaustible resources, and a small number of export markets. Yet, over the past two decades, these countries have increasingly diversified into new products and trading partners. Despite this growth, there is still considerable potential for further diversification, especially by enhancing the quality of existing products and introducing new, higher-value goods. Importantly, diversification extends beyond manufacturing to encompass agriculture, often the least productive sector in low-income countries (Deléchat et al, 2024).

5.3 Economic Diversification for Commodity Dependent Economies

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Commodity producing nations require economic diversification to avoid the growth, trade and revenue volatility emanating from price and volume fluctuations. The Global Diversification Report (Prasad et al, 2025) classified commodity dependent nations using two common measurements: a country is resource dependent if over 60 percent of its total merchandise exports in value terms consist of natural resources, though the IMF/World Bank refer to a minimum threshold of 25 percent) and the ratio of natural resources rents-to-GDP is above 10 percent. Such nations' tax revenues as a percentage of GDP also fall mostly below 20 percent. This classification readily places Nigeria as a commodity reliant economy. (Prasad et al, 2025).

Consequently, countries that are dependent on one commodity (such as oil or a specific metal, agricultural product or mineral) would be more vulnerable to shocks - be it price levels, climate change or the pandemic. While UNCTAD estimates that the average commodity-dependent country would need 190 years just to cut in half their dependence compared with that of the average non-commodity-dependent country, there are many successful cases of countries having overcome the "resource curse". The transition from heavy reliance on commodity sectors can follow many pathways: adopting new technologies and fostering innovation, shifting towards a services-based economy, focusing on value-added manufacturing, diversifying into new export markets and high value-added products.

Additionally, investing in human capital and soft infrastructure, and strengthening the rule of law and governance, can create a favorable environment to attract Foreign Direct Investment, FDI and support this transition. Amid rapid technological changes, taking advantage of opportunities be it AI for agricultural innovation or fintech for greater financial inclusion – can also provide a boost to productivity and growth. Furthermore, diversification could enable poorer nations to transition to a higher GDP growth track supported by job creation, leading also to reductions in poverty and inequality (Prasad et al, 2025).

5.4 Drivers of Diversification and the Role of Government

The extent of a country's economic diversification is influenced by multiple factors, and the future of economic diversification in developing economies is likely to rely on the effectiveness of policy interventions of two broad types, typically categorized as horizontal and vertical strategies.

5.4.1 Horizontal policies

These are broad-based policies and aim to improve the general business environment across all sectors of an economy, such as in developing infrastructure and human capital, increasing the ease of doing business, and strengthening governance.

5.4.2 Vertical policies,

Also called industrial policy, are more targeted and focused on supporting specific sectors, industries, or technologies considered to have high growth potential or strategic importance, but private incentives may prove inadequate to support the activity. Vertical policies may, for instance, include subsidies, tax incentives, directed lending programs, and tailored regulatory regimes, generally with the goal of promoting investment, skills development, and innovation in the target areas.

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For diversification to achieve its desired goals, the state must maintain a close relationship with the private sector to understand the specific constraints and bottlenecks the latter faces and how these can be resolved. Yet the state must also retain sufficient autonomy to enforce discipline and prevent capture. More specifically, potential industrial policies should be evaluated using four criteria:

1) They must have a solid justification: what is the underlying market failure, and could other policies tackle it?
2) They must be well designed: what are the best policy instruments, and what complementary policies are needed to ensure effectiveness? Industrial policies must pass a rigorous (ex-ante and ex post) cost-benefit assessment, including fiscal and administrative costs, as well as indirect costs due to potential resource misallocation and trading partner retaliation. And industrial policies must be well implemented.
3) They must be consistent with a country's institutional and administrative capacity. They must preserve domestic macroeconomic stability, as well as fiscal and external sustainability.
4) And they must be consistent with World Trade Organization commitments.

In general, successful implementation requires robust administrative capacity; comprehensive reforms to address underlying institutional weaknesses, boost transparency, and strengthen governance, so as to deter corruption and rent-seeking; and an emphasis on maintaining openness to foreign firms and vigorous competition throughout the economy. (Deléchat, 2024).

5.5 Factors Constraining Diversification

Some key factors have been identified as potentially constraining the observed level of diversification which include government failures to provide macroeconomic stability, in such areas as appropriate monetary, fiscal, and macropru- dential policy frameworks; support the development of quality infrastructure, a skilled workforce, and access to financial services; foster effective, transparent, and accountable governance, including an appropriate regulatory environment; and, ultimately, ensure broad-based opportunities for the entire population, including through gender- responsive policies to help reduce disparities in human capital accumulation and resource allocation. Also, private markets may themselves be the source of distortions that hamper prospects for diversification.

Different sectors and actors in the economy may be subject to "coordination failures," and overcoming these will be essential for diversification. For instance, the development of new sectors may involve the coordinated creation of an entire ecosystem of producers, specialized suppliers, and workers with specialized skills. Likewise, coordinated investments may be required to adapt technology, establish the size of potential markets, reach potential customers, and create verifiable quality standards (World Bank, 2017).

5.6 Diversification strategies

According to MIT, 2019, economic diversification has become an important development goal among medium-income countries, especially among those relying on the export of commodities such as Chile, Peru, Saudi Arabia, and Kazakhstan. Given past research, the obvious intuition is to follow a pragmatic strategy focused only on related activities. The

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Institute conducted research with the Masdar Institute in Abu Dhabi and observed that the intuition on related activities may be flawed. Using mathematical models and simulations to compare multiple economic diversification strategies, MIT, 2019, found that always targeting the "low-hanging fruit" related activities is not the optimal choice, but rather the researchers found that countries can do better by using dynamic strategies, targeting related products at the beginning and the end of the development process, but switching to targeting more unrelated activities when they reach an intermediate level of development. At this critical point, MIT, 2019, noted that future diversification opportunities opened by an unrelated activity may compensate for a country's reduced probability of success in it. These observations were corroborated with the diversification paradigms of some selected advanced and developing economies: Germany, the United States, and South Korea are examples of three economies with high levels of complexity and large and diversified product portfolios. Conversely, Angola, Paraguay, and Bangladesh are low- complexity economies with few developed products. According to MIT, 2019, their research found out that countries at these two extremes should continue to develop products or activities that work for them.

For instance, Germany would benefit from continued development in fields where they have shown success: chemicals, health products, and aircraft parts while Bangladesh should continue to target products in the garment, textile, and agriculture sectors. The reasons why countries at these two opposite extremes would benefit from the same development strategy are arguably different: highly developed economies would be looking to specialize in their industrial capabilities; underdeveloped ones to consolidate local knowledge before taking risks. In contrast, countries such as Malaysia and Turkey are between these two extremes, classified to be in intermediate stage of diversification, these countries would benefit from developing activities unrelated to their current product portfolios. This means moving away from garment manufacturing and perhaps investing in machinery and chemicals or health-related products.

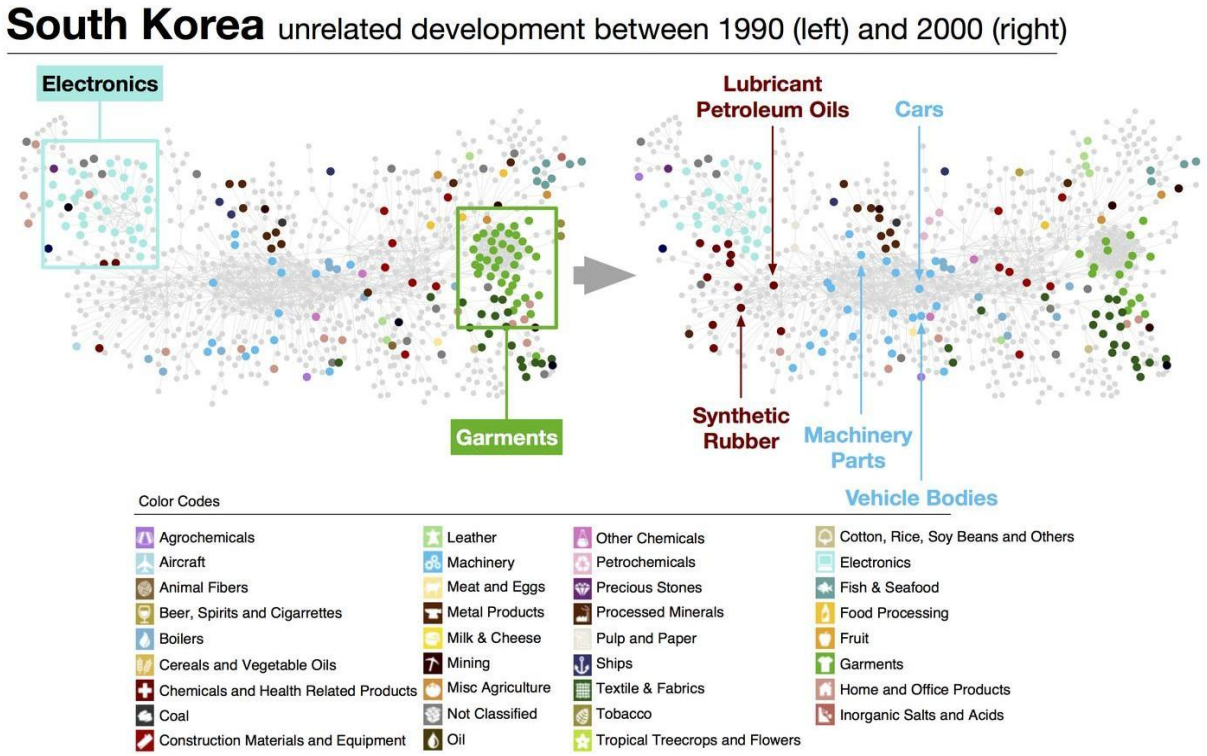

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Figure 1: South Korea Unrelated development – 1990 and 2000. Source: MIT, 2019

Figure 1 shows South Korea's development trajectory; the country experienced an industrial transformation over the past 50 years moving away from textiles in the early 1970s to one dominated by products in electronics and machinery. The booming in South Korean economy, and the speedup of its economic complexity, coincided with a series of unrelated developments in the late 1990s, that targeted products in the Machinery sector (e.g., cars, vehicle bodies, non-electrical machinery parts). (MIT, 2019).

5.7 Economic Diversification and Structural Transformation

Economic diversification and structural transformation, the reallocation of resources, within and across different sectors to higher productivity activities, are closely linked. Structural transformation refers to the shift from agricultural to non-agricultural sectors, and from industry to services. A broad and well-determined trend has been the gradual decline of agriculture and increase in services, accompanied by an initial increase followed by decline in manufacturing, that consistently shows across countries as a part of the process of economic development. A useful way of understanding the relationship between economic growth and structural transformation is by decomposing the causes of increases in productivity into that due to factor reallocation across sectors (structural change component) and that due to changes in productivity within sectors (within component). The World Bank observed that in a number of developing countries, particularly in Africa and Latin America, structural transformation was slowing down and that these countries were showing signs of 'premature deindustrialization' (the rate at which economies were diversifying and transforming their economies was not proceeding as fast as observed in today's advanced economies) are losing steam. (World Bank (2017).

5.8 Global Value Chains and Diversification

While the current global environment is creating economic problems for resource dependent countries, there are new opportunities to successfully implement a strategy for diversification. The global economy of the 21st Century offers new routes and opportunities for poor countries to diversify. The spatial splitting up of production and the emergence and growth of regional and global value chains offers new opportunities for developing countries to export tasks and activities rather than having to specialize in whole industries. The changing technology of communications and the spiraling downward of transport and communications costs has created enormous opportunities for developing countries to export services, including back-office processing. These developments bring not only opportunities to broaden the base of production but also to diversify the structure of employment and especially for women to find productive work, which can transform households, boost participation in education and hence long-term productivity and poverty reduction. But participation in international value chains also entails new risks from vulnerability in longer and more complex value chains or when the relationship with the buyer/key supplier is captive. (World bank 2017).

Economic diversification is therefore no longer seen as simply requiring the emergence of new industries, where the focus was on industries and movement of resources between old (low productivity) and new (higher productivity) sectors. This typically required investments in all

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elements of production within a sector. In the 21st Century, however, there are many more routes towards diversified economies:

1) firstly, there has been an increasing focus on firms and the process of reallocation of resources between low productivity firms and high productivity firms, including within existing industries. For example, there is now a considerable body of evidence to suggest that within sectors, firms that export have higher productivity, and pay higher wages than those that do not;
2) technological change and the reduction of transport costs have led to the splitting up of production and the emergence of regional and global value chains where distinct activities or tasks are undertaken in different countries according to where it is most efficient to locate activities and manage the value chain.
3) Regulatory reform and the decline of communication costs have enabled developing countries to participate in the expansion of trade in services (beyond tourism) many of which provide relatively high productivity activities compared to traditional agricultural activity.

This entails that concentrating on the output of manufacturing sectors alone is not sufficient to identify the scope of opportunities for economic diversification. Further, the splitting up of value chains implies that countries should not just be looking to exploit opportunities to produce and export final products but also exploring possibilities with regard to intermediate inputs. Diversifying the range and quality of imported inputs can support quality upgrading and productivity growth in existing sectors and allow new varieties of products to be developed. Producers of inputs can explore the densification of their value chains (diversification toward new uses of a given product) to access new markets and reduce vulnerability to product-specific.

Global Value Chain, GVC, integration can drive diversification by linking firms to larger markets at finer levels of specialization. For developing and least developed countries for which large parts of the population are employed in subsistence agriculture, GVC integration is typically associated with large productivity and welfare gains. Even if firms engage in labor-intensive, low-skill tasks (ie. apparel; IT back office) GVCs can support the development of new skills and firm capabilities. Through GVC integration, firms from different countries work together in vertically integrated systems of production, sharing blueprints, technicians, and managerial practices. GVCs can give access to ‘accelerated learning’ and transfer of tacit knowledge at a rate unthinkable in a traditional trade setting. Integration to GVC may be especially beneficial for landlocked countries or island countries where domestic transport and shipping trade costs are high. (World bank, 2017).

5.8 Digital Technologies and economic diversification

Economic diversification is essential for resilient and inclusive growth and is a key part of Sustainable Development Goal 9; target 9.5 of which is to enhance scientific research and upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries. However, many developing economies remain reliant on a narrow range of commodities, making them vulnerable to external shocks. The accelerated pace of digitalization boosted by continuous technological advancements could open a transformative

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path for developing countries, to build robust, high-value industries and foster sustainable growth. Fast progress in computing power, connectivity and related technological advancements have led to the emergence of digital frontier technologies in a fourth industrial revolution, often referred to as industry 4.0 technologies, enabling unprecedented data generation and connectivity that enhance competitiveness and productivity. Such technologies include the Internet of things, artificial intelligence, big data, blockchain, fifth-generation, three-dimensional printing, robotics and drones.

5.7.1 Channels of technological diversification

Industry 4.0 technologies share some common features that are applicable across sectors and could support developing countries in diversifying economies through three channels.

5.7.1.1 First, empirical evidence shows that developing countries actively engaged with industry 4.0 technologies have higher growth rates in both GDP and manufacturing value added, driven by productivity gains. That is, the manufacturing sector is likely to gain significantly from improvements in processes, products and organizational structures through more effective and flexible automation, the decentralization of tasks and the enhanced integration of hardware, software and connectivity in production systems.

5.7.1.2 Second, industry 4.0 technologies have served to create new markets centred on data-driven services and digital platforms, such as digital advertising, financial technology, telemedicine and electronic commerce.

5.7.1.3 Third, industry 4.0 technologies could drive both technological upgrading and environmental improvements, thereby supporting the digital and green transitions. For example, industry 4.0 technologies can help promote the development of new green industries related to renewable energy sources and electric mobility, thereby offering opportunities for developing countries to diversify economies away from traditional resource-dependent sectors while engaging in a transition towards more sustainable production.

However, the potential of digitalization for economic diversification remains constrained in many developing countries due to weak digital infrastructure, the lack of digital skills, limited access to relevant technologies and financial constraints, among other issues. (UNO, 2025)

5.8.2 Artificial intelligence (AI) and diversification of developing economies

Artificial Intelligence (AI) as a way of making machines, specifically computers, think and act like human beings, allows machines to carry out activities that usually need human intelligence, including learning, problem-solving, understanding information, and making decisions. The purpose of AI is to help computers process information, recognize patterns, and make decisions on their own. It allows work to be accomplished faster and facilitates technological progress in most industries, causing the economy to grow.

Artificial Intelligence is classified into three types: narrow AI, general AI, and super intelligent AI. Narrow AI, also called weak AI, is built for specific tasks like voice recognition or image processing. It works well within its set limits but cannot handle tasks outside its programming. General AI, or strong AI, refers to machines that can think and learn like humans. This type of

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AI is still in development and remains a future goal for researchers. Super intelligent AI goes beyond human intelligence in creativity, problem-solving, and decision-making. Though not yet a reality, it raises concerns about its impact on humanity. AI aims to automate tasks, improve decision-making, and drive innovation. By handling routine work, AI helps people focus on more complex and creative tasks. It also improves decision- making by analyzing large amounts of data, which is useful in fields like healthcare, finance, and logistics. Additionally, AI supports innovation by helping businesses create new products, improve supply chains, and personalize customer experiences. (Okoye & Nwokike, 2025).

Artificial intelligence (AI) carries the promise of making industry more efficient and our lives easier. AI has been called the "new electricity" reflecting an economic framing of AI as a "general purpose technology" (GPT). AI may be poised to join the steam engine, the electric motor, and the silicon wafer as a "technological prime mover", but it may also be "disruptive" and cause structural changes (which then often generates resistance by some vested interests). With this promise, however, also comes the fear of job replacement, manufacturing stagnation, hollowing out of the middle class, and increased income inequality. With the growing call for national AI strategies, governments around the world have a mandate to leverage AI for economic competitiveness and to help shape their industrial strategy. Rather than looking at AI as a potential threat, AI can be viewed as one factor in economic transformation.

It is important to acknowledge that AI research is being shaped by a few actors, mostly affiliated with large technology firms, as of 2023, 100% of the world's supercomputers reside in only 30 nations, so 85% of the world's 204 nations lack the domestic AI infrastructure to compete in the new AI economy. More than a fear of missing out, emerging economies are, for now, dependent on foreign sources of AI production, which has potentially sweeping implications for the future distribution of economic prosperity. Leveraging capabilities in AI will be pivotal for the competitiveness of traditional industries and the discovery of new industries, both for advanced and emerging markets (EM's). (Mishra et al, 2023). The macroeconomic impact varies across countries. Generally, advanced economies are readier than emerging ones to adopt AI. However, some emerging economies, such as China and a few Eastern European countries, are among the leaders in AI preparedness.

According to the most recent findings, advanced economies are readier than emerging market countries to adopt AI, and the United States is the most advanced country in all respects. However, some emerging economies appear well- positioned among the leaders in AI preparedness and adoption (Usardi, A & Drut, B (2025).

Figure 2 further shows that North America, and Europe, China and Developed Asian economies in terms of AI contributions to GDP, gain the most from Artificial Intelligence (AI), while the rest of the world including Africa only show 5.6% of their GDP.

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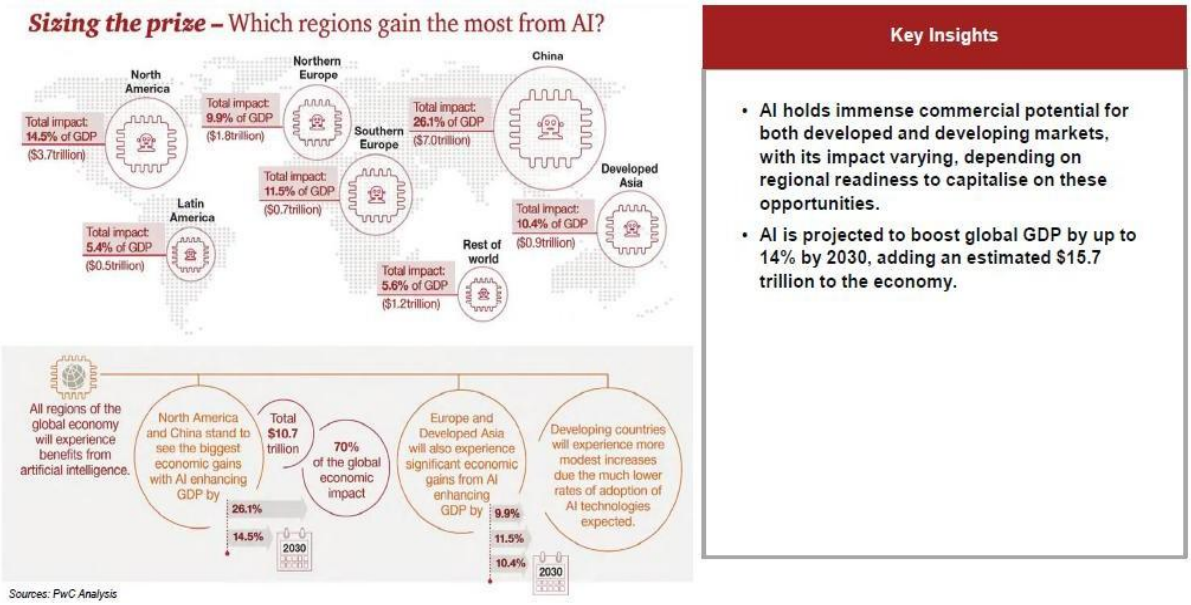

Figure 2: Regional AI Contribution to GDP: Source: PWC, 2025

However, Figure 3 shows AI preparedness in sub–Saharan Africa with Nigeria ranking 25th among Sub-Saharan African nations in the AI Preparedness Index for 2023.

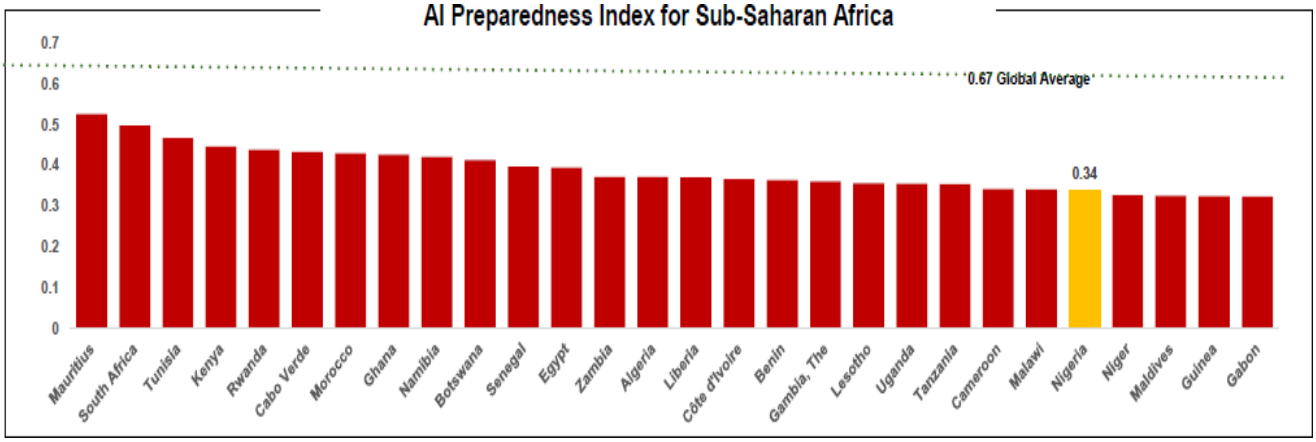

Figure 3: AI preparedness in sub–Saharan Africa. Source: PWC, 2025

Despite being one of the Africa's largest economy, this low score by Nigeria, underscores the nation's lagging readiness to harness AI's transformative potential compared to regional leaders like Mauritius and South Africa. Globally, the country ranked 150th, a position that highlights the pressing need for strategic investments in AI infrastructure, skills development, and policy frameworks. Bridging this gap is crucial for Nigeria to leverage AI- driven innovation, enhance competitiveness, and drive sustainable economic growth in the rapidly evolving digital economy (PWC, 2025)

6.0 PHASES OF ECONOMIC SECTORIAL ACTIVITIES

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Global economic development is structured into three main sectors: primary, secondary, and tertiary. Each plays a fundamental role in the economy, representing different phases of production and services, from the extraction of raw materials to the provision of services to end consumers. Economic sectors are typically categorized into three main groups: primary, secondary, and tertiary.

6.1 The Primary Sector

The primary sector focuses on the extraction and harvesting of natural resources, encompassing industries such as agriculture, mining, and fishing. This sector is crucial, particularly in less-developed countries (LDCs), where a significant portion of the population relies on these activities for their livelihoods. (Auerbach, Michael P., 2021).

Emerging economies tend to have a higher amount of economic activity and employment concentrated within the primary sector versus more advanced economies. On the other hand, developed nations tend to utilize machinery and technology in their primary sector activities, meaning the primary sector doesn't represent a large portion of the population's employment. (Kenton, (2025):

6.2 The Secondary Sector

The secondary sector involves manufacturing and industrial processes, linking raw materials from the primary sector to finished products. This sector tends to drive economic development and is often seen as a transition point from agrarian to industrial economies. The evolution of economies from an agrarian primary-sector level to an industrial secondary-sector level has two important benefits for the society in question. First, an increase in the secondary sector leads to greater economic development. That industrialization leads to economic development in a given nation-state or region is a widely held conclusion. The examples of the wealthiest nations, such as the United States and the European Union countries, provide evidence of this ideal, as do the examples of LDCs that have embarked on similar industrialization routes.

6.3 The Tertiary Sector

The tertiary sector is, in essence, the industries that employ the "white collar" worker. Whereas the primary and secondary sectors involve, to a large degree, manual labor, tertiary sector workers are more involved in general administration and management. Among the tertiary-sector industries are insurance, health care, finance, business management, communications, and public administration. The tertiary sector have become dominant in advanced economies. The significance of the tertiary sector has grown as it contributes substantially to gross domestic product (GDP) and employment. Each sector plays a vital role in the overall economic landscape, reflecting the interconnectedness of industries and the need for a diverse workforce. Understanding these sectors provides insight into how economies evolve and adapt in response to global challenges and opportunities. (Auerbach, Michael P., 2021).

6.4 Interdependencies of Economic Sectors

Economic sectors are highly interconnected, and the development of one directly impacts the others. For instance, the secondary sector cannot operate without the raw materials from the

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primary sector, and the tertiary sector depends on manufactured goods to sell and distribute. Again, as technology advances, the tertiary sector drives growth in other sectors. For example, innovations in IT have optimized industrial production and improved product distribution. Also, the use of drones and precision technology in agriculture illustrates how the tertiary sector (technology) enhances efficiency in the primary sector. Another example is in manufacturing and IT services, integrating management software in factories (secondary sector) improves operational efficiency and reduces costs. These systems, provided by tertiary sector companies, enable automated production and real-time data management. (Vynmsa, 2021).

7.0 THE NIGERIAN ECONOMY

The economy of Nigeria is a middle-income, mixed economy and emerging market. With a nominal GDP of $285 billion, the country is ranked 4th in Africa, and 52nd largest economy in the world, and second largest in Africa in terms of purchasing power parity, and the 19th largest globally in terms of purchasing power parity. (IMF, 2025).

Historically, Nigeria's economic development is deeply rooted in the contributions and roles the various sectors such as Agriculture, Mining, Manufacturing, etc, have played over time. The pre-colonial and post-colonial economic profile was dominated by the non-oil sectors largely made up of agriculture, mining and taxation. The agricultural and mining sectors were the pride of the nation as they commanded and occupied enviable production positions and held substantial world market shares of cocoa, cotton, groundnut, palm produce, hides and skin, tin, coal, iron bauxite etc. Consequently, they jointly contributed over 65% of the national Gross Domestic Product (GDP) and provided employment opportunities for the populace.

At independence, each region settled for cash crops and mining products for which it had comparative advantage in commercial quantities; the Western Region was noted for cocoa for export, the Northern region was known for groundnut which was symbolized by the groundnut pyramids. Solid minerals such as tin and iron ore from the Middle Belt also made their contributions to the development of the north and the nation. The Eastern Region produced and exported palm produce, while coal also helped immensely to the economic development of the Region. The Mid- West Region had rubber for export.

Nigeria's economic scenario changed with increased oil exploration activities and the ascendancy of oil and gas sector as its prime sector which climaxed into the oil boom of the 1970s. With the disappearance of the regions, and the emergence of States-Federal Structure, the economy was completely overwhelmed by the effect of 'oil money'. From then, States and indeed local governments instead of being producers as before, had to rely on transfers from the center. Ultimately, this led to the neglect and collapse of export-oriented agriculture and mining in Nigeria. (RMAFC, 2019).

Following the May 2023 change in administration, Nigeria has embarked on bold macroeconomic reforms aimed at restoring stability and growth. Key measures included the full removal of the gasoline subsidy, unification of the exchange rate market, and a shift to market-reflective pricing steps that have reduced fiscal distortions and improved external balances. The Central Bank has tightened monetary policy and refocused on price stability, while also ending deficit monetization.

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7.1 The rebasing of the Nigerian Economy

Nigeria successfully rebased its GDP in July 2025 shifting the base year from 2010 to 2019. In naira terms, the economy was valued at N364.6 trillion in 2024 under the new 2019 base, compared to N269.3 trillion under the old 2010 base, as shown in figure 4.

Nigeria achieved its peak GDP in dollar terms, of US$636.66 billion in 2022, before falling to US$479.72 billion in 2023 and US$246.55 billion in 2024 due to sharp currency depreciation and macroeconomic adjustments as shown in figure 4 (NESG, 2025)

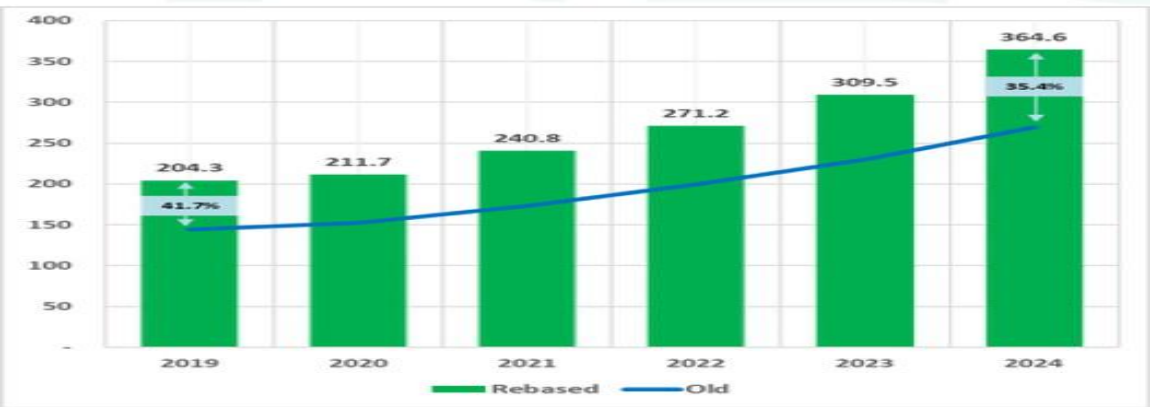

Figure 4. Nigeria's Nominal GDP (N'Trillion) – Source: NESG, 2025

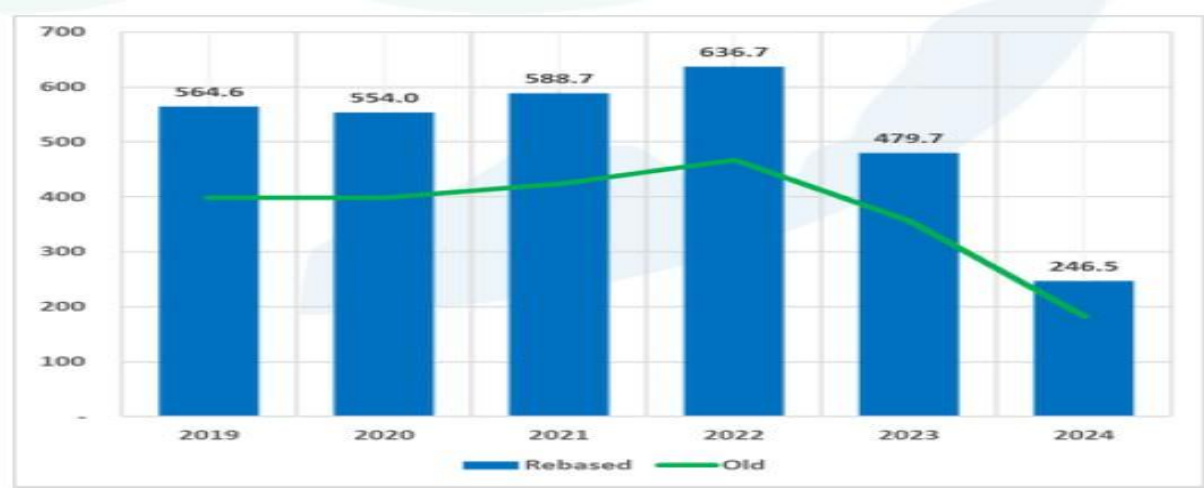

Figure 5: Nigeria's Nominal GDP ($'Billion). Sources: PWC, 2025

Similarly, GDP per capita collapsed from US$2,914 to US$1,036 over the same period reflecting weaker purchasing power and lower welfare. Structurally, Services remain dominant (55.5 percent of real GDP), but Agriculture and Real Estate, largely informal and low-productivity, have increased their combined share to approximately 40 percent of GDP. Fiscal and financial indicators under the rebased framework reveal both opportunities and risks. Debt-to-GDP appears lower at 40.6 percent in 2024, potentially suggesting more fiscal space; however, revenue-to-GDP is just 2.6 percent, among the lowest globally, which limits the government's real capacity.

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The rebased GDP data confirm a structural weakening of Nigeria's industrial sector, whose share of GDP has fallen from 21.1 percent in 2019 to 16.7 percent in 2024. This is not due to exceptional growth in other sectors, but because the industrial base has failed to recover from the COVID-induced recession. Oil & gas output – the cornerstone of Nigeria's industrial economy remains below prepandemic levels, recovering only partially from a collapse in 2020. Manufacturing has been equally constrained, facing high input costs, energy insecurity, limited FX access for raw materials, and persistent infrastructure bottlenecks. Construction, another major industrial component, has slowed as public capital spending struggles to keep pace with inflation and debt service pressures. (NESG, 2025).

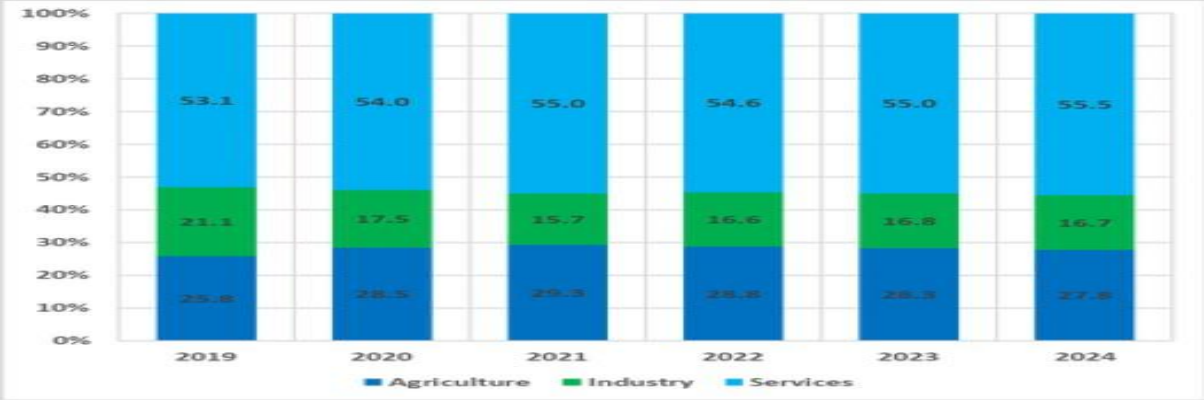

Figure 6: Historical Distribution of RGDP by Broad Sectors (percent). Source: PWC-2025

The rebasing exercise reveals that 42.5 percent of Nigeria's economy underpin by large informality, underscoring the scale of unregistered, small-scale, and subsistence activities that dominate employment and output. This is shown in figure 6. Informality provides a buffer during crises, absorbing labour displaced from the formal sector and sustaining livelihoods when formal job creation is weak. However, it also limits productivity growth, constrains fiscal capacity (due to low tax compliance), and perpetuates precarious working conditions. Many informal enterprises face credit exclusion, limited access to technology, and vulnerability to shocks.

Figure 7. Broad Sector's GDP by Formality (%). Source- PWC-2025.

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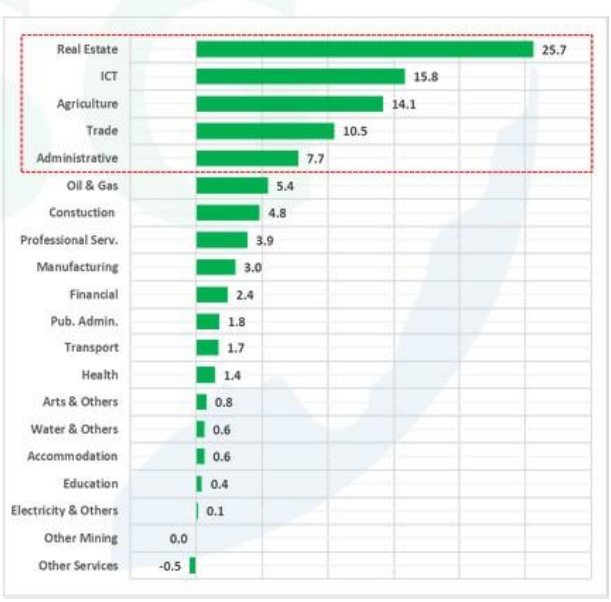
The rebased GDP no doubt has reconstructed the Nigerian economic sectors growth and contributions to the economy.



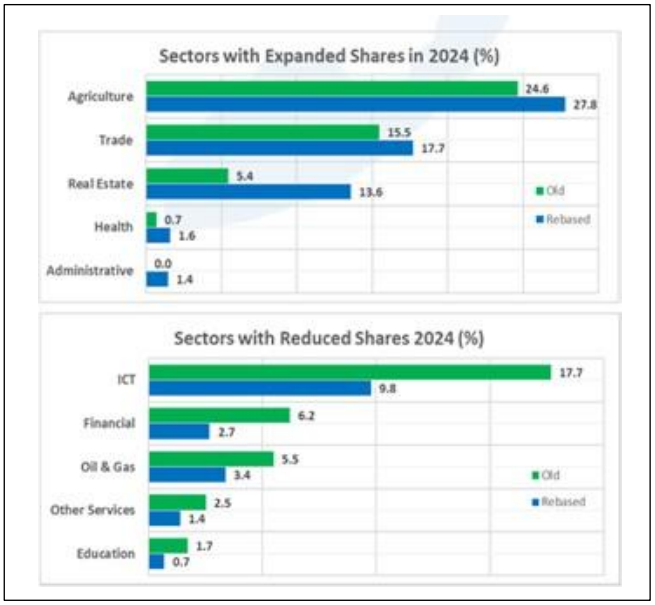


Figure 8 A: Contributions to Growth 2024 (percent) **Figure 8B: Sectoral Redistribution of RGDP**

2024 (percent) – Source: PWC-2025

7.2 Nigerian Economic Performance- 2025

According to the National Bureau of Statistics (NBS), Nigeria's, real GDP grew by 3.98% year-on-year, in the 3rd quarter easing from 4.23% in Q2 2025 but still surpassing the 3.86% recorded in Q3 2024. In nominal terms, total output rose to ₦113.59 trillion, up from ₦101.73 trillion in the preceding quarter and ₦96.16 trillion in Q3 2024, reflecting both output gains and elevated price levels which was largely driven by the non-oil economy that contributed over 96 percent of the national output.

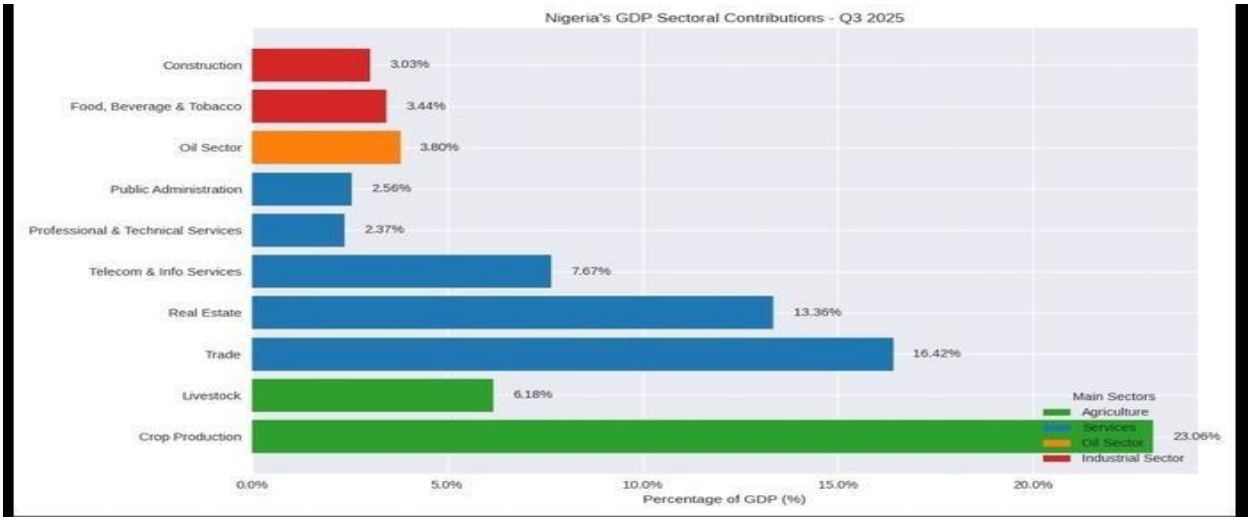


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Figure 9: Nigerian GDP Sectoral Contribution-Q3-2025. Source: Parthian Group 2025)

In terms of GDP sectoral contribution, the NBS data highlights a gradual structural shift away from over-reliance on crude oil, with agriculture and services emerging as the main engines of growth. The non-oil sector accounted for 96.56% of total real GDP, slightly lower than the 96.62% reported a year earlier but higher than the 95.95% recorded in the previous quarter, reaffirming its dominant role in Nigeria's growth narrative. Of the 46 economic activities tracked by the NBS, 24 sectors expanded, 20 slowed down, and 2 contracted.

The non-oil sector grew by 3.91% in real terms, outperforming both the 3.79% recorded in the same period of 2024 and the 3.64% posted in the second quarter of 2025. This improvement highlights the resilience and broad-based contributions of non-oil activities despite ongoing macroeconomic pressures. Strong performance in agriculture (particularly crop production), financial services, trade, construction, and manufacturing underpinned the sector's resilience. (Parthian Group, 2025).

A breakdown of key non-oil sectors shows that agriculture remained the backbone of the economy, accounting for just over 31 percent of real GDP. Crop production led the charge, contributing 23.06 percent, with its growth rate rising to 3.79 percent from 2.55 percent in Q3 2024. Livestock added another 6.18 percent, underscoring the sector's central role in sustaining national output and food security. The services sector continued to dominate, representing 53.02 percent of GDP. Trade activity contributed 16.42 percent, reflecting sustained household consumption and retail spending across the country. Real estate also proved resilient, accounting for 13.36 percent of output.

The oil sector, though still critical for government revenue, accounted for only 3.80 percent of GDP. Crude petroleum and natural gas production rose to an average of 1.64 million barrels per day, up from 1.47 million the previous year, but the sector's real growth of 5.84 percent reflected a slowdown from previous periods, illustrating its declining proportional significance to overall economic output (Chima, 2025).

The World Bank reported in October 2025 that Nigeria had made progress in stabilizing its economy through recent policy reforms but urged more action to improve living standards and curb soaring food prices. The Bank projects Nigerian GDP growth of 4.2% in 2025, up from 3.4% in 2024 and rising to 4.4% by 2027, supported by services, agriculture and non-oil industries. Inflation is expected to ease gradually but remain high. It stood at 16.05% in October and the central bank's main interest rate is at 27%. (Bala-Gbogbo & Mohd, 2025).

The 3rd quarter performance is a slowdown from the year to year 4.23 % performance recorded in the second quarter of 2025, its highest quarterly growth rate since Q2 2021, driven largely by a sharp rebound in the oil sector. The 4.23% performance marked a 110-basis point increase from the 3.13 per cent recorded in Q1 2025 and a 75-basis point rise compared to the 3.4 per cent growth in the same period of 2024.

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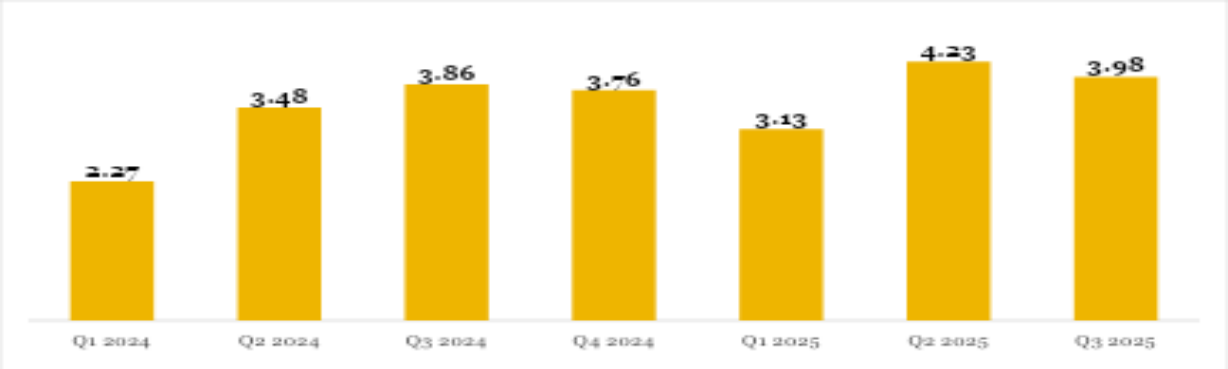

Figure 10: 3rd QTR GDP Performance compared to 2nd QTR Performance

The 2nd quarter performance showed a 4-year highest in economic growth as shown in figure 11

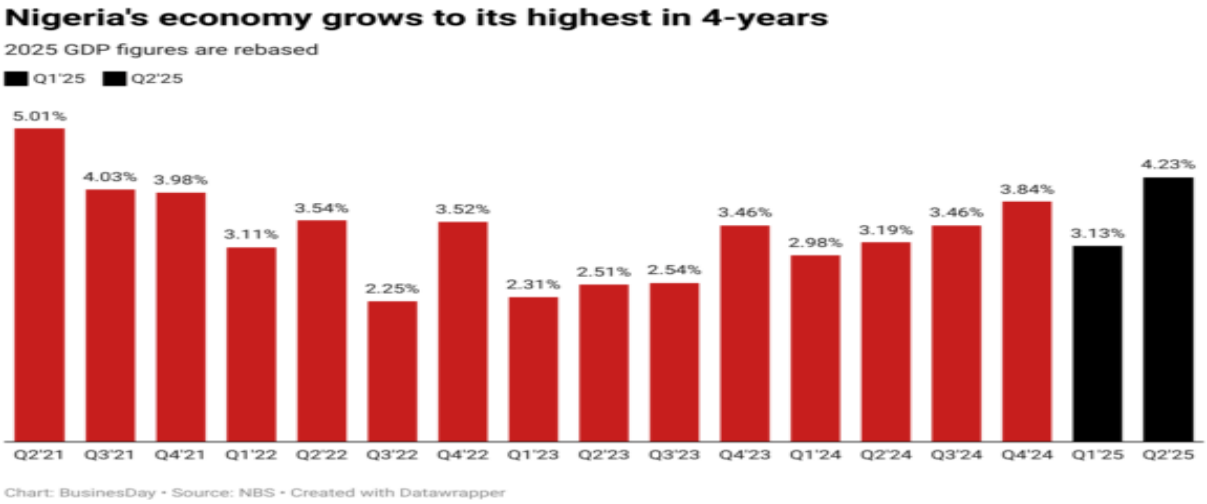

Figure 11: 2nd GDP Performance showing 4 year high. Source: Olujinmi, 2025

The oil sector led the charge, recording a massive 20 per cent year-on-year growth in Q2 2025, its strongest performance in years, up from just 1.87 % in Q1. This surge is attributed to a boost in crude oil production, with Nigeria pumping an average of 1.68 million barrels per day during the quarter. That figure is significantly higher than the 1.41 million barrels per day produced in Q2 2024 and above the 1.62 million barrels per day recorded in Q1 2025. (Olujinmi, 2025)

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Figure 12 shows growth rate of the key sectors in Q2 2025 performance

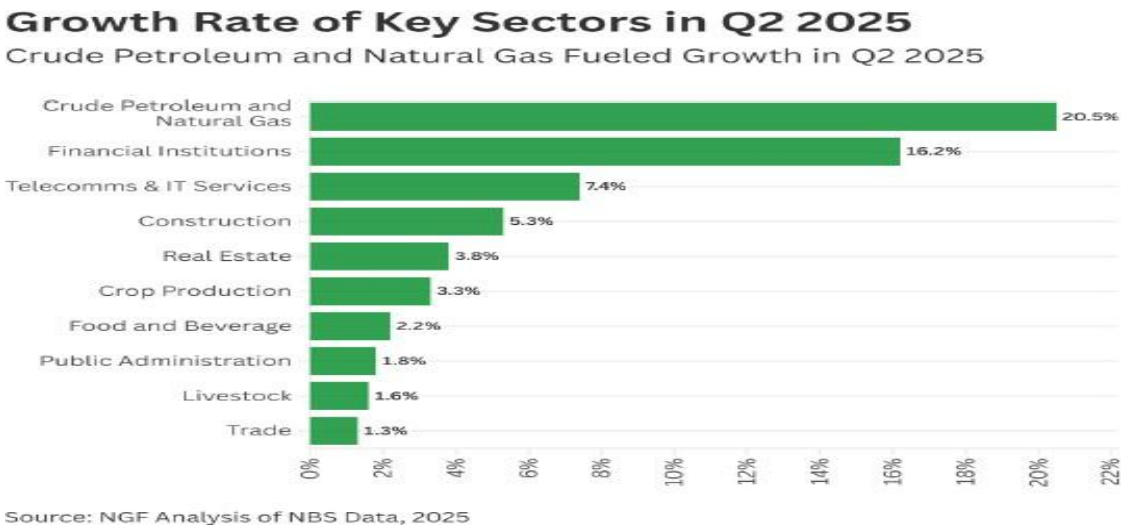
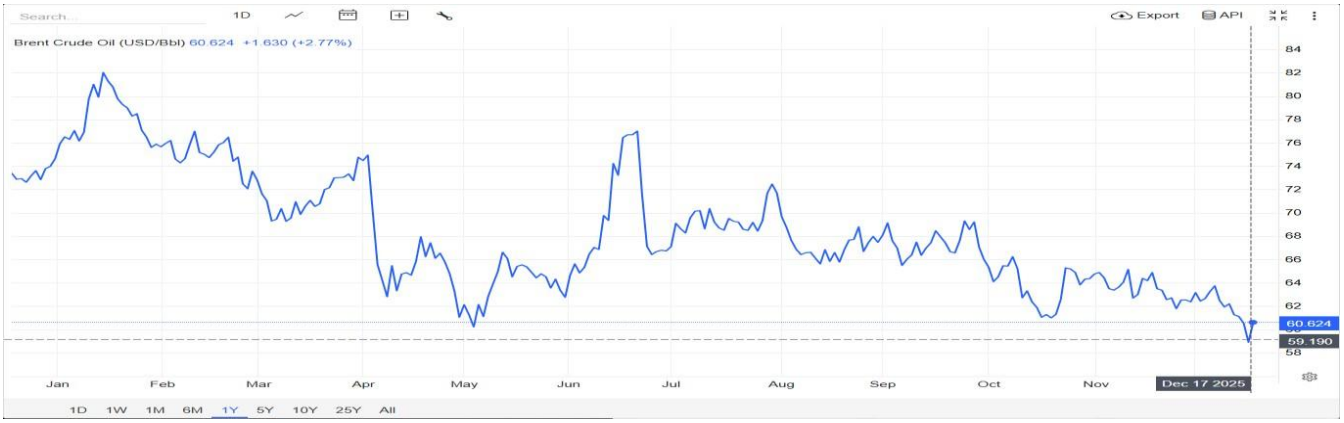


Figure 12: Growth Rate of Key Sectors in Q2 2025. Source: Olujinmi, 2025

7.3 Revenue Generation

According to the Minister of Finance and Coordinating Minister of the Economy, Wale Edun, the Federal Government projected a revenue target of N40.8tn in 2025 to fund the N54.9tn "budget of restoration," designed to stabilize the economy, secure peace and lay the foundation



for long-term prosperity. Sadly, current fiscal performance shows that the country will only earn about N10.7 trillion, and this is attributable, according to the Minister to the sharp shortfall that is largely attributable to weak oil and gas earnings, particularly Petroleum Profit Tax and Company Income Tax from oil and gas companies, alongside persistent underperformance across several revenue subheads. (Yakubu, 2025).

Figure 13: Brent Crude Oil Price – January to December 2025: Source: Trading Economics, 2025

In terms of average crude oil production rate, OPEC data show that Nigeria averaged 1.444 million barrels per day in the third quarter, a drop from 1.481 million barrels in the second quarter and 1.468 million barrels in the first quarter. (Aina, 2025)

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The 2025 Nigerian Budget was however, projected to produce 2.06 million barrels per day of crude oil at an average price of $75 per barrel.

7.3.1 Inflation

Nigeria's inflation trajectory continued to ease in Q3 2025, reflecting the combined impact of CPI rebasing adjustments, favorable base effects, and a more stable macroeconomic environment that sustained the disinflation trend. Headline inflation declined for the sixth consecutive month, falling to 18.02% in September 2025 from 20.12% in August, supported by foreign exchange stability, the main harvest season and base effects from the CPI rebasing earlier in the year. Food inflation, which carries the largest weight in the CPI basket, fell sharply to a five year low of 16.87% from 21.87% in August, reflecting improved agricultural supply conditions and enhanced food distribution channels. Likewise, core inflation - which excludes food and energy - moderated to 19.53% from 20.3% in July, signaling easing pressures in housing, transport and utilities. Despite lingering risks from energy costs and global commodity price volatility, the overall inflation outlook remains positive. The sustained stability of the naira continues to anchor imported prices, while consistent macroeconomic policies are expected to reinforce the disinflation momentum and strengthen price stability in the coming months. (Access Bank, 2025).

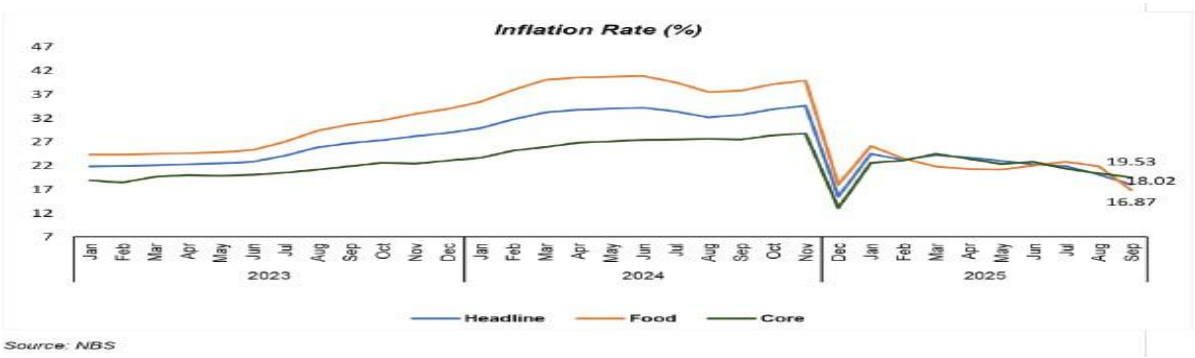

Figure 14: Inflation rate – 2023-2025. Source: Access Bank, 2025

7.3.2 Foreign Trade Performance

Data from the National Bureau of Statistics, NBS, show that total merchandise trade climbed to N38.94 trillion, a slight uplift from both last year and the previous quarter, helped largely by stronger crude shipments and a jump in non-oil raw material exports. The figures for 3rd quarter represent an 8.71% increase from the N35.8 trillion recorded in the corresponding quarter of 2024 and a 2.36% rise compared to the N38.04 trillion posted in the second quarter of 2025, and 8.1% higher than the N36.02 trillion recorded in Q1 2025.

Of the N38.94 trillion, exports accounted for 58.59% with a value of N22,8 trillion, showing an increase of 11.08% over the value recorded in Q3 2024 (N20.54 trillion) and by 0.28% compared to the value recorded in Q2, 2025 (N22.75 trillion). According to the NBS, crude oil remained Nigeria's dominant export commodity, with a value of N12.81 trillion, representing 56.14% of total exports for Q3 2025, while other petroleum and gas exports totaled N 7.01

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trillion, bringing total crude oil and petroleum exports to N 19.82 trillion or 86.92% of total export, while non- oil products contributed N2.9 trillion, or 13.08% of total exports. Imports accounted for 41.41% of Nigeria's total trade in the third quarter of 2025, reaching N16.12 trillion. This represents a 5.51% increase from N15.28 trillion recorded in Q3 2024, as well as a 5.47% rise compared to N15.29 trillion in the previous quarter. The trade surplus stood at N6.69 trillion, though this reflects a 10.36% decline from the N7.46 trillion posted in Q2 2025, largely due to the faster pace of import growth relative to exports (Adigun, 2025).

Agricultural exports dropped to N786.62bn, down 11.69 per cent from the N890.72bn recorded in Q3 2024 and a steep 37.39 per cent fall from N1.26tn posted in Q2 2025. Exports of manufactured goods stood at N978.53bn, 6.03 per cent lower than the N1.04tn recorded in Q3 2024 but still 21.74 per cent higher than the N803.81bn reported in Q2 2025. (Onuba, 2025).

In Q2 2025, Nigeria recorded trade performance with total trade climbing to ₦38.04tn, in which exports outpaced imports, reaching ₦22.75tn against ₦15.29tn in imports, resulting into a ₦7.46tn trade surplus, reflecting Nigeria's heavy reliance on crude oil exports, which made up more than half of total export earnings. Crude oil remained Nigeria's mainstay, with shipments valued at N11.97 trillion and accounting for 52.6% of total exports. Yet, crude earnings fell more than N1 trillion compared to Q1. The shortfall was counterbalanced by stronger non-crude oil sales, including natural gas and refined petroleum products, which jumped to N10.78 trillion. Non-oil exports, though still modest, climbed to N3.05 trillion, representing 13.4 per cent of total exports.

A deeper look at sectoral performance shows that manufactured goods exports were one of the standout stories of the quarter. The sector expanded to N803.8 billion, a 173% increase from Q1 and a 67% rise compared with the same quarter of 2024. Key manufactured exports included vessels, floating platforms, and aluminum alloys, shipped largely to European and Asian markets. Solid minerals also strengthened their contribution, with exports jumping by 31% from Q1 to N77.3 billion, led by shipments of cement clinkers and mineral substances to destinations like China and Cameroon. This performance highlights a gradual diversification of Nigeria's export base beyond hydrocarbons, though oil and gas still accounted for more than 85% of total exports (Tunji, 2025).

In Q1 2025, Nigeria's trade surplus hit N5.17tn, driven by mainly by crude oil with total merchandise trade of N36.02 trillion, representing an increase of 6.19 per cent, compared to N33.92 trillion in Q1 2024. Exports trade continued to be dominated by crude oil valued at N12.95 trillion or 62.89 per cent of total exports while the value of non-crude oil exports stood at N7.64 trillion, accounting for 37.11 per cent of total exports of which non-oil products contributed N3.16 trillion or 15.38 per cent of total exports. However, imports accounted for 42.82 per cent of total trade in the review period with N15.42 trillion, representing a 4.59 per cent increase compared to N14.74 trillion but 7.02 per cent decrease from N16.59 trillion in Q4 2024. (Emejo, 2025).

7.3.3 Nigerian Debt Stock

In the meantime, Nigeria's public debt has soared since 2010, with domestic debt up 2,020% and external debt up 1,000% by mid-2025. Nigeria's debt journey over the past 15 years paints a clear picture of persistent fiscal strain. From just ₦3.8 trillion in 2010, domestic borrowing

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has ballooned to over ₦80 trillion, fueled by budget deficits, falling oil revenues, and rising governance costs. External debt has also expanded steadily, from $4.27 billion to nearly $47 billion as Nigeria sought foreign funding to stabilise its economy. This consistent upward trend underscores a growing dependence on debt to finance national expenditure, making debt management and revenue growth more critical than ever. (Intelpoint, 2025)

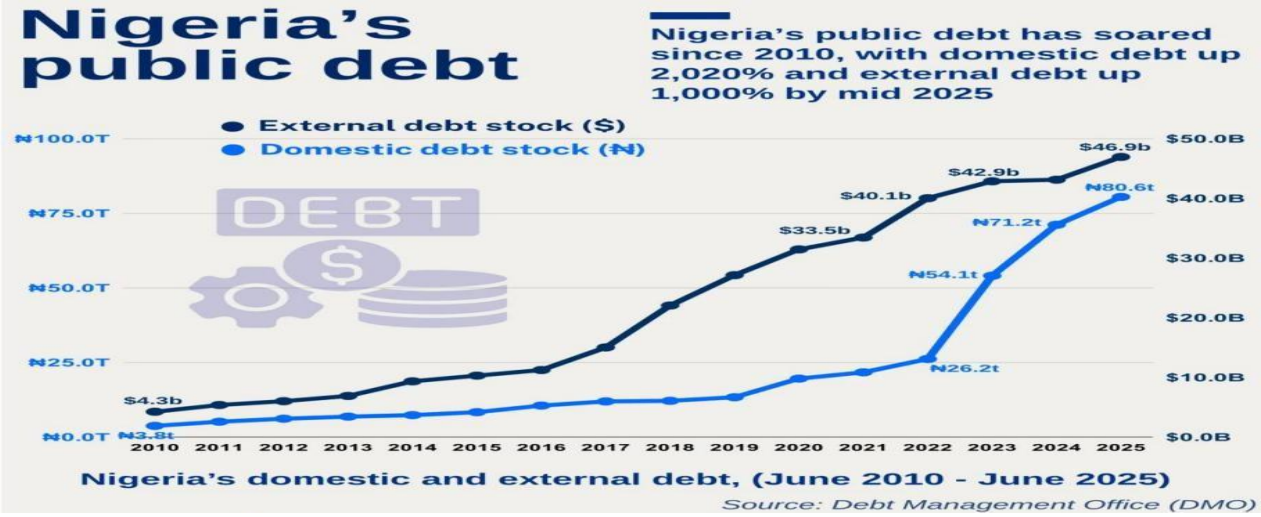

Figure 15: Nigeria's Public Debt. Sources – NBS & Intelpoint, 2025

7.3.4 External Reserves

In terms of External Reserves, Nigeria's external reserves strengthened markedly, rising to $42.35 billion at end-Q3 2025, a 13.8% increase from $37.21 billion in Q2 2025. The buildup reflects improved foreign exchange inflows, supported by higher crude oil receipts amid increased domestic fuel production and renewed portfolio investment. This upward trend underscores stronger foreign exchange liquidity, which has eased pressure on the naira and enhanced the Central Bank's capacity to sustain currency stability. The growing reserves also provide a firmer buffer against external shocks, reinforcing investor confidence in Nigeria's external position and overall macroeconomic resilience.

Figure 16: External Reserves, $bn. Source: Access Bank- 2025

8.0 HOW DIVERSIFIED IS NIGERIAN ECONOMY?

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While recent GDP figures confirm the Nigerian economy as showing very strong non-oil performance with 95-96% of the GDP, this contrasts very poorly in terms of export diversification, where the economy still relies heavily on petroleum crude oil and gas and petroleum products exports for its foreign exchange earnings, which combined contributed more than 86% of total export in 2025. Though in the 3rd quarter 2025 GDP performance was driven by agriculture and the service sectors, with combined contribution of 84.02% of the GDP, total non-oil export, excluding petroleum product and gas only contributed slightly above 13% of total export in 2025 to date, which further confirms the reliance on the petroleum sector.

The heavy reliance on revenue proceeds is evident in the use of oil price benchmark as an underlying assumption in the preparation of national budget and the fiscal tensions that arise when global oil prices crash. Consequently, the economy is vulnerable to negative oil price shocks/volatilities.

The service sector is a crucial component of every country's economy, and it has been identified as a sector with the capability to become a significant driver of sustained growth in Africa. The Nigerian service sector consists of several industries such as banking, retail and wholesale trade, tourism, real estate, telecommunications, motion pictures (Nollywood), information and communication technology, entertainment, and education. The service sector is currently the fastest growing sector in the world. It accounts for a significant proportion of gross domestic product in most countries and makes significant contribution to the share of total employment (Adetokunbo & Edioye, 2020)

However, while the service sector is growing, the manufacturing sector's performance is relatively poor, based on the 3rd quarter 2025 GDP report. The manufacturing sector slowed down from 1,74% in 2nd quarter 2025 to 1.25 per cent in real terms. The sector's share of real GDP fell to 7.62 per cent, compared with 7.82 per cent in the corresponding period of 2024. Nominal growth was subdued at 3.45 per cent, far below the 13.83 per cent posted a year earlier. The manufacturing sector comprises thirteen subsectors, including oil refining, cement, food and beverages, textiles and apparel, wood products, paper products, chemicals and pharmaceuticals, non-metallic minerals, plastics and rubber, electrical and electronic goods, basic metals, motor vehicle assembly and other manufacturing activities. (Olukoya, 2025)

The 2025 economic performances to date show relatively slow growth in the manufacturing sector, which is a key driver that propels progress in a nation's economy. It's a powerful force that revolves on the growth, productivity, and competitiveness trajectories. A nation's overall economic growth can greatly depend on robustness and performance of the manufacturing sector. For a country that is priding itself on import substitution economic growth and neglecting the manufacturing sector is an economic strategic aberration. The manufacturing sector is the key sector that can help drive import substitution strategies that will switch these demands to the local economy by developing globally competitive products to reduce imports, conserve foreign exchange, spur economic growth and raise standards of living. In addition, the manufacturing sector can be used as an engine for export promotion to earn more foreign exchange from international markets thereby supporting the diversification drive of the economy through increased exports. (KPMG (2023)

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While there has been series of industrial development policies and initiatives such as import-substitution industrialization, export-promotion strategies, and foreign private investment industrialization, policy reform measures such as industrialization policies and structural adjustment programs, Nigeria's economic indices at various stages of industrialization have remained unimpressive for more than thirty years. The have been plagued by high imports of industrial inputs, declining capacity utilization, high production costs, low value added, a slow rate of output growth, a lack of job creation, and poor connections with other economic sectors.

For instance, from the 1970s to the 1990s, the Nigerian government embarked on a series of investment projects, such as the iron and steel plant at Ajaokuta, steel rolling mills at Warri, Kaduna, and Oshogbo, aluminum smelter plant at Ikot Abasi, crude oil refineries at Port Harcourt, Warri, and Kaduna, petrochemical and fertilizer factories at Port Harcourt, cement industries at Calabar and Nkalagu, machine tool, sugar plants, and marble industries, petrochemical gas plant at Akwa-Ibom, and sadly, the economy is still heavily dependent on proceeds from crude export. (Okorontah and Uruakpa (2023). (Florence & Otto (2025).

If Nigeria must therefore join the global innovation market, it must pay critical attention to the manufacturing sector, as the manufacturing sector has ability to drive innovation, research and development and if companies in the manufacturing sector invest in research & development to improve products, enhance production processes and also develop new technologies then these R&D activities can enhance the capacity of scientists, researchers, engineers and also create employment opportunities for them. This in turn has the potential to reduce the dependence of the economy on oil, but to also insulate the economy from the distasteful fiscal/budgetary risks associated with negative oil price shocks. (KPMG (2023)

Compared with other economies, Nigeria lags far behind their peers as shown below

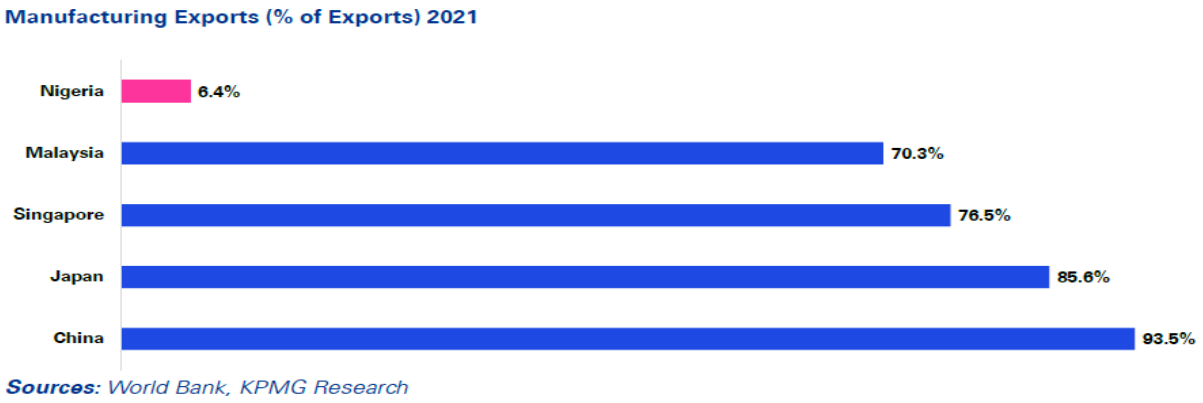

Figure 17: Manufacturing Export (% of Exports) 2021 for selected countries. Source - KPMG-2023

It is therefore not surprising for Nigeria to rank 67th in the global economy competition with a competitiveness score of 40 in the latest 2025 World Competitiveness Ranking (WCR) by IMD Business School, coming behind, Kenya, Botswana, Ghana, and South Africa on the continent. Also, the 2025 Global Economic Diversification Index ranked Nigeria as part of the Bottom 20 economies with a score of 87.2. The report stated that Nigeria, with other low to middle-income nations such as Angola, and Congo remain consistently within the lowest quartile (with

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common characteristics such as poor governance scores and/ or being politically unstable) (Prasad et al 2025)

The Nigerian economy cannot therefore be said to be truly diversified when benched marked globally, since 85% of its total export still comes from the petroleum sector. According to the 2025 Global Economic Diversification Index Report, examples of successful transitions abound, such as Norway's diversification into knowledge-intensive, high- tech and service-oriented sectors, alongside its sovereign wealth fund, investing oil revenue abroad and fiscal policy rules governing around the fund and diversified investments. Malaysia has also moved to high-tech manufacturing and industrialization, while Mexico has invested in industrialization and services sector exports. These transitions are often determined by factors such as quality of institutions, governmental support (such as special economic zones, export promotion agencies), infrastructure deficiency, net inflows of FDI, real exchange rate, financial sector development, reducing trade barriers, tax incentives, human capital development, business capacity, distance between trading markets and digitalization among others. (Prasad et al 2025)

9.0 THE PURSUIT OF REAL ECONOMIC DIVERSIFICATION

Nigeria is not lacking good policies and initiatives on paper, as it has churned out as usual, several institutional arrangements and incentives for promoting export diversification over the last few years, such as (RMAFC, 2019):

1. The Export Development Fund;
2. Export Expansion Grant;
3. Tax relief for any manufacturer who exports at least 50 percent of his turn-over;
4. The Manufacture-In-Bond Scheme (MBS), which enables manufacturing exporters to import, free of duty, raw materials for producing export;
5. The Duty Drawback Scheme (DDS), which allows for refund of import duty on raw materials used for export manufacturing;
6. The Duty Draw Adjustment Scheme Fund, which provides supplementary export subsidy for high costs of production arising from infrastructural inadequacies;
7. The Export Credit Guarantee and Insurance Scheme, which guarantees bank loans to exporters, enables exporters to extend credit to their foreign customers and provides exporters with insurance cover against the risk of default by foreign importers;
8. The Rediscounting and Refinancing Facility (RRP), which provides pre and post shipment finance in support of non-oil exports;
9. The Foreign Input Facility (FIF), which provides exporters with the foreign exchange required for importing essential raw materials used in producing exports and;
10. The Stocking Facility (SF), which provides funds for manufacturers of exports to purchase and stock seasonal and scarce raw materials imports.
11. The removal of fuel subsidies and currency adjustments have improved fiscal stability, fostering a more conducive environment for industrial growth.
12. The introduction of automated short-stay visa approvals aims to enhance business travel and tourism, potentially boosting industrial collaboration and investment. (Kenneth, A (2025):

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These incentives are to cushion the effect of high cost of doing business in Nigeria. The country have also created incentives to encourage its import substitution programme through local production such as Currency Retention Scheme, Export License Waiver, Pioneer Status, Tax Relief on profit or Income and the Export Processing Zone/Free Trade Zone to expand the nation's export potential.

Sadly, progress has been relatively slow since more than 85% of total export still comes from crude oil and gas and petroleum products, on the one hand, and the rather unimpressive manufacturing sector performance.

9.1 Recommendations towards a sustainable and diversified Nigerian economy

Nigeria continues to face many challenges that include insecurity such as banditry and kidnappings especially in the northwest region, continued insurgency by terrorist groups in the north-east, and separatist agitations in the south-east. Nigeria faces a persistent challenge in absorbing the 3.5 million people entering its labor force annually. Weak job creation, limited entrepreneurial opportunities, and rising emigration reflect the economy's inability to generate sufficient quality employment.

Despite recent reforms, poverty remains widespread, with World Bank estimated 139 million or 61% of Nigerians were living below the poverty line in 2025, with a projection of a further rise to 62% in 2026 equivalent to about 141 million people, before a modest decline in 2027. (Tunji, 2025). State capacity remains weak in many regions, with limited delivery and widespread insecurity. Infrastructure gaps, especially in electricity, transport, and logistics, continue to hinder domestic market integration and productivity

For Nigeria to therefore operate a sustainable and diversified economy, the country needs to adopt some far-reaching strategies and key principles that have proven useful in countries that have pursued industrial policies successfully:

i. state intervention should be limited to fixing market failures only,
ii. industrialization should have a clear export orientation, and
iii. policies to promote domestic industries should ensure competition and strict accountability

To actualize these principles, is the need to promote a realistic and stable relationship between the government and the private sector. The government role here is to:

(i) create an ideal environment for businesses and investors to thrive. This includes enacting policies that strike a balance between protecting the public and encouraging entrepreneurial risk. It also includes promoting a transparent, efficient, and customer-centric environment among government bodies and regulatory agencies. By ensuring global standards among investor and business-facing agencies, improving ease of access to government services, and actively investigating and sanctioning cases of corruption and unethical behaviour, local and international investors will feel more confident about taking business risks in the country, especially in critical sectors like mining.

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(ii) the need to fill key information gaps in the nation's important resource value chains, by investing in data acquisitions and information gathering of the value chains in strategic agricultural products and their industrial potential that would form the first line of inquiry for interested investors

(iii) there is urgent need to also gather information on solid minerals resource locations, reserve estimates, and other pertinent data for potential investors, for Nigeria to also play significantly in the energy transition minerals.

(iv) The country needs to urgently restructure its inefficient land tenure systems, for its over 70 million hectares of agricultural land, majority of which lack the requisite title to enable access to credit and other inputs required for a robust agricultural sector. The government also need to handle the perennial farmer- herdsmen conflict, poor inputs, climate change, and lack of access to international markets,

(v) The manufacturing sector can be improved by ensuring that entrepreneurs, investors, and corporations (local and international) have access to government services and gain requisite licences in record time as long as they meet the requirements. By creating a pro-business environment, encouraging competitiveness, and providing critical infrastructure and support. (Igono, 2024)

(vi) There is also urgent need to tackle the problems of high cost of energy. A high rate of industrialization is necessary for the country's unemployment rate to be eliminated or drastically reduced. Industrialization is directly related to economic growth and development, better infrastructure, technical advancement, and economic diversification all of which depend on the nation having a steady and sufficient supply of energy

(vii) The country also needs to work in trade diversification results from tapping new markets and exporting new products in addition to reducing non-tariff barriers and improving trade related infrastructure and logistics. Such trade reforms will require increased digitalization, a positive outcome from the pandemic period, such as the use of AI to boost productivity, using fintech for greater financial inclusion, increased cross-border trade in digital goods and services, acceptance of electronic logistics to improve cross- border mobility and trade and electronic invoicing for increasing tax efficiency.

(viii) Nigeria must also ensure sustainability practices across the various sectors, especially in the natural resources, industrial, and financial sectors with strong emphasis on ESG applications across sectors.

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