# Achieving Economic Transformation in Nigeria: Leveraging tailored Policies, Institutional Reforms, and Infrastructure Development

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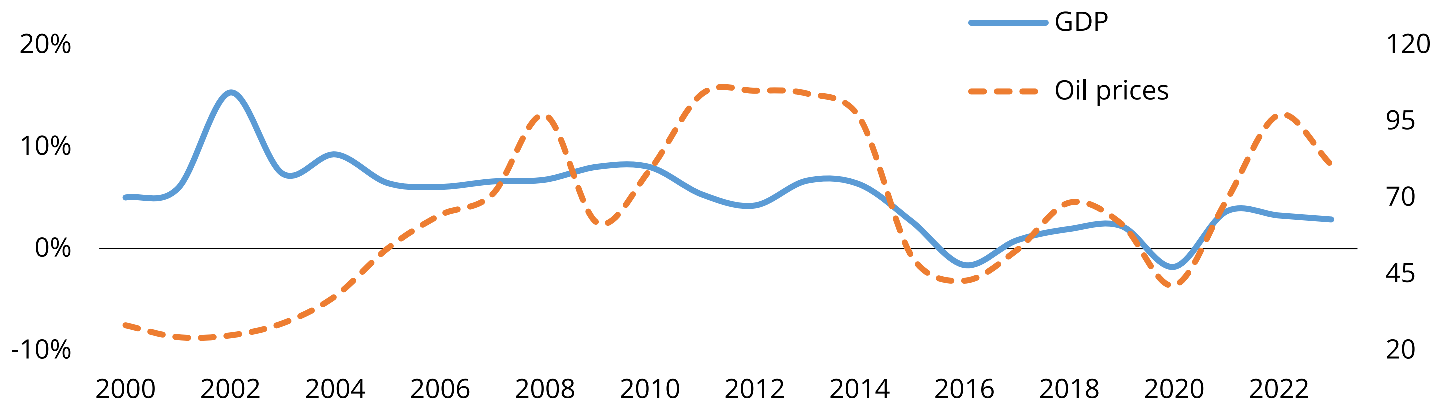
## Abstract

This study analyses how Nigeria can achieve economic transformation in Nigeria. The study is structured into three areas of focus: (i) conceptualisation of economic transformation in developing countries, (ii) critique of Nigeria's effort towards economic transformation and the challenges faced, and (iii) review of comparable countries to identify successful policies that can serve as guardrails for Nigeria. The study adopts the PESTEL framework to review past economic transformation efforts and finds that policies are not being tailored to the Nigerian context, lack a relevant institutional framework, and lack political willpower to execute policies successfully. The study then offers solutions to these issues by analysing comparable countries that have had successful transformations to identify the key drivers and enablers of the transformation effort. It concludes by providing a 3-step policy recommendation built on the Growth Identification and Facilitation Framework (GIFF) to address the failings of previous policy actions by focusing on Nigeria's comparative advantage.


## Introduction

Nigeria's mono-resource economy is heavily reliant on oil, accounting for 6 percent of GDP and 80 percent of public revenue in 2023. This leaves the country vulnerable to oil price and supply fluctuations (see **Figure 1**). There have been many attempts via policy actions to transform the Nigerian economy from a resource-dependent one into an industrialised economy. However, these policies have been largely unsuccessful due to their one-size-fits-all approach that is not reflective of Nigeria's unique context and a lack of strong institutions and political willpower to drive and sustain the necessary reforms.

**Figure 1: Nigeria's GDP growth in relation to Oil price (US$/barrel) flutuations**




**Source: World Bank, National Bureau of Statistics**

As growth rates decreased and GDP per capita flattened around 2020, the government deployed several fiscal and monetary actions to stabilise the economy and unlock increased productivity, however, these actions have been largely unsuccessful. Inflationary pressure continues to persist following the removal of the legacy fuel subsidy, which also resulted in diminished purchasing power, and an ill-timed currency devaluation was unsuccessful in stabilising the exchange rate. Now more than ever, Nigeria needs to transform its economy to mitigate risks associated with oil price volatility and foster long-term economic stability.

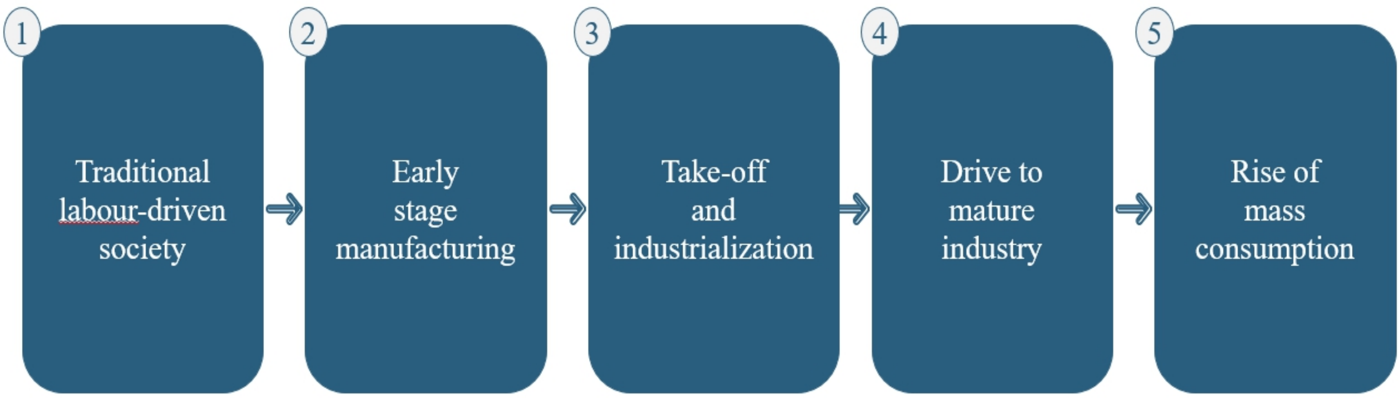
This paper is organised into five sections, section one comprises the introductory background of the study. Section two covers the literature review and theoretical conceptualisation of economic transformation, focusing on developing countries. Section three uses the PESTEL framework to review Nigeria's past transformation policies and highlight their challenges. It also provides a review of other developing countries that have had successful economic transformations to identify the key preconditions required for a successful transformation policy. Section four provides policy recommendations for Nigeria to adopt to foster economic transformation based on the Growth Identification and Facilitation Framework (GIFF).

## Understanding Economic Transformation

Economic transformation should not be confused with structural transformation, which refers to changes in the relative importance of different economic sectors. Economic transformation is a broader concept, encompassing the interconnected processes of structural change that occur as an economy develops. Rodrik (2013) defines economic transformation as a fundamental shift in an economy's productive capabilities, moving from agrarian or subsistence activities toward more industrial and value-adding economic activities. Sen (2014) builds on this definition, highlighting that economic transformation requires "the interplay between political institutions and economic policies to shape the outcomes of economic transformation." McMillan et al. (2017) additionally identified three key components of economic transformation: (a) broad income generation and distribution across social classes, (b) diversification that provides strong protection against price shocks and cycles, and (c) increased opportunities for future growth.

Economic transformation usually happens in stages, starting with a focus on agriculture. First, economies rely on farming and mining, which are labour-intensive and have low productivity. As they develop, they shift to manufacturing, where industrialisation increases productivity and drives growth through technology and mechanisation. This stage centres on producing and exporting goods. Finally, economies transition to a service-based phase, where services become the main driver of economic activity. Building on the ideas of earlier scholars of structural change, like Rostow (1960) and Gerschenkron (1962), we outline five stages of economic transformation **(see Figure 2**).

## Figure 2: Rostow's stages of growth




**Source: The Stages of Economic Growth: A Non - Communist Manifesto**

1.A traditional economy that is characterised by subsistence production, barter-based trade, and labour-intensive farming.

2.Economies with preconditions for take-off, where there is an increase in the capital intensity of agriculture, the development of mining sectors and some growth in savings and investments.

3. The take-off stage is when the rate of accumulation of savings and investments accelerated with industrialisation and a decline in the share of agriculture in the labour force.

4.The drive to maturity is where growth becomes sustainable with further investments in value-adding industries, industries getting diversified, and more use of sophisticated technology.

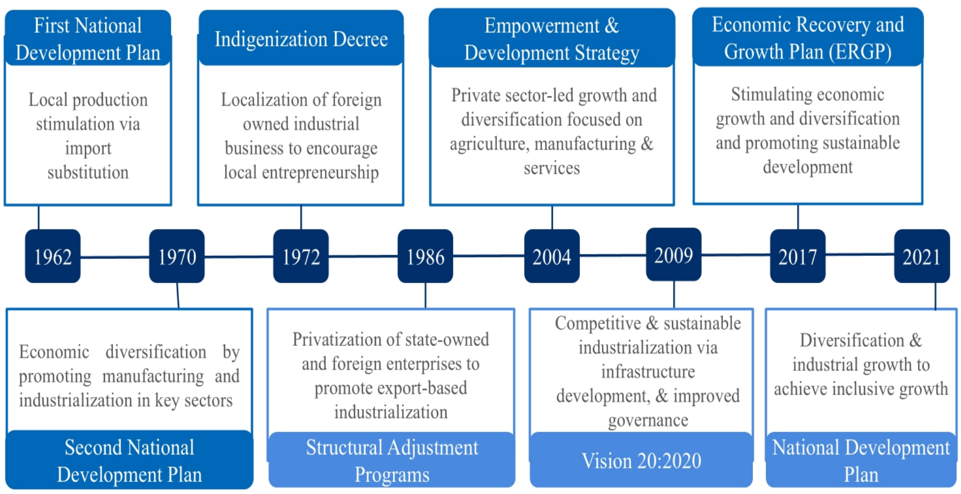
5.The stage of high mass consumption is where there are high output levels, and the service sector dominates the economy.

Given these characteristics and the observed stage of economic transformation for comparable countries like China, India, Indonesia, and Vietnam, Nigeria should be experiencing industrial revolution take-off or driving to maturity, however, it is still in the early stages of manufacturing. Although Nigeria has abundant human capital and natural resources, it still grapples with the typical challenges in the precondition stage, like limited capital availability, infrastructure and technology deficits, which are required for an industrial revolution to take off. Likewise, within the African context[1] Nigeria is recognised as a medium transformer; its economic transformation has improved significantly since 2009, especially in technology upgrading, human well-being, and productivity; however, it still ranks below the African average.

## Why is economic transformation essential in Nigeria?

Nigeria has significant potential for successful economic transformation, with the third-largest economy in Africa and the 30th-largest globally, boasting a nominal GDP of US$253 billion in 2023. This strong economic base, coupled with its youth labour force and rich natural resources, provides a strong base for diversification. However, despite strong economic performance over the past 20 years, the economy's structure with regard to production across sectors has seen little diversification as exports remain concentrated in oil (90 percent). Since its independence in 1960, Nigeria has made numerous attempts to drive large-scale industrialisation and economic diversification (see Figure 3) using national economic policies such as Import Substitution Policy (1962), Indigenisation Decree (1972), Vision 20:2020 (2009), and recently, National Development Plan (2021).

**Figure 3: Timeline of Nigeria's Industrialisation policies since 1960**




**Source: Ministry of Budget and Economic Planning**

[1] African Transformation Index measures economic transformation outcomes using DEPTH, which consists of five dimensions. DEPTH stands for Diversification, Export competitiveness, Productivity increases, Technological upgrading and Human Well-being

The cumulative effect of these policies in stimulating industrialisation and fostering structural transformation has been minimal, with manufacturing declining from 15 percent of GDP in the early 1990s to about 10 percent in 2023 (NBS). This starkly contrasts subsistence agriculture, which consistently accounted for about a quarter of GDP since the early 1990s, peaking at 40 percent in 2002.

Many criticisms have been levelled at these policies, with three significant challenges standing out. First, inadequate conceptualisation: most of these policies failed to address Nigeria's most pressing economic issues. They relied on classical economic models, which are one-size-fits-all approaches that did not reflect Nigeria's actual conditions and realities. Second, there is a lack of strong institutions and frameworks to support regulations or address deep-seated structural problems such as corruption and bureaucratic inefficiencies, which often undermine the effectiveness of policies.

Lastly, the lack of political will to drive and sustain necessary reforms and initiatives means that changes in government and political agendas often lead to abrupt shifts or abandonment of crucial industrial strategies. For example, many developing countries adopted import substitution industrialisation (ISI) during the 1950s and 1960s. Nigeria followed suit, but its implementation faced challenges due to a limited industrial base and weak infrastructure and eventually lost momentum when a new administration took over.

Using the PESTEL framework (see **Figure 4**), the criticism of these policies can be summarised as follows:

**1. Political:** Nigeria has faced significant political instability and corruption, which have weakened industrial policies. Frequent changes in government have disrupted policy continuity and effectiveness, making it challenging for industries to adapt and grow. This lack of stability undermines long-term planning and development.

**2. Economic:** Nigeria's reliance on oil exports often overshadows the development of other sectors, leading to infrastructure deficits like poor roads, unreliable power supply, and inadequate port facilities. These challenges make it difficult for industries to operate efficiently. As a result, economic diversification remains a significant hurdle.

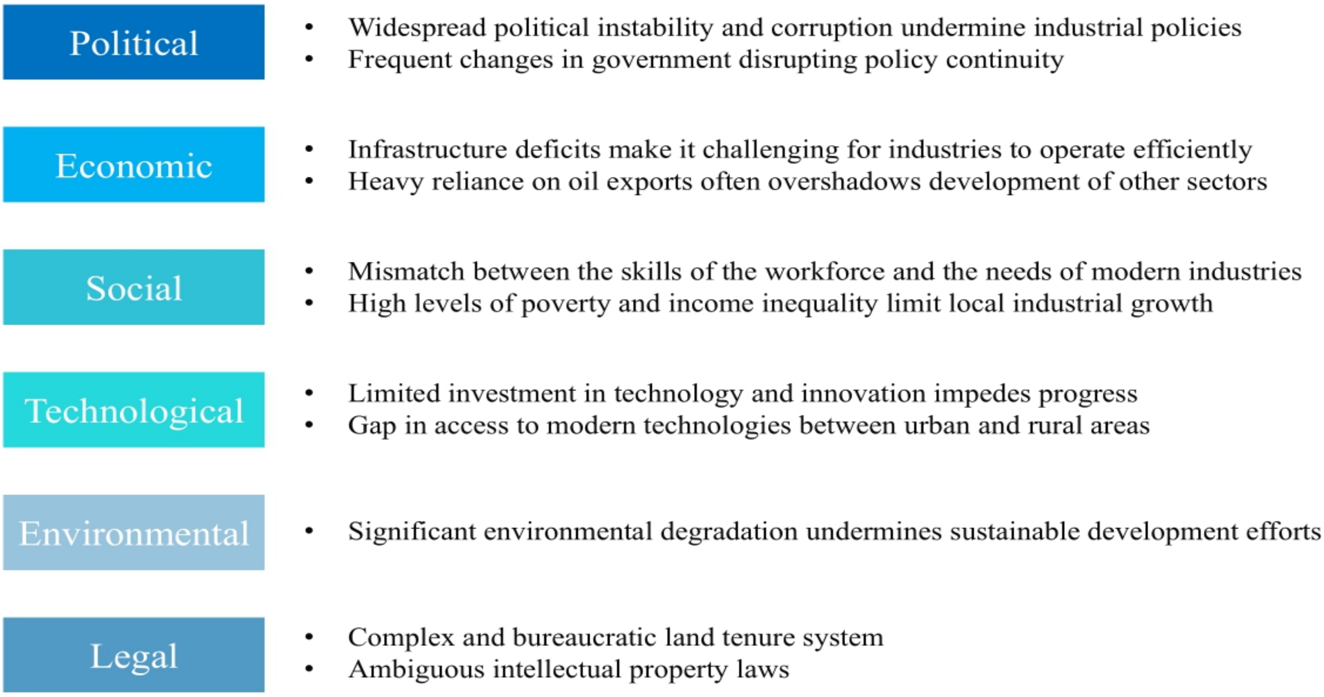
**3. Social:** Nigeria's industrial sector faces challenges due to a mismatch between workforce skills and the demands of modern industries. High poverty levels and income inequality also reduce consumer demand for locally produced goods, hindering industrial growth. This limits the potential for broader economic participation and development.

**4. Technological:** Despite some progress, technological development in Nigeria's industrial sector remains slow. Limited investment in research and development (R&D) and inadequate technology infrastructure hinder advancement. This gap in innovation slows down productivity and competitiveness in global markets.

**5. Environmental:** Industrial activities, especially in the oil sector, have caused significant environmental degradation, including pollution and deforestation. These issues undermine sustainable development efforts and negatively impact public health. The long-term environmental costs are a growing concern for local communities and policymakers.

**6. Legal:** Nigeria's legal environment is marked by bureaucratic inefficiencies, and businesses often struggle with regulatory compliance. For example, the complex land tenure system makes securing land for industrial projects difficult, hindering the successful implementation of industrialisation policies. These legal hurdles slow down investment and development in key industrial areas.

**Figure 4: PESTEL analysis of Nigeria's Industrial and economic transformation policies**

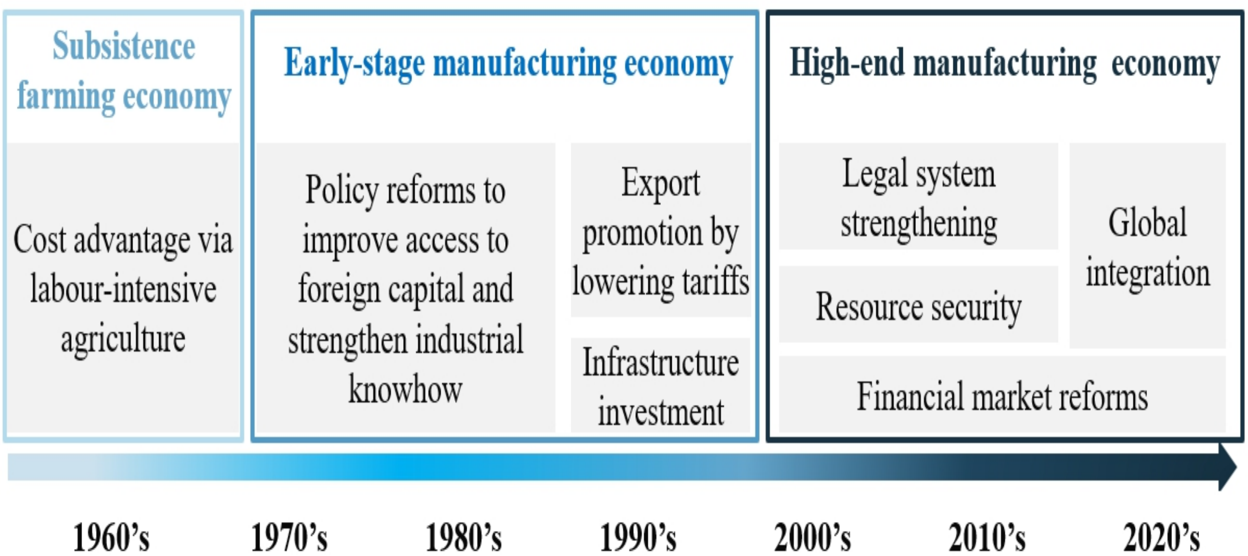



**Source: Author's Analysis**

## Enablers, drivers and enhancers of economic transformation

When examining successfully industrialised countries, such as the emerging economic powers in Asia like China, Japan, Vietnam and Taiwan and in Latin America such as Brazil and Mexico (as seen in figure 5) – who successfully transitioned from primary production to technology-intensive manufacturing, some key enablers (preconditions) and enhancers that facilitated their rapid economic transformation have been identified.

**Figure 5: China's approach to economic transformation**




**Source: MERICS, CIIE, EUCCC Business Confidence survey**

Enablers are foundational elements that create the necessary conditions for transformation. They include:

**1. Infrastructure:** Critical infrastructure — such as reliable energy, a robust transportation network, and effective telecommunications enhances manufacturing productivity, improves trade efficiency, and expands market access, creating optimal conditions for industrial growth.

**2. Technology:** Technological advancement enables the efficient production of higher-quality goods and services. It also enhances both the quality and quantity of output by optimising the use of various economic resources, including capital, labour, land, and natural resources.

**3.Capital Formation:** A higher level of capital formation in an economy accelerates aggregate income growth. Higher capital formation leads to increased investment in physical assets—such as machinery, infrastructure, and technology—which directly enhances productive capacity.

**4.Human Capital Development:** Equipping the workforce with skills suited for high-productivity sectors is crucial for the growth of manufacturing and technology industries.

**5.Institutional Frameworks:** Strong institutional frameworks that support business activities, protect property rights, and ensure fair competition are vital for fostering economic transformation.

Drivers are institutional elements that accelerate the transformation process once it is underway. They include:

**1. Security:** A stable and secure environment is fundamental for economic transformation. Security encompasses physical safety from crime and conflict and economic stability. When citizens and investors feel safe, they are more likely to engage in economic activities, such as starting businesses, investing in new ventures, and participating in the labour market. Security fosters confidence, encouraging domestic and foreign investment, which is crucial for economic growth.

**2. Political Will:** Strong leadership is essential for driving reforms and implementing initiatives that promote growth. When political leaders prioritise economic development, they can mobilise resources, garner public support, and create a conducive environment for change. Political will also ensure that necessary modifications are pursued consistently, overcoming resistance and navigating challenges.

**3. Policy Reforms and Credibility:** Effective policy reforms like changes to taxation, labour laws, trade regulations, and investment policies are critical for shaping an environment conducive to economic transformation. For these reforms to succeed, they must be credible; stakeholders must trust that policies will be implemented consistently and transparently. Credible policies attract investment, promote entrepreneurship, and encourage innovation, which are vital for economic growth.

Enhancers improve and sustain the momentum of economic transformation once it has begun. They include:

**1.Innovation Ecosystems:** A thriving innovation ecosystem promotes creativity and the development of new ideas, technologies, and business models and drives continuous improvement and adaptability in the economy.

**2. Access to Finance:** Continued access to financial resources is vital for businesses to expand and innovate. Enhancers include the development of diverse financing options—such as venture capital, microfinance, and public-private partnerships—that support growth and entrepreneurship.

**3. Globalisation:** As transformation progresses, exploring new domestic and international markets becomes essential.

Nigeria scores low in terms of these enablers, drivers, and enhancers, lacking the necessary conditions for an industrial take-off. As a result, it remains in the second stage of the economic transformation journey.

### Policy recommendations

Now more than ever, Nigeria needs significant transformation in the wake of the economic downturn, which began in 2020 and saw sluggish economic growth, rising inflation, and increasing poverty levels. Given the many failed attempts at transformation, it is crucial that any industrial policy introduced moving forward addresses the challenges that have plagued previous efforts, as without tackling these underlying problems, success will remain elusive. The Growth Identification and Facilitation Framework (GIFF) developed by Lin and Monga (2010) provides a suitable policy framework that is relevant to Nigeria's unique context.

Building on this, a three-step policy recommendation is identified for Nigeria that aims to address the identified issues of previous policies and incorporate the relevant enablers, drivers and enhancers.

1. To address the lack of deliberate and tailored policies, Nigeria should identify, target and prioritise industries where it has both comparative cost and competitive advantage. Competitive advantage refers to a country's ability to outperform its peers in the production of a particular commodity, while comparative advantage refers to a systematic approach that lowers costs to gain an edge over competitors. Based on the GIFF guidelines, Nigeria needs to identify a list of tradable goods and services that have been produced for about 20 years in countries with similar endowment structures and a per capita income about 100 percent to 300 percent higher than theirs and give priority to industries some domestic private firms have already entered.

2. To address the lack of structural or institutional framework needed to implement policy reforms, the government needs to identify the constraints that prevent existing firms and/or the barriers that limit other firms from entering these industries. This will enable the government to design relevant institutional frameworks that address these bottlenecks, which will, in turn, encourage investment in these industries.

3. The government should establish special economic zones (SEZs) or industrial parks tailored to targeted sectors to address the lack of infrastructure. In addition to infrastructure, these SEZs can offer targeted, time-based incentives—such as tax credits or holidays, customs duty waivers, or discounted input costs—to industries and firms operating within the identified sub-sectors, compensating for the knowledge externalities they generate.

## Conclusion

This paper sought to examine Nigeria's progress toward economic transformation and provide policy guidelines based on the GIFF that Nigeria should consider achieving economic transformation. The key finding reveals that Nigeria has significant potential for successful economic transformation; however, its current economic structure is overly dependent on oil, leaving the country vulnerable. However, historic transformation efforts were not tailored to the Nigerian context and lacked the structural and institutional frameworks for success.

To advance economic transformation, Nigeria needs to implement key policy recommendations that first identify and focus on priority sectors within its areas of comparative advantage and then remedy the biggest pitfalls of its prior and existing transformation efforts. Immediate and consistent action is necessary to overcome obstacles and harness Nigeria's full potential. Nigeria can transform its economy into a dynamic and resilient force by committing to these reforms and maintaining a strategic focus. With proper implementation, the country can achieve sustainable development and create a prosperous future for all its citizens.

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