

MONO-ECONOMY IN A PANDEMIC RAVAGING SOCIETY

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Abstract

Suffice to observe that nations with diversified economy were badly hit by the ravaging nature of the corona virus disease but the magnitude of its effect on a mono-economy such as Nigeria is incomparable. The reality of covid19 on the Nigerian economy is only a tip of the iceberg to many lessons that the Nigerian government should learn. Nigeria no doubt is a mono-economy with heavy reliance on crude oil. I seriously doubt if there were lessons learnt during the below zero dollar price of the American oil coupled with the continuous dwindling price of the London Brent. If there is any time to consider imperatively the issue of diversification of the Nigerian economy, it is now because the worst of the earth phenomenal pandemics are yet to be here. This paper was conceived with a view to highlighting some of the adverse effects a mono-economy is bound to face in situations such as covid19. It is in the optimistic view of this researcher that the outcome of this research will further nourish and reengineer the proactive posture of policy makers in Nigeria to do the needful. The researcher identified that the Nigerian government is docile and yet to learn any lesson from the effect of Covid19 on the economy. Consequent on this reality, the researcher recommends that the government should genuinely swing into action policies that will lead to the diversification of the economy.

Keywords: *economy, mono-economy, pandemic, Nigeria, COVID-19*

Introduction

Nigeria no doubt is heavily dependent on the oil economy to finance her budget and this to a reasonable extent is proving unsustainable following fluctuations of the oil price in the international market. Most nations of the world are rethinking their dependence on crude oil and are shifting emphasis on alternative sources of energy and investing huge resources on research towards its development. There is no doubt that industrialisation is driven by the oil but due to its impact on climate change, attention is seriously shifting away from crude oil.

As was stated in the abstract, the main motivation that actually triggered the writing of this paper was my observations and the news making rounds in the international news media when in April 20th the price of United States of America's oil fell to a zero dollar during the peak of covid19 pandemic. Though the US government was alarmed but was able to survive it because they had diversified robust economy. Drawing from that experience, it became germane that Nigeria wakes up from our slumber and euphoria of oil dollar to do the needful before she is cutup in the wed of the quagmire of world of little or no dependence on crude oil.

Imagine a world where crude oil is of little importance or even a more severe global pandemic strikes that will affect import and export for at least 2 years, what will the picture for Nigerian economy look like? My guess is as good as yours. We were all here and are still feeling the impact of the corona virus on the wellbeing of Nigerians and the economy in general. There are huge lessons to be learnt from this experience that should propel the government to take concrete actions towards the diversification of the economy. I have my doubts that insensitivity, falsehood and lack of political will on the part of the present government will permit their taking positive actions that will gravitate towards diversification.

When an economy is diversified it refers to the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets. Traditionally, it has been applied as a strategy to encourage positive economic growth and development.

Economic diversification is very relevant for poorer developing countries to create jobs and foster economic development. That need has been recognised in key internationally agreed development goals. The empirical economic literature has identified several stylised facts about the pattern of diversification of economies, but the development of explanations for those patterns in general has been only loosely associated with economic theory on growth, trade, technology change and structural transformation. Making that connection is relevant because it could inform policymakers in developing countries in designing and implementing policies for promoting diversification.

Conceptual Clarifications

Economy

A clear understanding of the word economy would make for a better understanding of the major subject matter of this paper. For Igwe (2005), economy refers to “the system of production and production relations peculiar to a society, characterized in each epoch by identifiable means and modes of production”. The economy thus refers to the chain of economic activities that keep the economic life of man in a particular society,

Mono economy

A mono economy refers to an economic system that is essentially based on the existence of only one major economic source; depended upon for the economic sustenance of that economy.

Pandemic

A Pandemic is large-scale outbreak of infectious disease that can greatly increase morbidity and mortality over a wide geographic area and cause significant economic, social, and political disruption. Evidence suggests that the likelihood of pandemics has increased over

the past century because of increased global travel and integration, urbanization, changes in land use, and greater exploitation of the natural environment (Jones et al, 2008).

Challenges Facing a Mono Economy in Changing globalised Economic System

Apart from the global history of economic depressions and recessions that adversely affected the economy of almost all the countries of the world, the world has also struggled through major global pandemics such as the Spanish flu - the Spanish flu pandemic of 1918, was referred to the deadliest in history, it infected an estimated 500 million people worldwide and about one-third of the planet's population resulting in death of an estimated 20 million to 50 million victims, including some 675,000 Americans (see <https://www.history.com/topics/world-war-i/1918-flu-pandemic>).

From 2002-2004 the SARS outbreak struck - an epidemic involving severe acute respiratory syndrome which was caused by severe acute respiratory syndrome coronavirus. The outbreak was first identified in Foshan, Guangdong, China, on 16 November 2002 and thought to be an animal virus from an as-yet-uncertain animal reservoir, perhaps bats, that spread to other animals (civet cats) and first infected humans in the Guangdong province of southern China in 2002. An epidemic of SARS affected 26 countries and resulted in more than 8000 cases in 2003. Ebola was another major epidemic first identified in 1976, in two simultaneous outbreaks: one in Nzara (a town in South Sudan) and the other in Yambuku (Democratic Republic of the Congo), a village relatively near the Ebola River from which the disease takes its name which became an epidemic in January 2016 but was later declared no longer an emergency on 29 March 2016 by the World Health Organisation.

The current coronavirus also known as Covid19 broke out in Wuhan China in December 2019 and was declared a global pandemic on 11 March 2020 by the WHO. All of these phenomena have severely affected the health infrastructure and threatened the global economy. Most nations of the world were forced into recession as a result of shutdown of almost all of both government and private

sectors resulting in job losses. Although a few essential but skeletal services were permitted but that was aimed at palliatives and to make the matter worse, the oil prices at the international market fell sharply to the degree that the USA crude was priced below zero dollar - sending a red alert signal to weak and mono economies of the world. When I recognised that Nigeria is one among the mono economies of the world, I became more agitated of what the situation would represent if a more acute situation worse than the few already witnessed strikes.

Thus sharp plunge in price of a barrel of U.S. oil below \$0 a barrel on Monday 20th April was for the first time in history. It was a troubling sign of an unprecedented global energy glut as the coronavirus pandemic halted travels and curbed economic activities.

Speculations are that most countries of the world are discovering oil and gas deposits and are seriously exploring and exploiting them. Moreover, advancement in technology is threatening the use of oil hence the developments of alternative sources of energy are the major agendas of most climate change conferences. This has become imperative as a result of the effect of oil exploration on the ecosystem as well as on the environment leading to climate change. The speculation is that concerted efforts of the world's most influential companies to run on 100% renewable power by 2050 are on top gear.

A mono economy as explained above has several implications and challenges. One of such implications as opined by Robert (2012) is that the economic life and existence of that economy revolves around the existence, relevance and currency of that product. That economy remains a potentially buoyant one only if such product does fine in the international market. The reverse no doubt would be the case, if the performance of that product at the international market is poor.

The prolonged disruption in economic activity due to the pandemic combined with the collapse of oil prices and the reduction in demand for Nigeria's oil products are severely impacting Nigeria's fiscal position. The IMF projects that the economy will contract by 3.4% in 2020, a fall from the previously anticipated 2% growth. The

total budget, which was set at N10.59 trillion (~\$27.3 billion) was revised downward by about 15%.

This phenomenal occurrence has made many Nigerians unemployed and has also affected the economy due to lower exports in oil. Oil and gas exports which constitute around 76.1% of Nigeria's total exports and more than half of the total revenue of the country is predicated on oil and gas exports. The challenge here is that without a viable diversified alternative to the oil and gas economy Nigeria may well be heading towards a severe economic downturn should the threats of this pandemic continue. The major concern of this researcher is not just the momentary implications of the corona virus but the future of the economy should the globe experience a more severe than covid-19 pandemic how would a mono economy like Nigeria be able to grapple with the effects of the pandemic-induced disruption in economic activities.

While investors and analysts wade through the technicalities of the oil markets that contributed to the crash in price, others are trying to glean what it might portend to the economy. As much as 30 million barrels per day - what used to be 30% of global demand - has already been pumped into storage worldwide in the past two or three months. Making it relatively difficult for a quick normalization even if demand were to return to pre-virus levels, by implication, it would take a long time to burn off all that stored crude. The picture the energy market is painting is that high demand is not coming back any time soon, because there is a supply glut.

The Covid-19 pandemic is presenting an opportunity to a paradigm shift towards accelerating access to clean energy globally and Nigeria must act expeditiously to take advantage of this opportunity. An offshoot of the COVID-19 outbreak is the sharp drop in the global demand for crude oil, which led to the Saudi Arabia – Russia price war. Global oil demand is expected to fall by a record 9.3mb/d year-on-year in 2020 and the reason for this is not far-fetched. Due to the lockdown of major economies such as China, Germany, France and even the world's largest economy – the US, the world is burning less fuel.

Factories have emptied, flights have been cancelled, freights have slowed down and commuters are off the roads. With falling demand, producers need to cut production to keep prices lucrative. However, the inability of Saudi Arabia and Russia to reach agreements on supply cuts led to a price war in March 2020.

Another major challenge facing Nigeria as a mono-economy is the fact there are possibilities of potential closure of oil fields due to the dramatic fall in global oil prices. According to Michelle Okwusogu and Rilwan Ajibola (2020), it may become prohibitively non-lucrative for owners/operators of Oil Prospecting Licenses (OPL) or Oil Mining Leases (OML) to continue production from some oilfields that have shown indications of not having oil in commercial quantities. In the same vein, profitable oil fields are not immune from the risk of potential closure, due to the current glut in the global markets and the consequent decision of OPEC+ producers to embark on production cuts as earlier highlighted (Businessday, 2020).

The main thrust of this paper is to focus specifically on the Nigerian economy; with a view to understand how the leaders demonstrate leadership in governance, before and during this pandemic. Has the past administration in Nigeria acted proactively in the face of the global pandemic? What dangers do over dependence on crude oil presage for Nigeria? Are there alternative firms or industries that the Nigerian economy can rely on to generate foreign earnings such as the period under review or even more severe periods in future? It has become imperative to think along these lines and expeditiously provide answers to the above questions because the worst of global pandemics or any other phenomenon are yet to occur. Doubts abound if Nigerian leaders have learnt lessons from this covid-19 era.

Overview of the Economic History of Nigeria

Nigeria discovered oil in its commercial quantity in 1956 at a location in Oloibri – a town in today Bayelsa state. Prior to this phenomenal discovery, agriculture was the mainstay of the Nigerian economy. Soon after this discovery and the attendant oil booms that followed, agriculture was abandoned.

Today, Nigeria which became the 11th member of the Organization of Petroleum Exporting Countries (OPEC) in 1971 is

Africa's largest oil producer. As a result, Nigerian economy is heavily dependent on the crude oil, which accounts for over 95 percent of her export earnings. According to the International Energy Agency, Nigeria produced about 2.53 million barrels per day, well below its oil production capacity of over 3 million barrels per day, in 2011 - invariably showcasing the inconsistent nature of the oil sector. During the Covid-19 pandemic of 2020, Nigeria oil production fell sharply and its price also dropped significantly

Nigeria's economy was significantly impacted by the COVID-19 pandemic. Among others, oil prices experienced a sharp fall and the country lowered the daily crude oil production consistently. In January 2019, the price per barrel amounted to 57 U.S. dollars per barrel, whereas in April 2020 the price dropped by 15 dollars.

Nigeria is an important oil supplier to the United States. For some years now, the United States has imported between 9-11 percent of its crude oil from Nigeria; however, United States import data for the first half of 2012 show that Nigerian crude is down to a 5 percent share of total United States crude imports. According to the International Energy Agency, in 2011, approximately 33 percent of Nigeria's crude exports were sent to the United States, making Nigeria its fourth largest foreign oil supplier.

In recent times, total crude imports into the United States are falling; imports from Nigeria have also declined at a steeper rate, according to the International Energy Agency. The main reasons underlying this trend are that some Gulf Coast refiners have reduced Nigerian imports in favour of domestically-produced crude, and that two refineries in the U.S. East Coast, which were significant buyers of Nigerian crude, were idled lately.

As a result, Nigerian crude as a share of total United States imports has been consistently and significantly falling before and during the period of this pandemic respectively. According to the CIA World Factbook, Nigeria's main export partners are the United States, India, Brazil, Spain, France and the Netherlands. Shell has been working in Nigeria since 1936, and currently dominates gas production in the country, as the Niger Delta, which contains most of

Nigeria's gas resources, also houses most of Shell's hydrocarbon assets.

It is obvious that despite the effects of the current global pandemic on oil production and price, several outbreaks of pipeline vandalism resulting from unresolved agitations in the Niger Delta negatively impact daily production output of oil and gas in Nigeria.

The petroleum industry in Nigeria is the largest on the African continent. As of 2014, Nigeria's petroleum industry contributes about 14% to its economy (CNBC Africa, 2015). Therefore, though the petroleum sector is important, it remains germane that the overall economy is diversified.

As of 2000, oil and gas exports accounted for more than 98% of export earnings and about 83% of federal government revenue, as well as generating more than 14% of its GDP. It also provides 95% of foreign exchange earnings, and about 65% of government budgetary revenues.

Nigeria's proven oil reserves are estimated by the United States Energy Information Administration (EIA) at between 16 and 22 billion barrels ($3.5 \times 10^9 \text{ m}^3$), but other sources claim there could be as much as 35.3 billion barrels ($5.61 \times 10^9 \text{ m}^3$). Its reserves make Nigeria the tenth most petroleum-rich nation, and by the far the most affluent in Africa. In mid-2001 its crude oil production was averaging around 2.2 million barrels (350,000 m^3) per day. It is expected that the industry will continue to be profitable based on an average benchmark oil price of \$85-\$90 per barrel (see http://www.oilandgascouncil.com/expert_insight_articles/review-nigeria-oil-gas-industry).

The reason for Nigeria's relative unproductivity is primarily OPEC regulations on production which regulate prices on the international market. More recently, production has been disrupted intermittently by the protests of the Niger Delta's inhabitants, who feel they are being exploited.

As of 2010, Nigeria provided about 10% of overall U.S. oil imports and ranked as the fifth-largest source for oil imports in the U.S. However, Nigeria ceased exports to the US in July, 2014 because of the impact of shale production in America (ThisDayLive.com).

Alternative Sources for Diversification in Nigeria

Nigeria is blessed with abundant natural resources other than oil and gas. This country has large acres of fertile farm lands lying fallow which can be turned in wealth generating alternative source for Nigeria. In the agricultural sector for instance, diversification could be encouraged through sincere soft loans as well as provision a favourable policy to enable farmers to compete favourably. Besides, there is the urgent need to start processing primary agricultural commodities into intermediate and finished products, with considerable value-added. This process is expected to fetch higher export earnings with such commodities as cocoa, cotton, palm produce, rubber, etc.

Also, export diversification into non-traditional agricultural commodities can become a veritable source of foreign exchange earnings. This may include exportation of cut flowers, fruits, vegetables, herbs and several sea foods. These agricultural commodities have a high dynamic potential because of their high unit value and high elasticity demand. Therefore, successful diversification into such products generally requires introduction of new technologies. If these are put in place, positive linkages may be created with domestic industry in food, beverages and tobacco sector which are likely to spur export orientation, as well as the emergence of domestic firms processing agricultural commodities that may eventually become large enough to compete in international markets (UNCTAD, 1998).

Despite agriculture's crucial position in the national economy, it has remained below its production potential, particularly in the past three decades. This negative trend is reflected in the under-capitalization, which accounts for its lack of competitiveness in the global markets. However, this unenviable position can be reversed by injecting additional resources into the agricultural sector from the windfall earnings that accrue to the petroleum industry from time to time. More resources from the oil industry should be used to boost agricultural development, targeting small-scale farmers, who are responsible for the bulk of the nation's staple foods and export crops. New resources for the nation's agricultural sector can be tailored to

assist small-scale farmers and their organisations. Waiting until being overtaken by the realities steering on our face will be disastrous.

Beyond the agricultural sector is the solid mineral sector which can also contribute significantly to the economy. It is rather unfortunate that the national cake accruable from the oil and gas sector have blinded the vista of the nation's economy drivers to the extent that the potential lucrative markets hidden underground many of our states across the federation are yet to be exploited. Such solid mineral deposits in Nigeria include:

Talc

Over 40 million tonnes deposits of talc have been identified in Niger, Osun, Kogi, Ogun and Kaduna states. The Raw Materials Research and Development Council (RMRDC)'s 3,000 tonnes per annum catalytic plant is the only talc plant in the country. The talc industry represents one of the most versatile sectors of the industrial minerals of the world. The exploitation of the vast deposits would therefore satisfy local demand and that for export.

Gypsum

Gypsum is an important input for the production of cement. It is also used for the production of Plaster of Paris (P.O.P) and classroom chinks. A strategy for large-scale mining of gypsum used in the cement industries is urgently required to sustain the existing plants and meet the future expansion. Currently, cement production is put at 8 million tonnes per annum while the national requirement is 9.6 million tonnes. About one billion tonnes of gypsum deposits are spread over many states in Nigeria.

Iron Ore

There are over 3 billion metric tonnes of iron ore in deposits found in Kogi, Enugu and Niger States as well as the Federal Capital Territory. Iron Ore is being mined at Itakpe in Kogi State and is already being beneficiated, up to 67 per cent of iron. The Aladja and Ajaokuta Steel complexes are ready for consumers of billets and other iron products for down-stream industries.

Lead/Zinc

An estimated 10 million tonnes of lead/zinc veins are spread over eight states of Nigeria. Proven reserves in three prospects in the east-central area are 5 million tonnes. Joint venture partners are encouraged to develop and exploit the various lead/zinc deposits all over the country.

Bentonite and Baryte

These are the main constituents of the mud used in the drilling of all types of oil wells. The Nigerian baryte has specific gravity of about 4.3. Over 7.5 million tonnes of baryte have been identified in Taraba and Bauchi States. Large bentonite reserves of 700 million tonnes are available in many states of the federation ready for massive development and exploitation.

Gold

There are proven reserves of both alluvial and primary gold in the schist belt of Nigeria located in the south-western part of the country. The deposits are mainly alluvial and are currently being exploited on a small scale. Private investors are invited to stake concessions on these primary deposits.

Bitumen

The occurrence of bitumen deposits in Nigeria is indicated at about 42 billion tonnes; almost twice the amount of existing reserves of crude petroleum. Analytical results suggest that this potential resource can be used directly as an asphalt binder. Most bitumen used for road construction in Nigeria is currently imported.

Coal

Nigerian coal is one of the most bituminous in the world owing to its low sulphur and ash content and therefore the most environment-friendly. There are nearly 3 billion tonnes of indicated reserves in 17 identified coal fields and over 600 million tonnes of proven reserves.

Rock Salt

The national annual demand for table salt, caustic soda, chlorine, sodium bicarbonate, sodium hydrochloric acid and hydrogen peroxide exceeds one million tonnes. A colossal amount of money is expended annually to import these chemicals by chemical and processing companies including tanneries and those in food and beverages, paper and pulp, bottling and oil sector. There are salt springs at Awe (Plateau State), Abakaliki and Uburu (Ebonyi State), while rock salt is available in Benue State. A total reserve of 1.5 million tonnes has been indicated, and further investigations are now being carried out by Government.

Gemstones

Gemstones mining has boomed in various parts of Plateau, Kaduna and Bauchi states for years. Some of these gemstones include sapphire, ruby, aquamarine, emerald, tourmaline, topaz, garnet, amethyst, zircon, and flourspar which are among the world's best. Good prospects exist in this area for viable investments.

Kaolin

An estimated reserve of 3 billion tonnes of good kaolinitic clay has been identified in many localities in Nigeria (see <https://nigeriahcottawa.ca/other-services/nigeria-solid-minerals>).

Conclusion

During Nigeria's independence in 1960, agriculture as was stated earlier was the mainstay of the nation's economy, this sector provided food to feed the population and fetching the bulk of the nation's foreign exchange earnings. However, the emergence of crude oil has since changed the nation's economic contour by neglecting agriculture in favour of the crude oil. In order to enhance the nation's economic growth, it is necessary to diversify the economy into non-traditional exports. Thereby reducing vulnerability to price instability associated with the crude oil market fragilities.

With dark clouds of an imminent economic downturn gathering and not many visible silver linings, the Nigerian economy seems to be faced with looming dire times ahead than is currently

facing. Worse still, there seems to be no end in sight to the COVID-19 pandemic, with rising cases globally and no proven vaccine yet. Even if there is one tomorrow, what of another outbreak that may be more severe than what we are experiencing in the now. This was one of the questions that gave rise to this paper and it is believed that opinion leaders and policy drivers of this amiable country will heed to this clarion call to diversify the economy now in order to save our generation and much importantly the future generation who may be here when oil may makes little or no sense.

This researcher set out to among others identify the challenges posed to a mono economic nation, especially, where the economy is heavily dependent on oil and gas that its future is shaky. A number of questions were raised and addressed in the body of the paper. The paper observed that for too long, Nigeria has depended on the export of oil for more than 95% of her foreign exchange earnings. The researcher is of the view that for the country to soar beyond this daunting challenge, there is a need to aggressively pursue policies aimed at achieving diversification, in order to shift her heavy reliance on oil. The Nigerian policy makers and policy drivers have for too long ignored this need and the researcher is of the view that the realities of not just the Covid-19 but of the fact that emphasis are drifting from oil to alternative cleaner sources of energy would propel the leadership of the country to actions necessary for economic diversification.

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