Economic Diversification Strategy and Nigerian GDP Growth

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DOI: 10.56201/jbae.vol.11.no10.2025.pg119.128

Abstract
Nigeria's economy has historically relied on oil as the primary revenue source, creating structural vulnerabilities to external shocks and commodity price volatility. This study examines the relationship between economic diversification strategies and gross domestic product growth in Nigeria, with emphasis on recent policy interventions spanning 2023–2025. The research reveals that deliberate diversification into non-oil sectors, particularly agriculture, manufacturing, services, and information and communication technology, has become instrumental in achieving sustained economic growth. The most recent data shows that Nigeria achieved 3.4% GDP growth in 2024, driven predominantly by non-oil sector expansion, which grew at 4.13% in the second quarter of 2024. This paper analyzes the mechanisms through which sectoral diversification contributes to GDP growth and identifies critical policy frameworks enabling this transition. The study utilizes quantitative analysis of recent economic indicators and qualitative examination of policy documents to present an integrated assessment. Key findings indicate that while diversification efforts have yielded positive results, persistent challenges including infrastructure deficits, security concerns, and human capital gaps continue to constrain the pace of economic transformation. The research concludes that accelerated GDP growth toward Nigeria's 2030 objective of a one-trillion-dollar economy requires sustained commitment to diversification through coordinated public-private partnerships, technological innovation, and deliberate investment in priority sectors.

Keywords: *Economic diversification, GDP growth, Nigeria, sectoral transformation, non-oil sectors, sustainable development*

Introduction

The Nigerian economy, with a population exceeding 220 million people and a nominal GDP of approximately 243.3 billion United States dollars in 2024 (World Bank, 2025), constitutes Africa's largest economic entity by nominal measurement. However, this substantial economic scale masks fundamental structural weaknesses that have persisted for decades. Nigeria's historical dependence on crude oil and gas has created what economists term a "mono-economy," wherein the petroleum sector's volatility transmits directly to macroeconomic instability despite representing only nine percent of current GDP contributions (National Bureau of Statistics, 2025; PwC Nigeria, 2025).

The emergence of the non-oil sector as the primary growth driver represents a significant departure from historical patterns. Recent data indicates that the services sector currently contributes 55.5 percent to GDP, agriculture contributes 27.8 percent, and industry contributes

16.7 percent (World Bank, 2025; Nigeria at a Glance, 2025). This compositional shift reflects deliberate policy initiatives aimed at reducing petroleum sector dominance through strategic diversification into higher-value economic activities. Economic theory posits that sectoral diversification enhances resilience, broadens the revenue base, and facilitates employment creation across multiple industries rather than concentrating economic opportunities within a single extractive sector (African Development Bank, 2024).

The imperative for diversification intensifies given Nigeria's demographic realities. The nation absorbs approximately 3.5 million individuals into its labor force annually, yet the economy currently generates insufficient quality employment to accommodate this influx (World Bank, 2025). Over 46 percent of the population lives below the poverty line, with extreme poverty affecting approximately 70 million citizens (PwC Nigeria, 2025). These employment and poverty challenges underscore the critical necessity of developing diversified economic sectors capable of generating jobs at sufficient scale and remuneration (Federal Ministry of Agriculture & Food Security, 2022).

This research addresses the relationship between economic diversification strategies and GDP growth performance in Nigeria during the 2023–2025 period. The study examines how deliberate policy interventions targeting agriculture, manufacturing, digital economy development, and service sector expansion have influenced growth trajectories. The analysis integrates macroeconomic data with policy framework assessment to provide comprehensive understanding of diversification's mechanics and outcomes (National Bureau of Statistics, 2025).

The research questions guiding this investigation include:

To what extent have recent diversification policies influenced GDP growth rates?

Which sectors demonstrate the greatest potential for driving future economic expansion?

What policy adjustments are necessary to accelerate diversification progress?

Literature Review

Conceptualizing Economic Diversification

Economic diversification refers to the process through which nations reduce dependence on limited economic activities by systematically developing capabilities across multiple sectors (African Development Bank, 2024). Classical and neoclassical economic theorists recognized diversification as a fundamental development mechanism whereby countries broaden their productive base, reduce vulnerability to sector-specific shocks, and create multiplier effects throughout their economies (PwC Nigeria, 2025). In contemporary development discourse, diversification operates as both a short-term stabilization mechanism and a long-term structural transformation strategy (World Bank, 2025).

For resource-dependent economies like Nigeria, diversification takes particular significance. Mono-economy structures create pronounced macroeconomic volatility when commodity prices fluctuate unpredictably (World Bank, 2025). The crude oil sector's exposure to international price movements, production constraints, and geopolitical disruptions transmits these external shocks throughout the entire economy, affecting government revenues, foreign exchange earnings, and investment flows (National Bureau of Statistics, 2025). Diversification distributes economic activity across sectors with varying demand patterns and price dynamics, thereby buffering the overall economy against localized sector disturbances (African Development Bank, 2024).

Diversification and Economic Growth Mechanisms

The relationship between diversification and growth operates through multiple channels. First, sectoral development creates forward and backward linkages that generate employment multiplier effects (Nigeria at a Glance, 2025). Agricultural production stimulates demand for processing equipment, transportation services, and financial intermediation (Federal Ministry of Agriculture & Food Security, 2022). These ancillary activities expand employment beyond the primary sector while increasing value addition (World Bank, 2025). Second, diversification attracts capital investment that might otherwise remain concentrated in dominant sectors. Investors perceiving growth opportunities in emerging sectors increase capital formation, augmenting productive capacity (PwC Nigeria, 2025). Third, diversification fosters human capital development as specialized skills training and educational programs adapt to emerging sectoral needs (African Development Bank, 2024). Finally, a diversified economic structure increases tax revenue sources as governments collect revenues from multiple productive sectors rather than from a single commodity export (National Bureau of Statistics, 2025).

Nigeria's Historical Diversification Trajectory

Nigeria's pre-oil economy of the 1960s relied substantially on agriculture, which contributed over 60 percent to GDP and employed more than 70 percent of the workforce (World Bank, 2025). Agricultural exports including cocoa, palm oil, groundnuts, and rubber generated significant foreign exchange and government revenue that financed national infrastructure development (PwC Nigeria, 2025). The petroleum sector's emergence in the 1970s fundamentally altered this structure, as oil revenues expanded dramatically while agricultural production received reduced policy attention and investment (National Bureau of Statistics, 2025). By the 1980s, oil constituted approximately 90 percent of government revenues, establishing patterns of fiscal dependence that persisted into the contemporary period (African Development Bank, 2024).

Recognition of the necessity for renewed diversification emerged throughout the 1990s and 2000s, manifesting in policy documents and development strategies (Federal Ministry of Agriculture & Food Security, 2022). The National Economic Empowerment Development Strategy of the 2000s included diversification objectives, though implementation proved inconsistent (World Bank, 2025). The Visions 2020 framework articulated ambitions for sectoral rebalancing, yet structural transformation remained gradual (Nigeria at a Glance, 2025). By 2015, preliminary evidence of diversification appeared as the services sector expanded to 55 percent of GDP and agriculture's share adjusted to 18 percent, reflecting partial rebalancing from earlier periods (National Bureau of Statistics, 2025).

Current Diversification Strategies and Policy Framework

Sectoral Diversification Initiatives

Contemporary Nigerian diversification strategy encompasses coordinated development across four primary non-oil sectors (World Bank, 2025). The agricultural sector, employing over 35 percent of the workforce, represents foundational diversification focus (National Bureau of Statistics, 2025; PwC Nigeria, 2025). The National Agricultural Technology and Innovation Policy operating from 2022 to 2027 emphasizes technology deployment including precision farming, improved irrigation systems, biotechnology applications, and satellite imagery for yield prediction (Federal Ministry of Agriculture & Food Security, 2022). Government initiatives including the Agro-Pocket Initiative target cultivation of 750,000 hectares for staple crops with direct farmer support mechanisms (Nigeria at a Glance, 2025).

Manufacturing diversification emphasizes value addition and industrial development (African Development Bank, 2024). The Nigeria Industrial Revolution Plan and National Industrial Policy prioritize automotive production, cotton-textile-garment ecosystem revitalization, and agro-industrial expansion (World Bank, 2025). Manufacturing sector performance accelerated notably, with nominal GDP growth of 42.40 percent year-on-year in the first quarter of 2025, substantially exceeding prior-year growth of 7.31 percent (National Bureau of Statistics, 2025). However, analysis reveals that while nominal values increased substantially, the manufacturing sector's real contribution to GDP contracted by 0.76 percent between 2019 and 2024, indicating valuation changes rather than productivity expansion (PwC Nigeria, 2025).

Digital economy development represents an emerging diversification frontier (Nigeria at a Glance, 2025). Nigeria leads the African fintech sector, accounting for 28 percent of continental fintech companies (World Bank, 2025). The telecommunications sector contributed 12.45 percent to GDP as of 2022, with continued expansion trajectory anticipated (National Bureau of Statistics, 2025). The National Digital Economy Policy and Strategy aims to expand connectivity, promote digital literacy, and enhance electronic commerce, particularly in rural areas where digital platform adoption remains limited (Federal Ministry of Agriculture & Food Security, 2022).

Services sector expansion, particularly finance and information and communication technology, has emerged as the principal growth driver (World Bank, 2025; PwC Nigeria, 2025). The finance and insurance sectors, along with construction and real estate, demonstrated robust performance through 2024 and 2025, consistently outperforming traditional sectors (National Bureau of Statistics, 2025). These service sectors provide employment for populations with higher educational attainment and technical capabilities, though their scaling potential varies given current skill distributions (African Development Bank, 2024).

Supporting Policy Reforms

Diversification success depends substantially on macroeconomic policy frameworks that create conditions enabling sectoral development (World Bank, 2025). The elimination of petroleum subsidies initiated in 2023 redirected resources toward infrastructure and social spending while improving fiscal space (PwC Nigeria, 2025). Unification of exchange rates reduced currency distortions that previously favored imports over domestic production (National Bureau of Statistics, 2025). These foundational reforms addressed monetary stability prerequisites for private sector-led diversification (African Development Bank, 2024).

The government implemented four landmark tax reforms in June 2025 aimed at streamlining tax administration and enhancing non-oil revenue generation (Nigeria at a Glance, 2025). Tax-to-GDP ratios improved from historical baselines, though remain below international benchmarks at 13.5 percent in 2024 (World Bank, 2025). Revenue mobilization improvements enable government investment in supporting infrastructure, though fiscal constraints persist given substantial debt service obligations consuming resources previously available for development spending (National Bureau of Statistics, 2025).

Central Bank of Nigeria monetary policy, maintaining high policy rates at 18.5 percent as of 2024, addresses inflation control while creating challenges for private sector credit access (PwC Nigeria, 2025). Small and medium enterprises particularly face constrained borrowing capacity given prevailing interest rate levels (Federal Ministry of Agriculture & Food Security, 2022).

Agricultural credit guarantee schemes and anchor borrower programs attempt to ameliorate credit constraints through targeted interventions, though coverage remains limited relative to total demand (World Bank, 2025).

Recent Economic Performance and Diversification Outcomes

GDP Growth Trajectory and Sectoral Contributions

Nigeria achieved 3.4 percent real GDP growth during 2024, representing the highest growth rate since 2014 when excluding the temporary COVID-19 rebound effects (National Bureau of Statistics, 2025; World Bank, 2025). The most recent data indicates 3.9 percent growth in the first half of 2025, supported by continued non-oil sector expansion (PwC Nigeria, 2025). Critically, non-oil sectors drove this growth, expanding at 4.13 percent in the second quarter of 2024 while oil production contracted by 3.83 percent (National Bureau of Statistics, 2025). This fundamental compositional shift in growth sources confirms that diversification strategies are yielding measurable results (African Development Bank, 2024; World Bank, 2025).

Sectoral decomposition reveals heterogeneous performance across diversification targets (National Bureau of Statistics, 2025). The telecommunications sector maintained robust contributions at approximately 12.45 percent of GDP and demonstrated consistent expansion (Nigeria at a Glance, 2025). Financial services, information technology, real estate, and construction sectors expanded significantly, collectively accounting for substantial growth increments (World Bank, 2025). Trade, despite ongoing operational challenges, continued to provide employment and economic activity across formal and informal channels (PwC Nigeria, 2025).

Agricultural performance proved more mixed (National Bureau of Statistics, 2025; African Development Bank, 2024). While the sector contributed 27.8 percent to overall GDP post-rebasing (World Bank, 2025), growth rates moderated notably. Quarterly agricultural growth of only 1.76 percent lagged significantly behind prior-year comparatives, reflecting challenges including insecurity, rising input costs, climate variability, and post-harvest losses (Federal Ministry of Agriculture & Food Security, 2022; PwC Nigeria, 2025). This performance gap indicates that diversification into agriculture, while strategically significant, faces substantial implementation obstacles (National Bureau of Statistics, 2025).

Employment Generation and Structural Transformation

Nigeria's structural transformation, measurable through employment distribution changes, has advanced incrementally (World Bank, 2025). Agricultural employment's share declined from 49.3 percent in 2000 to 35.2 percent in 2021, indicating worker transition toward alternative sectors (National Bureau of Statistics, 2025). However, this transformation pace remains insufficient to accommodate labour force inflows and reduce unemployment (PwC Nigeria, 2025). Youth unemployment rates exceed 40 percent in several regions, and underemployment affects individuals occupying positions below their educational qualifications (African Development Bank, 2024).

The services sector, particularly digital economy components, has generated employment opportunities for educated populations with technical capabilities (World Bank, 2025). However, these sectors employ relatively smaller absolute worker numbers compared to agriculture, limiting their capacity to absorb the 3.5 million annual labour force entrants (National Bureau of Statistics, 2025). Manufacturing employment expansion, while demonstrating nominal growth, reflects insufficient labour absorption for economy-wide needs (Nigeria at a Glance, 2025).

Challenges and Constraints to Diversification

Infrastructure Deficits

Infrastructure inadequacies constitute primary obstacles to diversification acceleration (World Bank, 2025; African Development Bank, 2024). Electricity supply remains inconsistent despite reforms, with power generation insufficient for industrial production at competitive cost levels (PwC Nigeria, 2025). The World Bank suggests infrastructure-to-GDP investment benchmarks of 70 percent or approximately 150 billion dollars annually (World Bank, 2025). Nigeria's 2024 infrastructure allocation of 1.32 trillion naira falls substantially short of this benchmark, representing approximately 30 percent of recommended levels (National Bureau of Statistics, 2025). Transportation and logistics infrastructure gaps impede agricultural product movement from production zones to consumption and export markets, increasing post-harvest losses and reducing farmer incomes (Federal Ministry of Agriculture & Food Security, 2022; PwC Nigeria, 2025).

Security and Insecurity Challenges

Persistent insecurity affecting agricultural zones directly undermines diversification into food production and commodity cultivation (World Bank, 2025; African Development Bank, 2024). Armed conflict, banditry, and insurgency create farmer displacement, discourage agricultural investment, and reduce productive activity in affected regions (National Bureau of Statistics, 2025). Security spending has consumed substantial government resources without achieving proportionate security improvements, diverting funds from developmental investments that could facilitate diversification (PwC Nigeria, 2025). The psychological impacts of insecurity further discourage private sector agricultural investment and technological adoption (Federal Ministry of Agriculture & Food Security, 2022).

Human Capital and Skill Gaps

The current labour force possesses insufficient technical capabilities for employment in advanced manufacturing, digital economy, and high-value service sectors (World Bank, 2025; PwC Nigeria, 2025). Agricultural mechanization rates of 0.027 horsepower per hectare substantially underperform the 1.5 horsepower per hectare recommended by the Food and Agriculture Organization, reflecting technical skill deficits among agricultural practitioners (African Development Bank, 2024). Limited adoption of precision farming, biotechnology, and data-driven agricultural management practices constrains productivity improvements in the sector most capable of employment-intensive expansion (National Bureau of Statistics, 2025; Federal Ministry of Agriculture & Food Security, 2022).

Fiscal Sustainability Concerns

Nigeria's public debt reached 149.4 trillion naira in Q1 2025, expanding 22.8 percent year-on-year, while debt-to-GDP ratios remain elevated (National Bureau of Statistics, 2025). Debt service obligations consume substantial revenue shares, constraining resources available for infrastructure investment and sectoral support (World Bank, 2025). The fiscal deficit, while improving to 3.0 percent of GDP in 2024 from prior levels, persists at levels indicating sustained public sector imbalances (PwC Nigeria, 2025).

Capital Formation and Investment Constraints

While capital importation increased significantly to 5.64 billion dollars in Q1 2025 compared to 3.38 billion dollars in Q1 2024, approximately 92 percent of inflows comprised portfolio investments with limited productive economy engagement (National Bureau of Statistics, 2025). Foreign direct investment grew only six percent to 126.29 million dollars, indicating insufficient productive sector investment attraction (World Bank, 2025). High lending rates and limited credit availability constrain private sector capital formation necessary for sectoral expansion (PwC Nigeria, 2025; Federal Ministry of Agriculture & Food Security, 2022).

Analysis and Discussion

Diversification Progress Assessment

The evidence demonstrates that intentional diversification strategies have meaningfully altered Nigeria's economic composition and growth sources (World Bank, 2025; National Bureau of Statistics, 2025). The shift from petroleum-led growth to non-oil sector expansion constitutes a fundamental structural transformation (African Development Bank, 2024). Services sectors now drive growth, with finance, insurance, information technology, and real estate sectors outperforming traditional export-oriented agriculture (PwC Nigeria, 2025). This rebalancing reduces economic vulnerability to oil price shocks and creates growth sources less subject to international commodity market fluctuations (World Bank, 2025).

However, progress toward comprehensive diversification remains incomplete (National Bureau of Statistics, 2025). Manufacturing's contracted real contribution despite nominal value increases suggests that much nominal growth reflects pricing adjustments rather than productive capacity expansion (Nigeria at a Glance, 2025). Agricultural stagnation at 1.76 percent growth indicates that despite policy emphasis, the sector faces obstacles sufficient to offset government support initiatives (Federal Ministry of Agriculture & Food Security, 2022; PwC Nigeria, 2025). The services sector concentration also presents potential future risks, as finance and information technology require specialized human capital potentially inaccessible to majority populations with lower educational attainment (World Bank, 2025).

Employment Generation Reality

Despite diversification progress, employment generation remains inadequate relative to demographic pressures (National Bureau of Statistics, 2025; African Development Bank, 2024). The services sectors attracting substantial investment generate employment for perhaps ten to fifteen percent of annual labor force entrants, leaving the majority facing employment constraints (PwC Nigeria, 2025). Agricultural employment decline, while expected during structural transformation, has not been offset by commensurate manufacturing or service sector job creation (World Bank, 2025). This mismatch between labor supply and demand across sectors creates sustained unemployment, underemployment, and migration pressures (Federal Ministry of Agriculture & Food Security, 2022; Nigeria at a Glance, 2025).

Inclusive Growth Limitations

Current diversification patterns risk creating bifurcated economic structures wherein productive, capital-intensive sectors coexist with large informal employment sectors providing limited income security (World Bank, 2025; PwC Nigeria, 2025). Finance, information technology, and telecommunications sectors employ educated urban populations while rural populations dependent on agriculture remain constrained by productivity and market access limitations

(National Bureau of Statistics, 2025; African Development Bank, 2024). This geographic and sectoral divergence in opportunity distribution threatens inclusive development objectives (Federal Ministry of Agriculture & Food Security, 2022).

Conclusion

Nigeria's economic diversification strategy has demonstrated measurable progress in recent years, with non-oil sectors now driving aggregate growth and substantially reducing petroleum sector dependence. The services sector expansion, particularly finance and information technology, has created growth sources less vulnerable to international commodity price fluctuations. However, diversification implementation remains incomplete, with substantial challenges constraining acceleration toward stated objectives of achieving a one-trillion-dollar economy by 2030.

The fundamental challenge remains bridging the gap between emerging high-value service sectors and majority populations requiring employment in more labor-intensive activities. Agriculture, despite policy attention, requires substantial productivity improvements and investment before fulfilling its potential as employment generation mechanism. Manufacturing requires infrastructure development and security stability supporting facility investment and worker productivity. Skills deficits across sectors constrain employment expansion, requiring sustained human capital investment.

Future growth trajectories will depend substantially on whether Nigeria successfully balances sectoral diversification priorities while ensuring inclusive employment generation. Service sector leadership in growth provides economic resilience but risks creating development inequalities unless complemented by labor-intensive agriculture and manufacturing expansion. Current policy frameworks are appropriate but require more forceful implementation, greater resource commitment, and sustained political priority to overcome structural obstacles.

The evidence indicates that Nigeria possesses the economic fundamentals, policy frameworks, and sectoral opportunities for accelerated diversification-driven growth. What remains critical is converting policy aspirations into implementation outcomes through persistent institutional capacity building, infrastructure development, security stabilization, and human capital advancement. If these requirements are addressed systematically, diversification will enable Nigeria to achieve its economic transformation objectives while generating employment and prosperity for its substantial population.

Recommendations

From the analysis and findings of the study, the following recommendations are proposed:

1. The government should significantly increase infrastructure investment allocated to electricity, transportation, and logistics networks to create foundational systems enabling economic sectors to operate competitively.
2. Policymakers should establish coordinated security operations addressing banditry and insurgency in agricultural zones to restore farmer confidence and encourage productive investment.
3. Educational institutions should align curricula with diversification sector requirements, emphasizing technical skills in manufacturing, agricultural technology, information technology, and financial services.

4. Training institutions funded through industrial development partnerships should prepare workers for employment in expanding sectors, reducing skills mismatches constraining sectoral employment absorption.
5. The government should sustain macroeconomic reform momentum, maintaining monetary discipline to manage inflation, continuing fiscal discipline to reduce debt accumulation, and preserving exchange rate stability attracting private investment
6. Policymakers should strengthen public-private partnership frameworks enabling private sector leadership in diversification implementation.
7. Government should focus on providing enabling infrastructure, regulatory frameworks, and targeted support while private entrepreneurs identify market opportunities and deploy capital, expertise, and innovation.
8. The financial sector should develop specialized credit products for agricultural production, small and medium enterprise development, and manufacturing expansion.
9. Tax reforms should continue, expanding non-oil revenue sources and improving fiscal space for developmental investment.
10. Improved tax administration particularly in agriculture and services should be prioritized.

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