

Contemporary Issues in the Nigerian Society

Edited by

Ayodele Jimoh
Professor of Economics
University of Ilorin, Nigeria

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CHAPTER THREE

Looking Backward and Thinking Forward: A Discussion of over Fifty Years Economic Performance of Nigeria

A. Abdulhakeem Kilishi

Department of Economics

University of Ilorin, Ilorin

1. Introduction

The economic performance of Nigeria since independence is perceived to be unimpressive by many analysts. However, few others believe that the country has made reasonable progress over the years. These divergent positions become more enunciated by the recent two widely opposing data published by two reputable international institutions; the World Bank and United Nations Development Programme (UNDP). According to the World Bank, Nigeria is one of the fastest growing economies in the world with GDP growth rate of 7.8, 7.4, 7.5 and 7.6 in 2010, 2011, and 2012, respectively. Conversely, in the UNDP Human Development Report (HDR) of 2013, Nigeria is ranked among the countries with low human development. Specifically, as of 2012 the overall Human Development Index of Nigeria was 0.471. This placed the country 153rd out of the 186 countries considered. A number of questions would naturally arise from this paradox: Is the growth figure depicting the correct situation of Nigeria? If the growth figures are correct, then what is the source of this growth and who benefits from it? Why has the growth not led to more human development? The rapid growth recorded by World Bank may be an illusion reflecting high oil prices instead of increase in production of goods and services in the economy or it could be an non-inclusive growth coming from a narrow sector of the economy. Whatever the case may be, it is important to understand the true economic situation of the country so as to know whether the past half a century was a success or otherwise. Critical analysis of the past half century economic history of Nigeria will guide policymakers on how to plan for the second half of the century which is over two years old now.

There is need therefore to critically assess the growth performance of the country so as to clear some of these puzzles. In this chapter, an assessment of over fifty years economic performance of Nigeria is carried out using different indicators. Thus, the focus of this chapter is in four folds: (i) evaluate the macroeconomic performance of Nigeria since independence; (ii) compare Nigeria's economic performance with other developing nations around the world; (iii) discuss the various factors that could explain the current situation of the country; and (iv) discuss how the country should plan for the remaining part of the century. The remainder of the chapter is arranged in five sections. Section Two presents Nigeria's economic performance, comparison of Nigeria's economic performance with selected countries is presented in Section Three. Discussion on likely factors that may explain the differences in economic performance between Nigeria and selected countries is in Section Four. Section Five discusses the way forward while Section Six concludes the chapter.

2. Nigeria's Economy at a Glance

"...at that time (independence), both leaders and led went to bed literally and dreamt big dreams of better tomorrow for themselves and their nation. The beautiful dreams that many had and pursued in the interest of the country turned into nightmares." Ajayi (2004)

One of the indicators used by economists to measure the performance of an economy is the per capita income. Per capita income summarizes average income per person in an economy over a period of time. Hence, Figure 1 depicts the 10-year averages of income per person in Nigeria from 1950 to 2010. From Figure 1, income of an average Nigerian in the 1960s was a little more than US\$200 which has increased to slightly above US\$1,400 in the 2000s. This implies that on the average, a Nigerian in the 2000s is about seven times richer than a Nigerian in the 1960s.

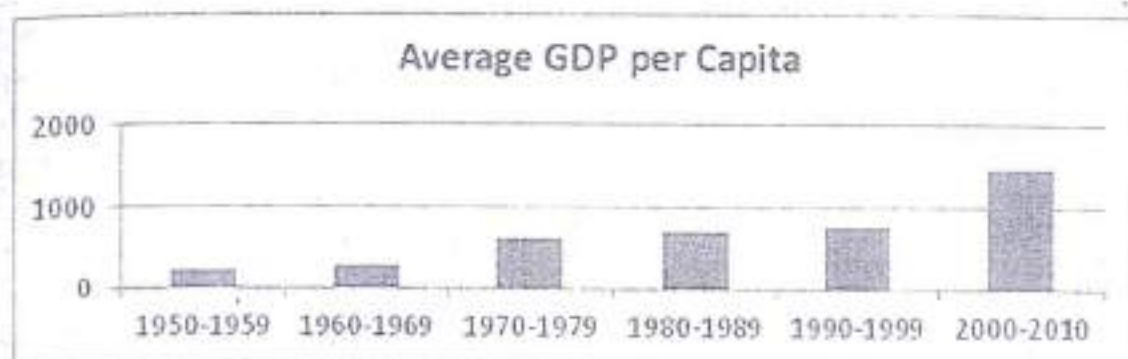


Figure 1: 10-Year Averages of Income per Person in Nigeria (1950 to 2010).

Source: Computed by author using data from Pen World Table.

Figure 2 presents the growth rate of GDP as well as GDP per capita. The growth of Nigeria's economy fluctuates over the sample period as depicted in Figure 2. There was rapid increase in growth immediately after independence but this was truncated in 1966 by civil war. During the civil war growth declined to negative. As the war ended, there was rapid growth again, however, this does not last long as the country experienced growth collapse again in the mid-1970s and it remained negative for most part of the 1980s. Meanwhile some progress are recorded in recent time (2000s). The growth of both GDP and GDP per capita show similar trends over the years.

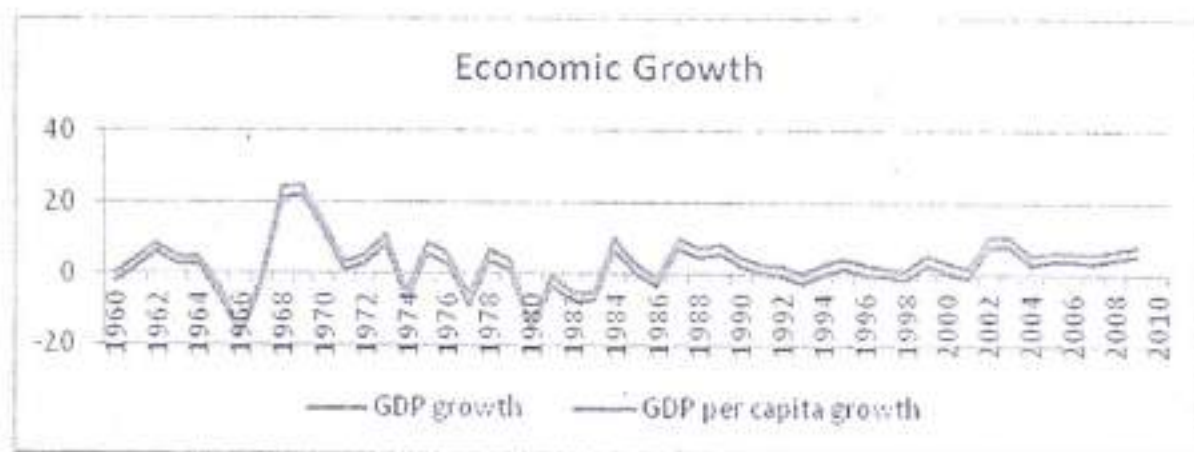


Figure 2: Growth Rates of GDP and GDP per capita in Nigeria (1960 to 2010).

Source: Computed by author using data from African Development Indicators.

Figure 3 shows the GDP per capita of Nigeria relative to GDP per capita of the United States (US). This measures the rate of convergence or divergence of Nigeria to the US. The figure depicts that Nigeria diverged through the entire sample period except in the late 2000s when there was little convergence. This picture is important in the context of vision 2020. The dream of the vision is that Nigeria will converge with the twenty most developed nations of the world by the year 2020. It is evidenced in the figure that Nigeria was diverging away from the top economies of the world since independence. The literature is very clear on the issue of convergence. For any two countries to converge to similar income level, they must share similar characteristics such as institutional quality, policies, technology and even investment (see, Baumol, 1986; Maddison, 2001; Barro & Sala-i-Martin, 1991, 1992, and 2004). This is known as conditional convergence. There is no evidence of unconditional convergence in the literature. That is, countries with different characteristics would never converge.

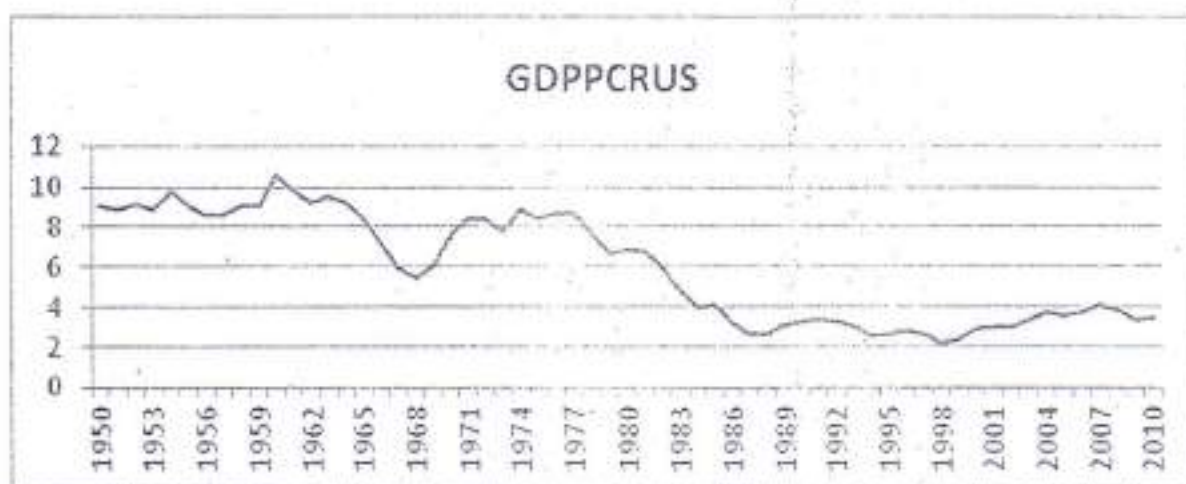


Figure 3: GDP per capita relative to United States (US).

Source: Computed by author using data from Pen-World Table.

3. Nigeria in the Comity of Nations

"...rates of growth of real per capita income are diverse, even over sustained periods... Indian incomes will double every 50 years; Korea every 10. An Indian will on average be twice as well off as his grandfather; a Korean 32 times..."

I do not see how one can look at figures like these without seeing them as representing possibilities. Is there some action a government of India (Nigeria) could take that would lead

*the Indian (Nigerian) economy to grow like Indonesia's or Egypt's? If so, what exactly is? If not, what is it about the "nature of India (Nigeria)" that makes it so? The consequences for human welfare involved in questions like these are simply staggering: once one starts to think about them, it is hard to think about anything else."*¹ Lucas (1985)

The economic performance of Nigeria in the last half century of her existence can be better assessed by juxtaposing it with other countries. The common way economists compare countries is by comparing their level of income. This is because it is assumed that higher income reflects a higher standard of living². Figure 4 presents the log of GDP per capita for a number of countries which makes comparison easy and obvious.

Brazil, Malaysia, Nigeria and South Korea started out in the 1950s till the mid-1970s at a similar level of income per capita. In other words, these countries were among the poorest (lowest income per capita) countries until the 1970s. Botswana and India were even poorer than Malaysia, Nigeria and South Korea in the 1960s. From the mid-1970s Botswana, Malaysia, Singapore and South Korea experienced rapid growth.

South Korea has transited from one of the poorest countries in the world to one of the richest. Botswana, Malaysia and Brazil moved from the bottom of income distribution to join the middle income countries. Singapore equally started at the lower level in the 1960s but it has recorded rapid growth and even surpasses the UK today (Fig. 4). Though India did not experience rapid progress like South Korea, it overtook Nigeria in the 1980s. Nigeria still remains at the bottom of the ladder with income per capita in the 2000s that is far below that of her contemporaries in the 1960s.

¹ The parenthesis are mine

² Income alone may not provide enough information to understand issues in development of countries.

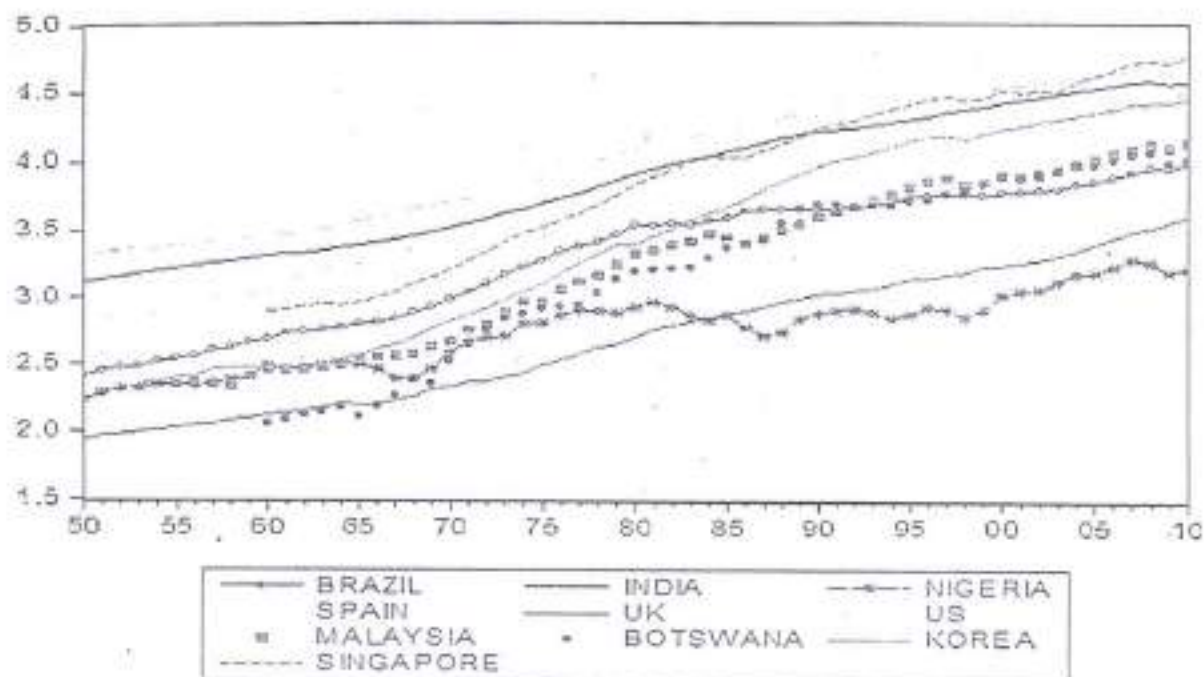


Figure 4: Log GDP per capita of selected countries.

Source: Computed by author using data from Pen World Table.

Figure 5 depicts the story in another dimension. While South Korea, Malaysia and Botswana converge towards the level of income of the US, Nigeria diverges. It is also clear from the figure that South Korea converges faster than Malaysia and Botswana. Comparing Nigeria and South Korea in Figure 6 makes the picture clearer. The two countries were very poor in 1950s, 60s and 70s until the 1980s. While a South Korean today (2000s) is over 87 times richer than a South Korean in the 1950s, a Nigerian today is only about 6.5 times richer than a Nigerian in the 1950s.

A careful examination of these figures raises a number of questions. For example, how did Singapore, South Korea, Malaysia and Botswana manage to grow at a relatively rapid pace in the last 30 years? Why did Brazil stagnate during the 1980s? What is responsible for the disastrous growth performance of Nigeria throughout the six decades depicted in the figures?

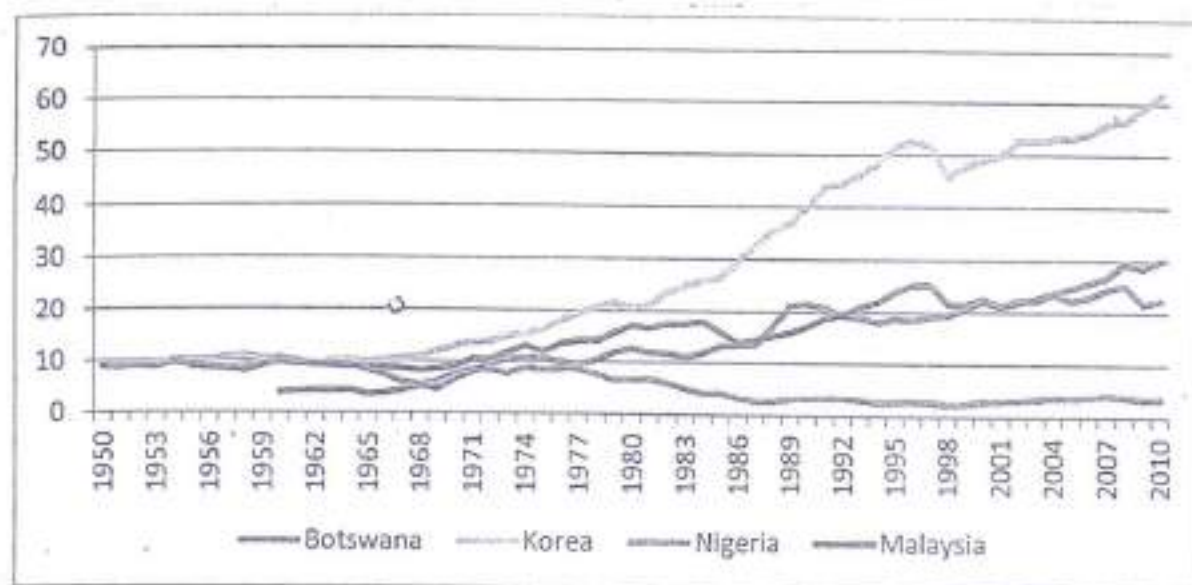


Figure 5: Income per capita of selected countries relative to the US.

Source: Computed by author using data from World Bank Databank.

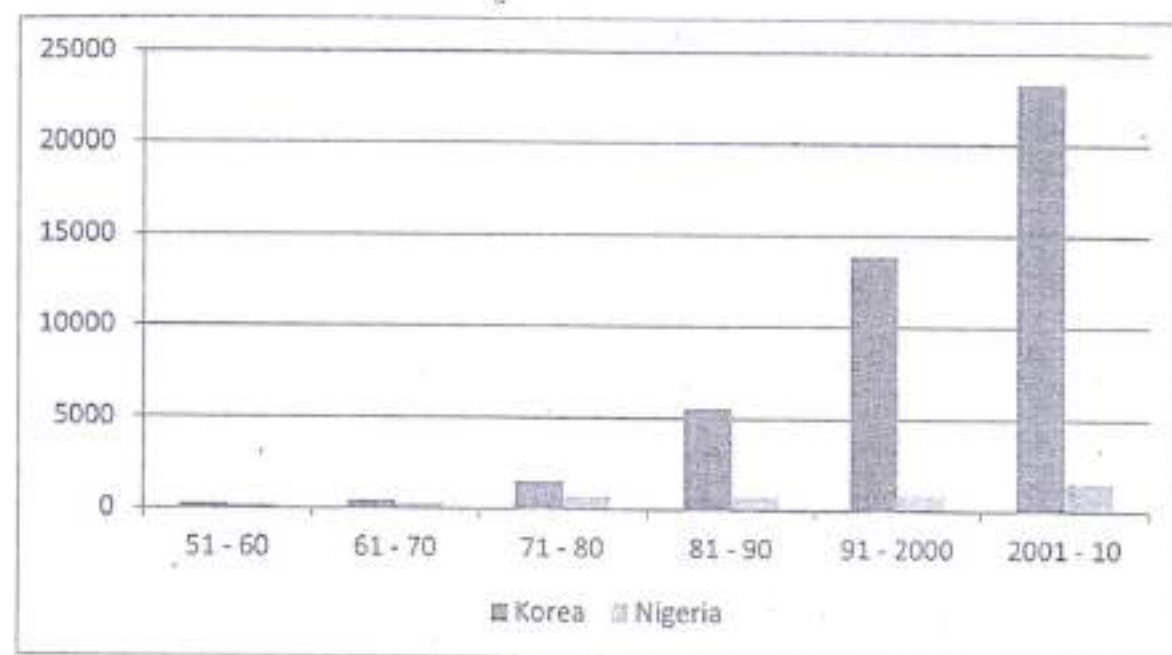


Figure 6: Comparing Nigeria and South Korea.

Source: Computed by author using data from Pen World Table.

What is the economic status of Nigeria in Africa? There is the perception by some people that Nigeria is the giant of Africa. This is true in terms of population but not correct in terms of the economy. Figure 7 displays the log of per capita income of Africa as a whole, that is, including North African countries (AFRICA), sub-Saharan Africa, Africa excluding North Africa countries (SUBSAHARAN), sub-Saharan Africa excluding South Africa (SSAEXCLUDESAFRICA) and sub-Saharan Africa excluding South Africa and Nigeria (SSAEXCLUDESAFRINIG). It is obvious from the figure that Africa is richer than sub-Saharan Africa. This reflects the fact that North African countries are relatively richer than their sub-Saharan counterparts. In other words, if North Africa is excluded from the Africa sample, Africa is poorer. Similarly, sub-Saharan Africa excluding South Africa is poorer than sub-Saharan Africa. This means that South Africa is an economic giant in sub-Saharan Africa. However, when Nigeria is excluded from the sample it does not make any difference. It can be deduced that Nigeria's contribution to the income of sub-Saharan Africa is not significant, hence Nigeria is not an economic giant of Africa, not even in sub-Saharan Africa.

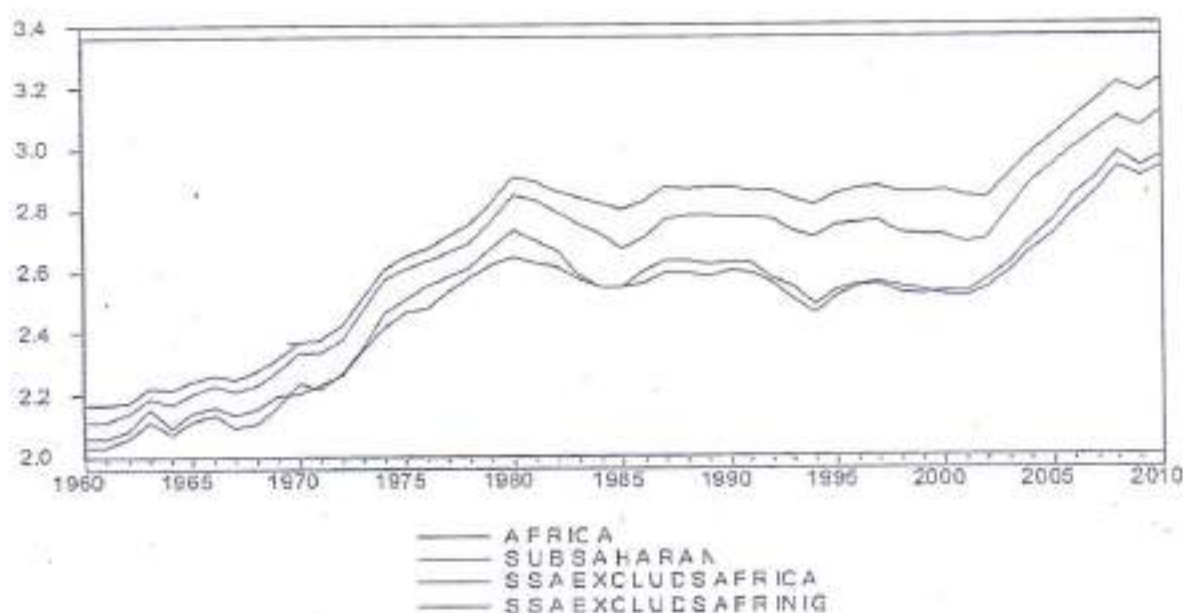


Figure 7: Log of Income per capita in Africa and sub-regions of Africa.

Source: Computed by author using data from African Development Indicators.

What Went Wrong?

"... the recent empirical literature on economic growth has identified a substantial number of variables that are partially correlated with the rate of economic growth"
Sala-i-Martin (1997)

In the attempt to provide an explanation as to why some countries grow faster and become richer while some countries fail to grow and remain poor, many factors have been identified to be the cause of the observed income divergences. For example, how did South Korea, Singapore, Malaysia, Botswana and some other countries manage to grow, while Nigeria and many other countries in sub-Saharan Africa failed to do so? How did South Korea, Singapore, Malaysia and Botswana become rich from being poor countries in the 1960s? Why are there very large differences in income per capita or output per worker between countries that had similar levels of income some 50 years ago? For instance, South Korea is more than 15 times as rich as Nigeria today. The summary of the main arguments is presented in this section.

Starting from the neoclassical theories (see Romer, 2006; chapters 1-3; for original works; see Solow, 1956; Ramsey, 1928; Cass, 1965; Koopmans, 1965; Romer, 1990; Grossman and Helpman, 1991; and Aghion & Howitt, 1992; Mankiw, Romer & Weil 1992), differences in the level of technology and accumulation of physical and human capital are responsible for the differences in economic performance across countries. It implies that South Korea, Singapore, Malaysia and Botswana succeeded because they accumulated more capital and advanced their technology. We can then blame the failure of Nigeria to grow on its inability to accumulate capital and to improve technology. This explanation is no doubt informative but has it really answered the question: What Went Wrong?

If capital accumulation and technological advancement are so important (which of course they are), why did Nigeria fail to invest more on them? Why is the physical capital still low in Nigeria? Why is the existing human capital in Nigeria not being used more effectively? Answering these questions go beyond the neoclassical theories, hence researchers seek explanations from other perspectives. This led to the emergence of four sets of broad literature; the first emphasizes the importance of political system, the second emphasizes the importance of

geography, the third emphasizes the importance of culture and the last emphasizes the importance of institutions.

The central thesis on importance of politics is that the type of government (whether democracy or autocracy), political stability, political freedom, the nature and form of election and distribution of political power all matter for economic performance. Prominent papers in this set of literature include: Barro (1997); Persson & Tabellini (2003, 2009); and Mulligan, Gil & Sala-i-Martin (2004).

The geography literature emphasizes the import of climatic/geographical factors and demography on economic performance. Prominent studies in this area are David (1998); Fernand (1995); Thomas (1998); and Gallup, Fernanda & Sachs (1998) among others. The paper by Bloom & Sachs (1998), summarized the geography-growth thesis. They argued that Africa's (including Nigeria) poor economic performance is accounted for by its extraordinarily disadvantageous geography. First, they showed that sub-Saharan Africa is by far the most tropical region in the world and that generally tropical regions lag far behind temperate regions in economic development. The tropical climate poses serious problems particularly to agriculture, such as low photosynthetic potential, high evapotranspiration, low and variable rainfall, highly weathered soils, veterinary diseases and plant and animal pests. Second, the natural environment exposes people to many endemic vector-borne infectious diseases (see Gallup & Sachs, 1998 on the import of malaria on growth). Third, the location of the region puts it at the disadvantage of transport costs. This is due to the great distance from major world markets in the northern mid-latitudes. Fourth and finally, demography factors that constraint growth in Africa include low population density, low urbanization, ethnic diversity and delayed demography transition.

Social psychologists used both theoretical and historical analyses to show that societal organization matters for economic performance (Bellah et al., 1985; Reynolds & Norman, 1988; Triandis, 1990; and Greif, 1994). One of the most important arguments in this set of literature is that most developing countries are culturally "collective", whereas the developed West is "individualistic". That, in collectivist societies the social structure is "segregated" in the sense that each individual socially and economically interacts mainly with members of a specific religious, ethnic, or familial group in which contract enforcement is achieved through "informal" economic and social institutions, and that members of

collectivist societies feel involved in the lives of other members of their group. At the same time, non-cooperation characterizes the relations between members of different groups. On the other hand, in individualist societies the social structure is "integrated" in the sense that economic transactions are conducted among people from different groups and individuals shift frequently from one group to another. Contract enforcement is achieved mainly through specialized organizations such as the court, and self-reliance is highly valued. Thus, resulting in different forms of institutional structures: weak and ineffective in the former and strong and effective in the latter.

The last set of literature is the New Institutional Economics literature (North, 1990, 1991, 1992; Mauro, 1995; Knack & Keefer, 1995; Hall & Jones, 1999; Acemoglu, Johnson & Robinson, 2001, 2002, 2004; Rodrik, Subramanian & Trebbi, 2004; Pande & Udry, 2006; and Huang, 2010; among others). The central idea here is that institutions are the fundamental cause of differences in economic performance across countries. Despite the widespread agreement today among economists studying economic growth that institutional quality matters for economic growth, there is no consensus on what exactly constitutes these institutions. North (1992) gave the most widely referred definition of institutions. According to him "institutions are the rules of the game; more formally, are the humanly devised constraints that shape human interaction". Institutions consist of formal rules, informal constraints (norms of behaviour, conventions and self-imposed codes of conduct) and the enforcement characteristics of both. In other words, they consist of the structure that humans impose on their dealing with each other.

Other arguments in the literature include: the 'resource curse' hypothesis, which argued that countries that are well-endowed with natural resources tend to grow slower than their resource-poor counterparts (Sachs & Warner, 1997, 2001; Auty, 2001; Morrison, 2007; Gylfason, 2001; Hausman & Rigobon, 2002). The trade-led growth argument which is an old one, still surfaces in the debate of why poor countries remain poor. Finally, some other sets of literature blame the poor performance of Nigeria and Africa at large to corruption, colonial history and activities of international institutions such as the World Bank and the IMF.

Which of these factors actually explain the failure of Nigeria relative to South Korea, Singapore, and other success stories of the twenty first century? Table 1 presents some measures of geography, economic factors and institutions for Nigeria and two of the most successful countries in recent time (South Korea and Singapore). Climate and coastline are used to proxy geography factors, investment as share of GDP per capita proxies investment in physical capital while literacy rate and life expectancy are used to proxy investment in human capital. A number of indicators are also used to capture institutional qualities in these three countries. These indicators include index of property rights computed by Heritage Foundation, cost of doing business from the World Bank doing business indicators and World Bank governance indicators which include rule of law, regulatory quality, political stability and absence of violence, and control of corruption. Colonial master and year of independence are used to proxy historical antecedence.

A close look at Table 1 reveals that even though tropical climate may be a disadvantage it does not predestined a country to poverty because Singapore broke the chain of poverty despite the tropical climate. The coastline in Nigeria is even more than that in Singapore, therefore, this could not be the reason for the income difference between the two countries. The economic factors seem to matter because Korea and Singapore have invested more in physical and human capital. More important, however, are the institutional qualities, while Korea and Singapore made significant improvement in the quality of their institutions, Nigeria has failed in this direction. The institutional qualities are low in Nigeria; this may even explain why investment is low because private investors would not like to invest in an environment where property rights are poorly protected, cost of doing business is high, and control of corruption, regulatory quality and rule of law are low. Colonial history may not be a reason why Nigeria has failed to grow since Singapore shares a similar colonial history with Nigeria.

To answer the question; what went wrong or what have South Korea and Singapore done which Nigeria has failed to do that has led to the wide income gap between Nigeria and these two countries? It is a fact that Korea and Singapore improved their institutional quality and equally invested in physical and human capital while Nigeria's institutional quality remains weak and investment in capital remains relatively lower.

Table 1: Some Factors of Growth in Nigeria, South Korea and Singapore.

Indicators		Nigeria	Korea	Singapore
Geography	Climate	Tropical	Temperate	Tropical
	Coastline	853 km	2,413 km	193 km
Economics	Investment in physical capita	6.00	34.71	37.19
	Life expectancy	51.86	80.87	81.82
	Adult literacy rate	61.34		95.86
Institutions	Property rights	30	70	90
	Cost to start business (%GDP)	70.6	14.6	0.7
	Time required to start business (days)	34	7	3
	Rule of law	9.86	80.75	93.43
	Regulatory quality	27	79	97
	Political stability & absence of Violence	4	55	90
	Control of corruption	9	70	96
History	Colonial master	Britain	Japan	Britain
	Year of independence	1960	1948	1959

Source: Computed by author using different data sources

5. Preparing for the Second Half of the Century

"...on the question: is Nigeria a nation today? My answer is - Not yet. Is Nigeria aspiring to be a nation? The answer is - unsure. Can it? Possibly..." Soyinka (2008)

The preview in section 2 and 3 evident that Nigeria's economic performance in the last half a century was relatively poor. An important question is what should the government do to put the country in the path of fast economic growth and development for the remaining half the century? How can Nigeria converge with countries like South Korea in the less than 50 years to the end of a century of her existence?

The answer to these questions can be deduced from Table 1. The government must improve the quality of institutions. There is need to ensure protection of property rights on individual property and intellect, allow the operation of rule of law, make business environment conducive so as to reduce the cost of doing business, be serious about fighting corruption and address the root causes of violence and political instability. Equally, there is need to ensure constraint on

exercise of executive power because in any economy where the executive is too powerful, institutions are likely to be weak, corruption is likely to be high and property rights are also likely to be poorly protected. Political institutions should also be improved to allow free and fair elections. Investment in physical and human capital and even efficient use of existing human capital are important things the government of Nigeria should focus on in this second half of the century.

Let it be emphasized here that institutional reform is not as mechanical as it appears. It involves political processes and those who control political power are key players in these processes. Although, in the short run, reforms create losers and gainers, in the long run everyone is a gainer. Because of the short run loss, political elites without foresight are not likely to support institutional reforms. Therefore, Nigeria needs visionary leaders to kick-start sincere institutional reforms. This involves true separation of powers among the arms of government, constitutional amendment and allowing autonomy to certain sectors such as the police, other security agents, electoral body, upholding to the principle of rule of law and so on.

6. Concluding Remarks

Nigeria has experienced disappointing economic performance in the last 53 years of her political independence. Important lessons can be learned by comparing the historical trajectories of Nigeria and some success stories of the past three decades of countries like Botswana, Malaysia, Singapore and South Korea. First, colonial history and geography cannot be blamed for Nigeria's disastrous half a century economic history. Second, Nigeria's development mates in the 1960s were able to grow fast and converge with top countries in income distribution by improving their institutional qualities and by investing more in physical and human capital. Thus, Nigeria can revise her development track in the second half of the century by investing more in capital and strengthening institutions.

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