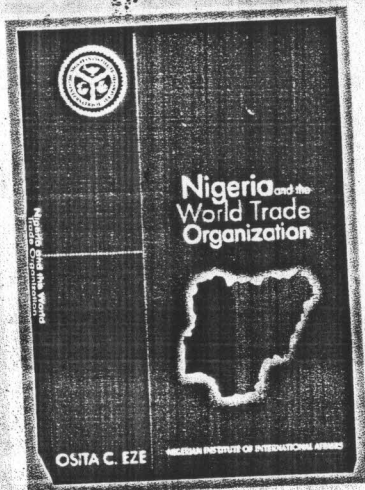


NIGERIA AND THE WORLD TRADE ORGANISATION

Osita C. Eze

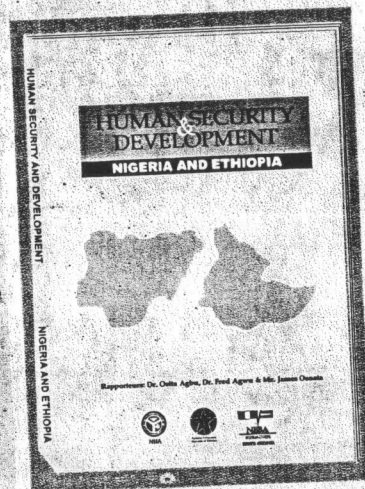
This book argues that the current global trading system which the WTO operates on behalf of its 148 members will not grow any economy of the global South, Nigeria inclusive.



HUMAN SECURITY AND DEVELOPMENT: NIGERIA AND ETHIOPIA

Osita Agbu, Fred Agwu and James Osoata

This book examines the relationship between human security and development with Nigeria and Ethiopia as case studies. The issues addressed in this volume include federalism and nation-building in the Horn, trade and investment, cross border conflicts, poverty, and methods for addressing the HIV/AIDS pandemic in both countries.



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Economic Backwardness in Nigeria and Bangladesh: An Institutional Analysis

Aremu Fatai Ayinde & Md. Dulal Miah*

Abstract

This article is of the view that the neoclassical growth theory failed to adequately explain economic backwardness much less proffer effective remedies. The fundamental assumption of the received growth theory is that institutions are taken as given or have insignificant influence on growth. This compels scholars not only to question the basic assumptions of the often prescriptive neo-classical approaches but equally to search for alternative explanations. Of such alternative explanations, the institutional model tends to be more parsimonious and provides the framework of analysis in this study. The central thesis is that institutional constraints shape the economic outcome of a country and define the growth trajectory. Growth differences between countries can be attributed to a large part to the differences in institutional settings – both formal and informal. Countries that have been able to efficiently allocate their scarce resources to the productive efforts by virtue of their effective institutions are states with developed economies. In contrast, countries with weak institutions that encourage extensive unproductive rent seeking and other unethical behavior end up with economic backwardness. Drawing evidence from the developmental experiences of Bangladesh and Nigeria (and the failures therein), the article seeks to juxtapose theory with reality with a view to contributing to the development discourse. The article finds that institutional constraints are the major impediments to sustained economic progress in both countries.

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Introduction

It would appear rather tendentious to ask why some countries are rich and others poor? Indeed the question has been the subject of numerous and diverse intellectual discourse for ages. The debate, sometimes emotional across the divide, has grown in complexity and it would not serve any useful purpose to be drawn into fascinating but complicated maze of discourses on the subject. Interestingly, while the unending arguments and counterfactual arguments on how or why some countries are rich or poor are still progressing, the gap between the rich and poor countries continue to grow even at a faster rate. For example, the difference in income per capita between the richest industrial countries and the poorest countries 250 years ago was about 5 to 1, and the difference between Europe and East or South Asia was around 1.5 or 2 to 1¹. The ratio of disparity has multiplied to hundreds in recent years. Not only has the income per capita gap increased but the growth rate in income gap has also increased. It is interesting to note that Helpman² in a study of the growth rates of 104 countries for two distinct periods (1960-1972 and 1974-1990) finds that more countries experienced higher income growth in the former period than in the latter. Another noticeable trend is an increasing concentration of high-income countries in specific areas and regions. In Asia, some countries have attained a development level almost equivalent to the world's richest while there are others that still wrestle with poverty and daily survival. The same applies to Africa where the differences between the richest and the poorest are even more poignant.

Bangladesh and Nigeria represents two cases of development failures in different regional contexts. Both states share some common attributes which include British colonial experience, large populations that have not translated to much economic value, natural resource endowments with simultaneous poverty, long period of military dictatorship as well as political instability and endemic institutional weakness. Apart from the commonalities, they differ in certain respects. Bangladesh, for instance, lacks remarkable exportable natural resources except little reserves of natural gas, whereas Nigeria has vast oil reserves and other resource endowments. In several respects, their different experiences and attributes tend to challenge existing postulations or assumptions in development theorizing. For example, their low level of

economic development dispels the belief that countries with vast reserves of natural resources should grow faster than countries with low levels of natural resource endowment. Natural resources are undoubtedly crucial factors of production but have failed to decisively explain the poverty amidst plenty that characterize several resource-rich nations including Nigeria. Sachs and Warner³ analyzing a sample of 97 developing countries between the periods 1970-1990 find that resource-poor economies vastly outperform the resource-rich countries. They also drew historical evidence to argue that 17th Century resource-poor Netherlands clearly outperformed resource-rich Spain, in spite of the fact that Spain accumulated vast amounts of gold and silver from its colonies and that in the 19th and 20th Centuries, a resource-poor country like Switzerland surged ahead of resource-abundant economy like Russia.

Another common proposition relates to the role of large population in separating rich from poor countries. The argument goes that the more densely populated, the higher the probability of being poor. Such Malthusian thoughts contend that overpopulation generates higher level of consumption that leads to low level of savings available for investment, which in turn leads to low investment and hence limited production. Moreover, large population may also create unemployment because low levels of investment cannot provide sufficient jobs. This cyclical process might persist if some intervening variables do not break it off. Although this cyclical process sounds logical, it is hardly tenable in the sense that population is more of a resource rather than a liability (though it can be either). The experiences of countries like Singapore, Hong Kong, Japan and even South Korea that are more densely populated than many underdeveloped countries throws the proposition into a critical crisis of empirical validity⁴. Therefore, there has to be other explanatory factors that determine where a country falls in the rich-poor divide beyond the burden of large population.

Corruption also appears to be one of the factors that tend to retard a country's economic progress. As it penetrates the fabrics of the political system and the society, it diverts resources from the productive sectors and weakens the entire system almost to a paralytic state. Bangladesh and Nigeria,

¹ Landes, D.S., *The Wealth and Poverty of Nations: Why Some Are so Rich and Some so Poor*, New York, London, W.W Norton & Company, 1999.

² Helpman, E., *The Mystery of Economic Growth*, Harvard University, Cambridge, Massachusetts, Belknap Press, 2004.

³ Sachs, J. D, Andrew, M.W, "Natural Resource Abundance and Economic Growth", Harvard University, Centre for International Development and Harvard Institute for International Development, 1997.

⁴ Miah, Md.Dulal, An Institutional Approach to Understanding Success and Failure in Economic Development: The Cases of South Korea and Bangladesh, *Ritsueinkan Journal of Asia Pacific Studies*, Vol.21, pp.97-123.

according to Transparency International (TI) reports, are rated among the most corrupt countries in the world and it should not be surprising that they are also at the bottom rungs in the development ladder. However, as destructive and counter-development as corruption is, it is difficult to argue that it plays a decisive role in explaining the gap between the rich and poor countries. Indeed, there is the debate whether corruption impedes economic growth or that corruption is eradicated when a country becomes developed. The universality of the phenomenon is not a question of whether but of how much and to what extent. For example, South Korea enjoyed tremendous GDP growth of 7.2 percent on average for the period of 1990 to 1997 while the corruption index indicates the existence of corruption. The case of Thailand is more palpable because it grew at an average of 7.1 percent between 1970 and 1980 when there was remarkably high level of corruption⁵. By the same token, Indonesia recorded three decades of economic growth despite the high level of corruption that characterized the Suharto era. Of course, that corruption has negative impact on economic growth and development is incontrovertible but the extent of its impact or whether it is decisive in separating rich from poor countries is not yet fully established.

Most economically backward countries also have very weak or non-existent technological base and lag far behind the developed and even some developing countries with respect to innovation and the deployment of technology that invariably enhances productivity. The effect of technology change on economic performance is examined by Solow⁶, who was widely regarded as a founder of the neo-classical growth model. Analyzing US private non-farm GNP for the period of 1909 to 1949, he finds that gross output per man hour doubled over this time interval, with 87.5 per cent of the increase attributable to technical change and the remaining 12.5 per cent to increased use of capital. The basic theme of his model is that capital intensity (the ratio of capital/labour) is the growth driver which operates in line with the law of marginal diminishing returns. This means that at the initial level of capital intensity, the output of a country rises at a faster rate than when it approaches to higher technological frontier. According to this model, countries like Bangladesh and Nigeria which function at very low capital intensity initially grows faster than a country which operates at high end of

⁵ Khan, H. Mushtaq, "The New Political Economy of Corruption", Fine Ben, Costas L., & Jonathan P. (eds.), *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus*; Taylor and Francis Group, Routledge, 2001.
⁶ Solow, R.M., "A Contribution to the Theory of Economic Growth", *The Quarterly Journal of Economics*, 70 (1), pp. 65-94.

capital intensity.

Therefore, growth rate of former countries should converge with that of countries in the latter type. In the long run, they converge at the equilibrium where growth rates are equal to technical change, which according to the Solow model, is the growth driver. This implies that, if income per capita were driven by capital accumulation and a common rate of technological progress, then growth rates between the poor countries and the rich would have converged. Contrary to the prediction of the model, this has yet to become a reality. This evidence implies that technical change cannot explain income differences between countries.

Factors that motivate people to save, to invest for innovation, and to undertake productive initiatives are not included in those neo-classical models. North and Thomas⁷ submit that innovation, economies of scale, education, capital accumulation are not the cause of growth rather they, per se, are the growth. For North and Thomas, the fundamental cause of growth differences between countries can be attributed to the differences in institutional settings which channel the potentials and the endowments of the people towards productive efforts. In the traditional growth models, these institutional variables are assumed either to be neutral, constant or ignored because "they were taken as given and then specified in so perfunctory a way as to suggest that institutional influence was not of much importance"⁸. Consequently, even though the theoretical tradition of neo-classical models has been persuasive and has provided influential insights to explaining the nature and causes of growth differences between countries, their inadequate attention to the centrality of institutional dynamics in the development discourse offer a *volte face* challenge to their propositions.

In this article, our aim is to shed light on the influence of institutions on economic performance by drawing evidence from two countries from Asia and Africa. The article is structured into five main parts. The first section provides the background to the study while the second explores the theoretical and conceptual issues. Part three focuses on Nigeria's experience of institutional atrophy and its devastating impact on the education sector. The fourth section examines Bangladesh's case of institutional decay and how it generated industrial backsliding as the collapse of the once vibrant jute industry suggests. The fifth contains the conclusion.

⁷ North, D. C., and Roberts, P.T., *The Rise of the Western World: A New Economic History*, Cambridge, Cambridge University Press, 1973.

⁸ Furuboth, E.G and Richter, R., *The New Institutional Economics*, Tubingen, J.C.B Mohr (Paul Siebeck), 1991.

Conceptual and Theoretical Underpinnings

Institutions are the rules of the game. How a game should be played depends mostly on the pre-set rules. This 'rule of the game' is a set of constraints comprising of regulations, culture, perceptions, societal norms and other similar elements that shape human behavior responding to society's numerous demands. North and Thomas define institution as "[a]n arrangement between economic unit that defines and specifies the ways by which these units can co-operate or compete"⁹. Since institutions define and limit the set of individual choices, their presence in the society would govern and set the directions for human behaviour, for example, what they ought to do and what ought not. In this sense, a good institution can be viewed when a country adopts a set of rules that promotes and encourages value-enhancing activities at the same time constrains rent-seeking and individual empire-building through irrational and unethical means which are unproductive and waste of the society's scarce resources.

Institution comprises of both formal constraints such as rules and regulations and informal constraints for example, conventions, codes of conduct, and norms of behaviour. Such institutions affect performance basically by fostering better policy choices such as favourable tax regimes that encourage production, independence of the central bank, where it has been ceded power to maintain oversight over financial markets, government commitments to protect private property as well as to deter extortion, ensuring participation of citizens to voice against or in favour of government policy and the like. Differences in institutions may create different incentives and behaviour of the people. Who are the players of the game? Organizations including political, social, economic, and educational bodies can be perceived as the players of the game that process or produce information and make decision that reflects the capacity of the players within the institutional framework¹⁰. The inherent tendency of the players is to maximize their utility within the existing constraints and therefore, those constraints would ultimately decide whether value maximization effort is encouraged ensuring efficiency of the society.

Informal institutions are evolved within the society and their changes are infrequent. Those constraints are directed to subversive ways by formulating similar formal institutions. For example, in a democratic country,

⁹ North, D.C. and Roberts, P.T., "An Economic Theory of the Growth of the Western World, *The Economic History Review* XXIII (1), pp.1-27, 1970.

¹⁰ North, D.C., *Institutions, Institutional Change and Economic Performance*, Cambridge, Cambridge University Press, 1990.

traditions and perception of the rural people might be that women's participation in the national polls is an anti-customary or anti-traditional activity. Or the customs may be that women should refrain from voting in the national or local elections. However, if any interested group arises in that society and finds that the customs benefit them more than others, they might prescribe and formulate it as formal rule. This sort of institutional constraint is set to manipulate women's power regardless of their effect on the economic performance of the country. Moreover, there are some societies where constraints are set in the guise of religious rules where women are prohibited from engaging in activities outside their homes. Considering that half of the total manpower is constituted by woman, imposing restrictions on their movement obviously undermines social power to be developed. It is noted that informal constraints are pre-occupied with such elements which change, if at all, at a snail-pace and are also shaped by past history. In this sense, formal constraints are expected to be changed and would lead a society to long-run equilibrium.

As we have already mentioned that changes of the formal institutions is frequent and thus can be directed by the interested groups to their favour. For example, in most developing countries those interested capitalist groups are strongly linked with political organs that through parliamentary procedures set rules. Those capitalist group influences policy makers to consider their interest and rulers heed to them because they need support from capitalist groups to make their tenure long lasting. State favoritism to capitalist groups may take various forms such as subsidized production, granting monopoly rights over production etc. Even if government does not grant monopoly directly, it creates informal barriers such as red-tapism, patron-client relations etc. to deter prospective investors impetus to invest. If fair competition is ensured instead, inefficiencies which might evolve with monopoly are wedded out. However, examples abound in both Nigeria and Bangladesh where state patronage monopoly helps inefficiency to survive even at the cost to the nations. Once it is granted it is very difficult to wipe out. Khan postulates

Once the interlocked networks had developed, allocation of subsidies proved very difficult to change ... The eventual result was the emergence (and) persistence (of) subsidies for poorly performing industries which were difficult to change in response to performance failures or changes in technologies and markets¹¹.

¹¹ Ibid.

Furthermore, rulers themselves sometimes appear to plunder public property under different guises because they are also utility maximizers like any other agent in the society. For example, they do not attempt to formulate or enforce rules towards the establishment of strong property rights which acts as slack to facilitate their plundering. Potential setbacks evolving from property rights and their lax enforcement harm motivation of the would-be entrepreneurs to undertake even the social beneficial investment. Moreover, ruinous effects of this weak protection of private property are such that it increases uncertainty as well as transaction costs and thereby thwarts innovation and development. Transaction costs of land transfer stemming from this uncertain nature are prohibitive in many underdeveloped countries. The provocative findings by Soto¹², is a case in point. His research shows that a taxi driver who wants to obtain official recognition of his route faces twenty-six months of red-tapism in Peru. In order to obtain legal title for a small piece of land requires 728 steps which take from eleven months to six years to complete in Peru, thirteen to twenty five years in the Philippines, five to fifteen years in Egypt, and nineteen years in Haiti. Given these bureaucratic complexities as well as underlying transaction costs, investment to develop land and other physical assets is unlikely to take place and therefore, factors of production are restricted from their efficient allocation.

There may be a hypothesis that countries that are developed have better institutions than those that are underdeveloped. Put differently, can better institutions lead to higher economic growth or economic development? Acemoglu, Johnson, and Robinson¹³ using settlers' mortality of the former British colonies as instrumental variable, attempt to resolve the conundrum. They argue that countries that were unsuitable for the colonizers to be settled, the underlying institutions were extractive which helped them to exploit resources. Their model shows a significant positive relationship between European settlement and early measures of institutions, and positive correlations between early measures of institutions and institutions today. Similar result is found by Easterly and Levine¹⁴. They report that during the colonial period in Burundi, mortality among the European settlers was as high as 280 per 1000 per year. The Belgian colonialists, thus, did not settle

¹² Soto, H. D., *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York, Basic Books, 2000.

¹³ Acemoglu D., Johnson. S. and J. Robinson, "The Colonial Origin of Comparative Development", *The American Economic Review*, Vol. 91, No. 5, 2001, pp.1369-1401.

¹⁴ Easterly, W. and Levine, R., "Tropics, Germs and Crops: How Endowments Influence Economic Development", *NBER Working paper* 9106, 2002.

there but exploited through forced labour on coffee and other cash crops plantations and compulsory food crops quotas. Thus they established that better institutions lead to economic growth.

In addressing the problem why a worker in the United States does produce over ten days as much output as one worker produces in a year in Niger (1988 account), Hall and Jones¹⁵ conclude that differences in physical and human capital attainment can only partially explain this huge difference in per capita output; rather it is driven by differences in institutions and government policies which they call social capital. They account that the 35-fold difference in output per capita between them can be attributed to a factor of 1.5 to the differences in capital intensity, 3.1 to the difference in educational level attainment, and the remaining 7.7 to the productivity residuals or institutional variables. In a similar fashion, Easterly and Levine¹⁶ contend that tropics, germs and crops affect country's economic growth not directly by themselves but through institutions. They state that despite its lush agricultural endowments with three growing seasons in a year, abundant rainfall, and fertile volcanic soil which are suitable for many crops, Burundi is poor because institutions have excessively failed to protect peoples' lives and property or establish any law and order. Acemoglu, Johnson, and Robinson¹⁷ put forward an interesting finding in the Nigerian case. Taking institutional co-efficient derived by their model into account helps them to explain that improving Nigeria's institutions to the level of Chile could, in the long run, eliminate the gap between them seven times which is currently eleven times.

Institutional Decay and the Development Conundrum: Nigeria's Education Sector as a Case Study

The popular dictum that where institutions are weak, personality looms large appears to summarize the state of institutional weakness of the Nigerian state. In virtually all the sectors, elements of institutional decay apparently manifest in various ways. From agriculture, aviation, policing, health to sports to mention just a few, the Nigerian state radiates in institutional inefficiency that has adversely affected the lives of average citizens directly and indirectly. For instance, despite the numerous agro-based institutions that comprise federal and state ministries of agriculture, specialized universities, and research institutes, the country still imports basic agricultural products

¹⁵ Hall, R.E., Jones C.I., "Why do Some Countries Produce so Much More Output per Worker than Others?", *The Quarterly Journal of Economics*, Vol. 114(1), pp.83-116.

¹⁶ Ibid.

¹⁷ Ibid.

and has one of the least agricultural value-added as a percentage of GDP in Africa¹⁸. It is almost impossible to catalogue all the cases and evidence of institutional failures or ineptitude. The phenomenon has generated some responses that have tended to produce what could be described as states within a state. For instance, the failures and the loss of confidence in the security institution have produced a proliferation of private security outfits, sometimes patronized by government officials and agencies. At the extreme, it has also led to the mushrooming of ethnic-based militias which at various times challenged the conventional police and other security agencies. Whatever the implications of these issues on the viability of the state, it remains incontrovertible that institutional weakness serves to blemish the nation's credentials and blunt its competitiveness as a potential investment destination, hence, retards the resolution of the development question.

Because institutions are to the state what the arteries are to the human body, the institutional atrophy that characterizes the Nigerian State has attracted attention from various quarters. The Paris-based International Policy Impact Group in conjunction with some Nigerian experts concluded in a report that the inefficiency of the country's institutions has left it in a condition of dysfunctionality comparable to states like Rwanda, Liberia, Angola and Sierra Leone¹⁹. Regrettably, these are countries that witnessed civil wars at various times in the last one or two decades. In a similar fashion, and Independent Evaluation Group (IEG) of the World Bank in a report entitled: "Engaging with Fragile States" also acknowledged the institutional decay in Nigeria. The report ranked Nigeria as one of the most fragile states with a possibility of collapse as a result of institutional inefficiency along with countries like Liberia, the Sudan, Congo, Myanmar, Cambodia and others²⁰. By the same token, the US National Intelligence Director was quoted as saying that in Nigeria, "government's institutional foundations are hollow ..."²¹. Irrespective of opinion on the validity of such "alarmist" reports, the striking convergence of the various opinions and the palpable manifestation of the institutional atrophy point to the direction of institutional drawbacks to Nigeria's development drives. In spite of the reforms and the NEEDS as

¹⁸ Aremu, Fatai, A., "Myths, Ends and Means: Prestige Illusion and the Management of Nigeria's External Relations", Paper prepared for presentation to the International Conference on the theme: *Nigeria in the 21st Century: Issues and Challenges*, at the Obafemi Awolowo University, Ile-Ife, Nigeria, July 10-13, 2007.

¹⁹ *This Day* Newspaper, April 25, 2006.

²⁰ *Vanguard* Newspaper, October 2, 2006.

²¹ *Vanguard* Newspaper, March 7, 2007.

well as other initiatives, there is yet to be provable evidence of remarkable improvements in the institutional processes in Nigeria. While we acknowledge the complexity of the institutional question and debates around it, we focus on the education sector, for the sake of convenience, to illustrate the nature of institutional weakness and its economic backwardness.

Institutional Weakness and the Steady Decline of Nigeria's Education Sector

It simply begs the question to state the centrality of education in a nation's economic development. It is not sheer coincidence that the countries at the top of the development ladder also have the highest rate of education. Their universities rank among the top-rated in the world. In a similar vein, there is no country with very high education rate (80-90 percent of the population) that has low per capita income. The correlation between the rate of education and level of economic development is incontrovertible. In fact, they are mutually reinforcing. In Nigeria, the three main forms of education, informal, formal and non-formal, serve to complement each other as a lifelong process that every human being passes through. The formal education in Nigeria is structured mainly into primary, secondary and tertiary. Nigeria's policy on Education aims to provide universal and compulsory basic education from primary to junior secondary school level. At various times, responsibility for primary education has moved back and forth from federal to state and local governments (or both) in any case, the objective of universal basic education is yet to be accomplished. Besides, the quality of teaching at the primary level (especially in public schools) has been in the realm of conjectures because institutional frameworks for supervision and quality control are either grossly inefficient or completely non-existent. Combined with poor and irregular remuneration, lack of in-service training for tutors, and poor teaching material and infrastructures, the overall output from the first-tier of education tend to be below par of standards obtainable in many other countries.

A similar picture obtains at the secondary level where the problem is complicated with massive fraudulent practices that characterize public examination institutions. The most popular public examination bodies (among others) are the West African Examinations Council (WAEC), the National Examination Council (NECO) and the Joint Admission and Matriculation

Board (JAMB). Each of these bodies has peculiar symptoms of dysfunctionalities but they also share certain weaknesses. For instance, wrong spelling of candidates' names, wrong subject registration or combinations, missing or incomplete results that truncate some otherwise bright careers among others. Above all, they all have had to contend with examination fraud that has served to diminish the worth of Nigerian certificates in the international labour market. While various explanations could be generated on the nature of the crises that this phenomenon represents, it is almost incontestable to argue that they are products as well as symptoms of institutional failures. One of the fall-outs of the crises at the level of secondary education is that the quality of input into the tertiary level becomes fatally flawed.

Of the three main levels of education, perhaps the worst afflicted by the institutional malaise would be the tertiary education system. At this level, a candidate is expected to acquire specialized knowledge and skills that would enable him contribute to national development. Although the tertiary system comprise the universities, polytechnics and colleges of education as well as others, more emphasis would be placed on the universities because of its global historical dominance as the hub of excellence, center of innovation and fountain of modernization. This does not in anyway denigrate the invaluable contributions of other tertiary educational institutions to a nation's development. Meanwhile, it is beyond the scope of this article to explore in detail the crises in Nigeria's tertiary education system. Nevertheless, it is noteworthy that the university system in particular has been a victim of systemic neglect and institutional degradation over time. Poor funding, political interference, frequent strikes and reports of unethical behaviour as well as other factors have turned the universities in Nigeria into a caricature of conventional ivory towers. Not surprisingly, therefore, the recent Webometrics ranking²² reveals the appalling state of Nigeria's university education. Not only did Nigerian universities not appear among the top 5,000 universities in the world, only four made the top 100 universities in Africa. The top-rated Nigerian university (i.e. Obafemi Awolowo University, Ile-Ife) ranked 44th followed closely by Mogadishu University (Somalia). This further point to the institutional analogy alluded to in earlier discussion. The other Nigerian universities are Universities of Ibadan, Benin and Lagos at 65th, 79th and 96th positions respectively. Unlike Nigeria, South Africa, apart from

²²Webometrics Survey 2007,
<http://www.webometrics.infotop100continent.asp?cont+=africa>.

dominating the top eight, has 21 universities among the top 100, Egypt has 13, Algeria and Morocco has 9 each, while Kenya has 8.

The poor showing of Nigeria's universities is a reflection of not only the abysmal state of higher education, it also indicates the degree of the institutional decay in the education system as a whole. The implication of this on Nigeria's quest for development is multifaceted. First, it gives an impression to the international investment community that the quality of manpower training and development, which is one of the key determinants of investment destination, is unfavorable. Second, it also implies that the quality of output, in terms of teaching and research, of these institutions would be lower than that obtainable in other African (much less global) higher education systems. Hence, the country could have been losing its competitive edge in that respect. Finally, flowing from the above, it implies that the lower investment means few employment opportunities. High unemployment generates a number of vices that, in a cyclical pattern, further scares away foreign investment. A combination of these phenomena ensures that poverty alleviation and development as a whole remain a distant illusion, hence the persistent economic backwardness.

Institutional Failure and Industrial Backsliding: Evidence from the Jute Industry in Bangladesh

Bangladesh was ruled by the British for 190 years (1757-1947) which was marked by severe violations and exploitations leading the country to experience destructive institutional changes both in agriculture and in the industrial sphere. When the British left the colony, Bengal was renamed East Pakistan, under the direct auspices of West Pakistan (now Pakistan), both politically and administratively. Though some reforms followed during the regime, the British legacy still continued in most of the critical wings of the government. Finally, the country managed to achieve its independence in 1971, since then it has experienced tremendous political malfunctions. Despite achieving a moderate GDP growth rate of little more than 5 per cent in the last few years, meager absolute GDP base coupled with this paltry growth has not been able to push the country's development efforts forward. Both formal and informal institutions have already proved to be unproductive and lead the country to the brink of deindustrialization. Recent closure of Adamjee Jute Mill which was once the world's largest jute mill bears the testimony.

same with a little increase and reached to 77 all-time high in 1980. However, the output increased for the period of 1972-1980 averaging 7.11 percent, and -2.11 percent in the following decade. Growth of foreign earnings from export of jute and jute products during the Pakistan regime was moderate of little more than 5 percent which jumped to more than 15 percent during 1973-80 and the growth trajectory remained similar in the latter decade. Afterwards the growth averaged about 9 percent for the period of 1990-1998. However, jute and jute products have never gained its momentum and shining past in the subsequent period, and are now facing dismal performance. As a result, the government is shutting them down one after another.

Institutional Malaise and Gradual Decay of Jute Industry

During Pakistan period the private sector played vital role in the economic development of West Pakistan but remained backward in East Pakistan. However, after independence the then government preferred to model the country after the socialist state the thrust of which was to undermine private ownership. Accordingly, it started to nationalize all key industries specially jute, irrespective of ownership whether they were owned by Bangladeshi entrepreneurs or abandoned by Pakistanis. Sobhan²³ reports that 34 enterprises in jute with assets amounting to taka 600 million were owned by Bangladeshi entrepreneurs which comprised 34 percent of the total fixed assets of jute industry. The nationalization process marked few basic characteristics. The exodus *en mass* of non-Bangladeshi owners created a vacuum in the management of those industries where government did not have sufficient managerial expertise to fill the gap. Moreover, the Bangladesh Industrial Enterprise 1972 stipulated the objective of the public enterprises far beyond the financial interest²⁴. The aim of those public enterprises was not constrained to profit motive rather to run efficiently and to increase the productivity. A careful scrutiny of the jute industry conforms to the government policy that the growth of the output immediately two decades after independence was almost 15 percent. However, most of the jute mills incurred

losses consecutively since independence and a substantial loss incurred in the period between '72-'73 and '84-'85²⁵.

This nationalization move, however, stopped paving the way for private entrepreneurs to flourish in the sense that there was an informal and strong tie between bureaucratic clouts and management bodies of those public enterprises. Government did not adopt any fruitful initiative to train human resources so that they could fill the vacuum, rather chosen persons were put in place instead. Furthermore, a ceiling of taka 2.5 million was fixed for initial investment by private entrepreneurs but seeing the frustrating result the amount was later raised to taka 30 million in the revised industrial policy in 1974. This ceiling was completely removed at the end of 1980s. Since management of the state-owned enterprises did not have to face any competition from private enterprises, they were more relaxed than tough on profit earning policy. This absence of competition latter generated many inefficiencies such as bribery, corruption, under- or over-invoicing, shirking in public jute mills which contributed a great deal to incur loss by those mills. Furthermore, those managers also strongly motivated bureaucrats to formulate various formal and informal restrictions for private enterprises lest they were weeded out by competent private entrepreneurs. Thus, overpowering bureaucracy and a lack of incentives and lack of competition, failed nationalization move and socialist policy turned into despair. The socialist ideology of the country was to accumulate capital. But the ordinary process through competitive capitalism is arduous and slow. The faster and lucrative way was to use state power to grab potential economic surplus.

Widespread dissatisfaction with poor performance of the public enterprises proved that the socialist strategy of state formation and government-centric enterprising cannot lead the country towards growth and development. Resultantly, a New Industrialization Policy (NIP) was announced in 1982 aiming to provide a new dimension and greater thrust for industrialization. By the end of 1982, 33 out of 68 jute textile mills comprising 38 percent of total capacity were earmarked for privatization and 31 of those were actually privatized. Policy makers failed to realize that the war-ravaged country cannot shoulder enormous cost of trial and error policy of industrialization. The privatization trend, however, was continued in the subsequent period but *de facto* changes in performance were not the result. Moreover, as Karim²⁶ reports that the survival rate of newly privatized

²³ Sobhan, Rehman, "Nationalization of Industries in Bangladesh: Background and Problems, Robinson, E. and Griffin, K. (eds.), *The Economic Development of Bangladesh within Socialists Framework*, Stockton Press, 1974

²⁴ Karim, A., "An Analysis of Privatization Initiative in Bangladesh", Wahid, A. and Wies, C. (eds.), *The economy of Bangladesh: Problem and Prospects*, London, Praeger, 1996.

²⁵ Bashkar, V., Khan, Mushtaq, "Privatization and Employment: A Study of the Jute Industry in Bangladesh, *The American Economic Review*, Vol.85 (1), pp267-273.

²⁶ Ibid.

industries suggests that the number of sick industries have multiplied and also private investment has increased much less than expected. Reasons of that failure are multifaceted. The privatization process ensued without competitive bids and was not transparent. Thus enterprises were given to those who had merely political affiliation regardless of whether they were competent enough to run those enterprises. Prices were fixed at low rates which eradicated the incentive for those owners to realize the true importance of those enterprises to accelerate economic development of the country. Property rights theory suggests that assigning ownership to private hands would work properly when it would be coupled with competitive market which Bangladesh government clearly failed to materialize.

Moreover, most of the public and private jute mills were overburdened with excess employees which the government was unable to absorb. In order to increase more productivity, the Zia government started three shifts instead of two which merely ended up with excess employees rather than increased productivity. Bashkar and Khan²⁷ refer Mahmood who using employment norms before nationalization finds that at the beginning of the 1980's, 15 percent of the labor force in the industry was excess load. Even in the private enterprises, asymmetry of information between principal and agent was so perverse that owners of the mills could never realize that their century-old technologies were decaying. Because the majority of the enterprises were owned by government, no compatible incentive was placed to undertake sufficient maintenance. Consequently, the dominant feature of the jute mill today is the overwhelming presence of obsolete, ramshackle, poorly maintained machinery that ought to have been scrapped many decades ago. At worse the employees get unpaid for long periods which compel them to revolt against government and disrupt the entire production system.

Though dismal performance of these mills is attributable to a certain extent on paucity of funds, the problem is not so simple. In order to feed these enterprises, two development finance institutes, Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) were set up. Initially they had enormous funds to disburse but no sign of improvement was noted because the conditions for the loan were such that only those politically connected could meet the conditions. Once they were granted loan, recovery was totally impossible. All these institutional malaise did not help the industry with the companies shutting down one after the other.

²⁷ Op.cit

This shutdown began in large scale in the mid-1990s with a World Bank package called the Jute Sector Adjustment Credit. The package comprised a stipulation that 9 of the 29 state-owned jute mills should be shut down since they had been incurring losses, whereas 18 of the remaining 20 mills should be divested to private hands, and downsizing of the remaining two in the public sector. In implementing the World Bank's and other leading world financial institutions' prescription, government finally closed the long history of Adamjee Jute Mill, once the world's largest jute mill, and finally buried it in 2001. The policy makers argued that the market for jute has shrunk and the industry is no more viable economically. This is far from the truth as there is increasing investment and growing productivity of jute and jute products in neighboring country, India. This not only nullifies the claim but also proves the lack of prudence of the political leaders. Economic consequence of such closures is loss of jobs in an industry where hundreds of thousands of workers used to obtain their livelihood, and the consequent extinction of once dominant growth driver of the economy.

Conclusion

This article attempts a modest exploration of what separates rich (developed) from poor (underdeveloped) countries. We argue that institutional efficiency or constraints determines whether a country will progress or retrogress over a period of time. Drawing experiences from Nigeria and Bangladesh, we posit that technology, capital, or other similar factors are necessary but not sufficient to propel country's economic growth and development because they are symptoms of growth but not the drivers of growth. In reality, the driver of sustained growth is efficient and sound institutional foundation. In a way, this could help explain why, for instance, North American countries are much wealthier than their South American counterparts or why the East Asian economic miracle generated huge wealth for the Tigers, while South Asian and African countries wrestle with extreme poverty. If neo-classical growth drivers such as capital, technology etc. were the fundamental reasons of economic progress or backwardness among nations, it follows that borrowing from rich nations could have stimulated or accelerated economic growth in the latter. In any case, one would have expected that typical rational capitalists from the rich nations would rush to invest in poor countries because the demand for capital is higher in the poor countries than it is in the developed world, hence the potential for higher returns on capital. Consequently, the disparity between rich and poor

countries would have been narrowed down or eliminated in the long run, and the 'convergence' between the rich and poor countries should have taken place. Unfortunately, it has yet to materialize. Therefore neo-classical explanation, persuasive it might have been, is not sufficient to explain the growth differentials between countries.

Perhaps, because the flow of capital and other technological know-how from rich to poor countries would take place only when investors have sufficient confidence not only on the rate of returns but equally on the reliability and stability of existing institutional frameworks. Therefore, countries that have failed to design appropriate and efficient institutional mechanisms that adequately guarantee property rights by constraining government excesses and political expropriation as well as curbing unproductive rent seeking, tend to lag far behind in tapping from the immense benefits of globalization. Bangladesh and Nigeria fits into that description. By way of case study analysis, on the one hand, we used the deteriorating quality of the Nigeria's education system, part of a broader and extremely complex picture though, to illustrate how inefficient institutions truncate the otherwise enterprising and promising human capital that abound in Nigeria. On the other hand, we used the Jute industry in Bangladesh which was once the country's leading contributor to economic growth to demonstrate how institutional ineptitude and corruption could result in industrial backsliding and economic backwardness. Institutional failures stemming from bureaucratic entrapment, heavy politicization and gross emasculation of due process largely account for the growing disparity between rich and poor countries.

Nigeria's Africa Policy in the 21st Century: An Appraisal of Contending Issues

Ayo Akinbobola* and Tunde Adebawale*

Abstract

This article undertakes a critical analysis of the evolution of Nigeria's African policy, and its dimension in the 21st century. Moving from the conservative position to the radical and more committed approach to African issues, Nigeria has fairly dominated African affairs in all the ramifications. Nigeria's African policy has been played convincingly in the area of foreign aid to her fellow African countries in a way that reflects her regional influential status within the sub-region. Not only has Nigeria dominated efforts towards liberating Africa from the shackles of colonialism, apartheid, and imperialist influences and towards cooperation and regional integration and individual state's empowerment, she has committed huge amount of her resources to alleviating poverty in Africa. Concretely, her contributions to the development and sustenance of ECOWAS and the AU respectively are indicative of such efforts. Also, the Afro-centric Nigeria's foreign policy has effectively positioned the country in the driver's seat for active participation in peace-keeping and peace-enforcement roles at a very huge human and financial cost in war-ravaged African countries.

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