

*Full Length Research Paper*

# Economic crossroads: The experiences of Nigeria and lessons from Malaysia

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Nigeria has the potential to become Sub-Saharan Africa's largest economy and a major player in the global economy by virtue of its human and natural resource endowment. These potentials have remained untapped, and if current trends continue, Nigeria runs the risk of not meeting the internationally agreed millennium development goals (MDGs) by 2015. This paper is an attempt to assess the economic performance in Nigeria with a view of identifying what went wrong and drawing lessons from Malaysia for its vision 2020. The two countries have the vision of becoming advanced economies by the year 2020. Nigeria's economic landscape especially since the oil boom of the mid 1970's has become the textbook example of Africa's economic growth and tragedy with a gross domestic product (GDP) of about \$43 billion in 2001, the economy has shrunk to a third of its size in 1981, per capita income has shrunk from \$1150 in 1991 to a barely \$300 in 2001. As at 2001, Nigeria had received appropriately \$300 billion from oil exports since the mid 1970's but per capita income was 20% less than the 1975 level. The economic structures remain highly undiversified, with oil accounting for than more 95% of exports and manufacturing sector accounting for less than one per cent of exports. In 1999 the country returned to the path of civil democratic governance, economic growth has risen substantially, with an annual average of 7.4% in the last decade. But the growth has not been inclusive, broad-based and transformational. The implication of the trend is that economic growth in Nigeria has not resulted in the desired structural changes that would make manufacturing the engine of growth, create employment, promote technological development and induce poverty alleviation. The one lesson for Nigeria is that for it to attend its Vision 2020 it must promote an all inclusive growth in all sectors.

**Key words:** Economic growth, gross domestic product (GDP), vision 2020, Nigeria, Malaysia.

## INTRODUCTION

Nigeria, with a population of about 120 million, is Africa's most populous country and the continent's third largest economy. Oil dominates the economy, accounting for about 80% of federal government revenues, and 95% of foreign exchange earnings with a continuously declining

countries. Since its independence in 1960, the country has undergone major political and economic changes. It has attempted to forge a unified nation out of diverse per capita income and comparatively unfavourable social indicators. Nigeria is one of the poorest oil producing regional, ethnic and religious groups through a federal structure of government, whose leadership has changed no less than eleven times, mostly through military coups (AIAE, 2003).

During the 1970s, Nigeria evolved from a poor agricultural economy into a relatively rich, oil-dominated one. In 1969 the oil sector accounted for less than 3% of gross domestic product (GDP) and a modest US\$370 million in exports (42% of total exports); per capita income was only US\$130. More than half of her GDP

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**Abbreviations:** GDP, Gross domestic product; IMF, International Monetary Fund; SAP, structural adjustment programme; NEEDS, national economic empowerment and development strategy; FDI, foreign direct investment; FTZs, free trade zones.

was generated in the agricultural sector. By 1980, the oil sector accounted for nearly 30% of GDP, oil exports totaled US\$25 billion (96% of total exports), and per capita income exceeded US\$1,100. Following the discovery and exploration of oil, the economy experienced many symptoms of the “Dutch disease”, with the real effective exchange rate appreciating steadily during the 1970s (Ahmad and Singh, 2002). The steady erosion of competitiveness of the non-oil tradable goods sector was reflected in the substantial decline of agricultural exports, which began in the mid-1960s, and continued through 1976, when oil production reached its peak. Notwithstanding the dramatic rise in oil revenue in the 1970s, the government failed to strengthen public finances. The excessive expansion of public expenditure, from an average of 13% of GDP during 1970-1973 to 25% in 1974-1980, moved the fiscal balance from a small surplus to a deficit, averaging 2½% of GDP a year. The monetary financing of these deficits contributed to a rapid growth in broad money and a sharp acceleration in inflation. The real effective appreciation of the currency (Naira) that followed the surge in oil prices toward the end of 1973 eroded Nigeria’s competitiveness, and growth of real GDP slowed markedly. A buoyant oil sector sustained an average external current account surplus of 1½% of GDP during this period, while gross international reserves averaged the equivalent of about seven months of imports. By 1980, the country’s external debt was only US\$4.1 billion, or 5% of GDP, and the debt-service ratio was a modest 3.7% (CBN, 2010; Addison, 2002; Okonjo et al., 2003).

The economic policy orientation during the 1970s left the country ill prepared for the eventual collapse of oil prices in the first half of the 1980s. Public investment was concentrated in costly, and often inappropriate, infrastructure projects with questionable rates of return and sizable recurrent cost implications, while the agricultural sector was largely neglected (Ajakaiye, 1996; EDF, 2001). Nigeria’s industrial policy was inward-looking, with a heavy emphasis on protection and government controls, which fueled an uncompetitive manufacturing sector. Nonetheless, Nigeria’s economy has remained dominant in Africa. To reverse the worsening economic fortunes in terms of declining growth, increasing unemployment, galloping inflation, high incidence of poverty, worsening balance of payment conditions, debilitating debt burden and increasing unsustainable fiscal deficits, among others, government embarked on austerity measures in 1982 (Ajakaiye, 1990). Arising from the minimal impacts of these measures, an extensive structural adjustment programme was put in place in 1986 with emphasis on expenditure reducing and expenditure switching policies as well as using the private sector as the engine of growth of the economy via commercialization and privatization of government-owned enterprises. Though some benefits were achieved at the initial stage, such

benefits could not trickle down to the poor (NAPEP, 2001). Rather, the incidence of poverty keeps on increasing. As such, resistance came up from many stakeholders, particularly the civil society, the labour unions and the organized private sector. Even the economic reform programmes of the present democratic government were not spared from this resistance. In fact, it is increasingly difficult to implement any credible economic reform programmes given people’s experiences with the previous ones. The inability to achieve the goals of these reform programmes have been linked to several factors. Apart from the top down approach to initiating and implementing these programmes, political and ethnic instability has been adduced as important factors.

Nigeria, for instance, has been ruled by the military for 25 of its 50 years as an independent nation. The origin of political instability in Nigeria has been the inability to forge a national entity that transcends ethnic, regional, religious and economic interests. These diverging interests led to scores of political coups and counter coups. The principal ethnic groups in Nigeria are the Hausa in the north, the Yoruba in the west, and the Ibo in the east, and the principal religious groups are the Muslims in the north and the Christians in the south. The federal structure of Nigeria has changed dramatically during the past decades; the country’s original three regions have since been divided into 36 states and the Federal Capital Territory of Abuja. In addition, there are 774 local governments. Even at the public sector level, the involvement of lower tiers of government has been low while those of the civil society and the organized private sector have equally been tardy.

### **Problem statement**

The key questions to frame the discussions include:

1. Where is Nigeria relative to where it needs to be?
2. Why is it where it is?
3. What has been done in the past or being done currently to change the situation?
4. What are the lingering challenges, and a possible agenda for change? In other words, can the Nigerian economy move from the historical sluggish growth trends to a vibrant growth path that can transform the structure of the economy and enable her in the attainment of the vision enunciated under vision 2020 and launch her into the league of advanced economics.

### **Objectives of the paper**

Arising from the aforementioned questions, the paper seeks to:

1. Examine the performance of the Nigerian economy;

2. Take stocks of what works and what did not;
3. Draw lessons from the Malaysian experiences; and
4. Find solutions to the existing sources of problems.

## METHODOLOGY

The approach used in the report is descriptive but mostly analytical. Fundamentally, the approach provides an in-depth assessment of the macro and micro aspects of the economy, complemented with an evaluation of the human development record. The emphasis on the human development balance sheet derives from the fact that the economy is ultimately about people and resources. Thus, no proper understanding of the economy and its future prospects can be made without a better understanding of the human development indicators, human capital resources, poverty and inequality, gender issues, employment and factors likely to hamper productivity such as the HIV/AIDS pandemic and exclusion/suppression of productive groups such as women.

As much as possible, the analysis of the most recent developments (last five years) is done in comparative perspectives in comparison with the country's own historical trends but in some cases also with other African and developing country performances. The goal is to dramatize the distinguishing features of the economy and its management, as well as its key economic development challenges. The assessment is data intensive, and the data are from secondary sources. The macroeconomic data come from the publications of the Central Bank of Nigeria, Federal Office of Statistics, relevant ministries and government agencies, the World Bank's Global Development Indicators, the International Monetary Fund's (IMF) World Economic Outlook databank, International Financial Statistics; and from sundry publications as indicated in the references.

## Nigerian economy in perspective

### *Policy regimes*

The Nigerian economy has undergone series of changes over time with different policy regimes. Prior to 1986, a medium-term "development plan" was adopted as a major framework for developing and restructuring the economy. The first national development plan, 1962-1968, was developed to put the economy on a fast growth path. The plan gave adequate priority to agriculture and industrial development as well as training of high-level and intermediate manpower. However, the disruptions to economic activities during the period later paved way for broader economic policies for reconciliation and reconstruction. The second national development plan, 1970-1974, was launched primarily to reconstruct and rehabilitate infrastructure that had been damaged during the civil war. Thus, the government invested a lot of resources into the construction and rehabilitation of infrastructure as well as improving the incomes of the people.

The Indigenization Decrees of 1972 and 1974 put the commanding heights of the Nigerian economy in the hands of Nigerians within the context of nationalism. The third national development plan, 1975-1980, was

designed under a more favorable financial condition of huge oil revenues that accrued to the nation from the mid-1970s. However, the execution/implementation of the fourth national development plan, 1981-1985, was affected by the collapse of the international oil prices. In 1982 the government introduced the Economic Stabilization Act as an immediate reaction to dwindling oil earnings and major external sector imbalances. Sanusi (2010) noted that this was aimed at reducing government expenditure and conserving foreign reserves in order to improve the country's balance sheet. It was however found that there was need for a more fundamental reform to compliment the austerity measures. In 1986, the government accepted the IMF-sponsored Structural Adjustment Programme (SAP). The SAP aimed at removing cumbersome administrative controls and creating a more market-friendly environment underpinned by measures and incentives that would encourage private enterprise and more efficient allocation of resources. One might argue the SAP recorded some measure of success. However, some of the gains of the SAP were eroded following the increased spate of policy reversals between 1988 and 1989.

Up to 1990, the economy witnessed some gains which were associated with increased deregulation and liberalization in economic management. However, owing to policy slippages, there was a reversal of trends in major macroeconomic aggregates thereafter, resulting from policy reversals and inconsistencies. Generally, frequent policy inconsistencies and reversals that characterized the period under review created distortions in the economy and were further compounded by external shocks, including the external debt overhang. Overall, SAP failed to realize the goals of creating wealth and promoting sound economic development as most of the policies were terminated prematurely or reversed out rightly.

The experimentation with deregulation and liberalization was truncated in 1994 with the advent of a military government. Thus, the Federal Government reregulated the economy, by capping exchange and interest rates due to high nominal interest rates that reached an all-time high of 48.0% in commercial banks and 60.0% in non-bank financial institutions. These rates were in turn driven by the high rates of inflation at 48.8% in 1992 and 61.3% in 1993. As there was no clear economic strategy for the rest of the decade, the monetary policy implementation became ineffective to check expansionary fiscal operations. In addition, weak institutions and an unfriendly legal environment reduced the benefits that would have accrued to the economy (Sanusi, 2010). However, the scenario changed in 1999, with the return of democratic governance in the country. Democratic governments have introduced series of reforms that were aimed at redressing the distortions in the economy and to restore economic growth following the period of economic decline. In 2004 the government's

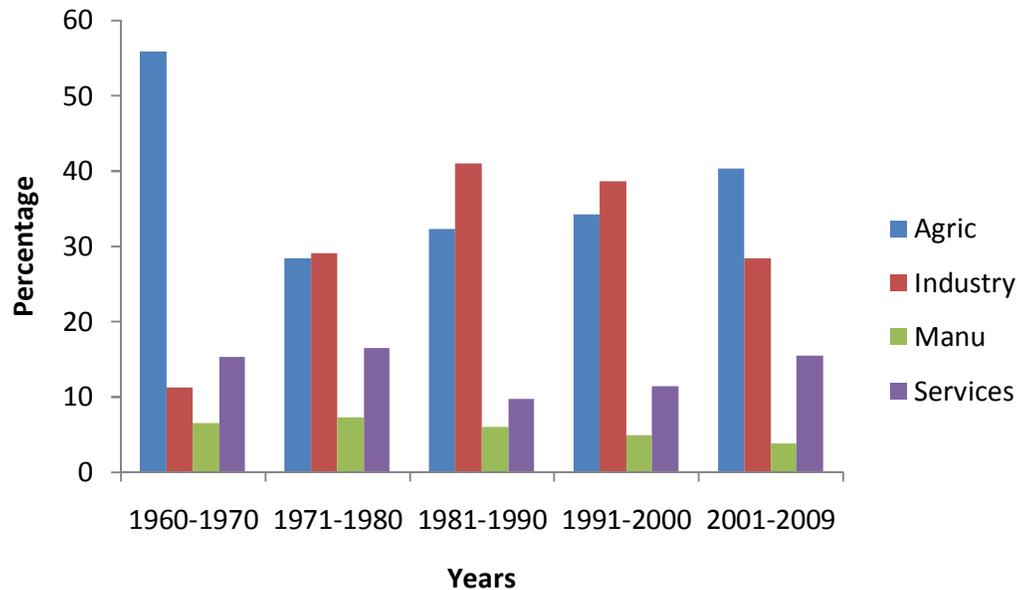


Figure 1. Sectoral contributions to GDP.

economic agenda was formally launched and tagged the National Economic Empowerment and Development Strategy (NEEDS).

### Structure of the Nigerian economy

Structurally, the Nigerian economy can be classified into three major sectors namely primary/agriculture and natural resources, secondary-processing and manufacturing, and tertiary/services sectors. The economy is characterized by structural dualism. The agricultural sector is an admixture of subsistence and modern farming, while the industrial sector comprises modern business enterprises which co-exist with a large number of micro-enterprises employing less than 10 persons mainly located in the informal sector. The agricultural sector has not been able to fulfill its traditional role of feeding the population, meeting the raw material needs of industries, and providing substantial surplus for export. Indeed, the contribution of the sector to total GDP has fallen over the decades, from a very dominant position of 55.8% of the GDP in 1960-1970 to 28.4% in 1971-1980, before rising to 32.3, 34.2 and 40.3% during the decades 1981-1990, 1991-2000 and 2001-2009, respectively (Figure 1). The fall is not because a strong industrial sector is displacing agriculture but largely as a result of low productivity, owing to the dominance of peasant farmers and their reliance on rudimentary farm equipment and low technology. Another feature of the sector is under-capitalization which results in low yield and declining output (Sanusi, 2010).

The industrial sector comprises the manufacturing, mining (including crude petroleum and gas) and electricity

generation. Prior to independence in 1960, the Nigerian economy was mainly agrarian. On attainment of independence, the Nigerian government embarked on the programme of transforming the country into an industrial economy. The Nigerian manufacturing sub-sector is made up of large, medium and small enterprises, as well as cottage and hand-craft units. In spite of spirited efforts made to boost manufacturing output and various policy regimes, manufacturing has not made any significant contribution to the growth of the economy. Industry as a whole contributed only 11.3% of the GDP in 1960-1970, growing significantly in the next two decades to a high of 41.0% in 1981-1990, owing largely to the crude petroleum and gas production during the decades. The contribution contracted to 38.6% in the 1990s and further to 29.4% during 2001-2009. These numbers, in fact, belie the poor contribution of the manufacturing sub-sector to aggregate output in Nigeria compared with its peers in Asia and Latin America. Indeed, the contribution of the manufacturing component has on average been below 5.0% in the last two decades. Even the relatively high contribution of oil sector to the industrial sector contribution is being driven largely by crude production and not by the associated “core industrial” components like refining and petrochemicals. The contribution of wholesale and retail trade and services has more or less remained stable while that of building and contribution rose sharply from 5.3% in the 1960s to 8.3% in the 1970s but fell consistently, thereafter, to 1.8% during 2001-2009. During and some few years after SAP, the main manufactured exports were textiles, beer and stout, cocoa butter, plastic products, processed timber, tyres, bottled water, soap and detergents as well as iron rods.

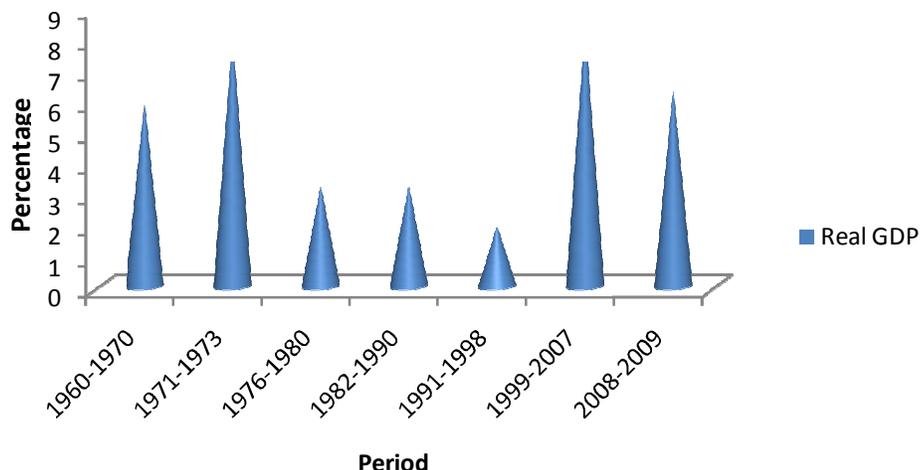


Figure 2. Average growth rate of real GDP.

However, some of these products have disappeared from the export list owing to poor enabling environment. The components of the mining sub-sector in Nigeria are crude petroleum, gas and solid minerals. Prior to the advent of petroleum minerals such as coal and tin were the main mineral exports. However, with the emergence of crude oil, the relative importance of solid minerals diminished. Indeed, since the 1970s, the largest mining activity has been crude oil production, which became dominant in terms of government revenue and export earnings. Lately the production of gas has gained increased attention, as the export potential of gas has reduced the dominance of crude oil (UNIDO, 2002).

### Performance trends

The average growth rate of real GDP, which was 5.9% in the period 1960-1970, rose to 8.0% in 1971-1973 (Figure 2). The Nigerian economy expanded rapidly, as oil production and export rose phenomenally. However, activities in the service sub-sector were relatively modest even though marketing and advertising, which covers distributive trade, lagged behind. The average GDP growth rate later dropped to 3.2% during 1976-1980. This level was sustained in the period 1982-1990 following improved performance in agricultural and industrial sub-sectors.

Suffice it to state that GDP responded favorably to the economic adjustment policies of the eighties during which the SAP and economic liberalization were adopted. Thus, annual GDP grew from a negative 0.6% in 1987 to 13.0% in 1990. However, the average growth rate of real GDP dropped to 1.9% during 1991-1998. This was in spite of the favorable developments in the agricultural and services sub-sectors of the economy. Real GDP growth rate rebounded to 8.3% during the period 1999-2007, reflecting improved economic policy of NEEDS era.

Despite the decline in real GDP growth rate to 6.3% in the period 2008-2009, the major drivers remained agriculture, wholesale and retail trade, and services sectors. Indeed, the last decade has been a period of rebirth as affirmed by almost all macroeconomic indicators (Table 1). But the growth rate has not been high enough to push down the poverty profile.

Indeed, the Nigerian economy has not experienced remarkable transformation and restructuring. Equally important is the indication that since 1999, Nigeria has become a trading outpost for goods produced elsewhere with little domestic transformation of the output of primary sectors by the secondary sector. This is particularly so since the Nigerian agriculture is really peasantry and the high contributions of tertiary sector to output suggest that the sector is not really servicing the Nigerian economy but, indeed, the economies of her trading partners. Thus, the Nigerian economy is still dominated by the primary sector, followed rather closely by the tertiary sector with the contribution of the secondary sector remaining insignificant. Little wonder the diversification index remained below 0.4% through the review period, the barrage of reforms notwithstanding.

The Nigerian economy is import dependent with very little non-oil exports. It relies heavily on crude oil and gas exports with other sectors trailing far behind. For example, crude oil accounts for about 90% of foreign exchange earned by the country while non-oil exports account for the balance (Table 2). The economy is, therefore, susceptible to shocks in the oil industry. In recent times, these shocks have been caused by either developments in the International crude oil market or the restiveness in the Niger Delta region of the country. Agriculture and other mining (besides oil and gas) have been abandoned to the rural poor. Economic and social infrastructure, especially power is grossly dilapidated. The power sector is generally recognized as a binding constraint on Nigerian economy. Poor corporate

**Table 1.** Selected macroeconomic indicators.

Indicator	2003	2004	2005	2006	2007	2008	2009	Average
Real GDP growth rate	9.57	6.58	6.51	6.0	6.5	6.4	6.7	6.2
Inflation(y-on-y)	13.9	15.4	17.9	8.5	6.6	15.1	12.0	13.3
Growth in M2	24.97	12.26	34.61	30.6	44.2	58.0	17.1	31.8
Current account balance/GDP	6.95	17.62	28.23	18.5	11.8	17.5	11.9	13.4
FDI (US\$ billion)	2.0	1.86	4.98	13.9	5.6	5.8		4.3
External reserves (US\$ billion)	7.47	16.95	28.3	42.3	51.3	58.0	42.4	27.0
Exchange rate (end-period)	129.4	133.5	132.15	128.2	117.9	132.5	149.58	125.8
External debt (US\$)	3.3	3.5	3.5	3.5	3.6	3.7	3.9	3.21

Source: CBN annual report and statement of accounts various issues.

**Table 2.** Composition of Nigerian exports.

Component	2004	2005	2006	2007	2008	2009
Oil exports	97.5	98.3	97.8	97.9	99.0	95.8
Total non oil export	2.5	1.7	2.2	2.1	1.0	4.2
Non oil						
Agric	33.0	41.9	37.8	39.7	58.3	46.9
Minerals	2.0	4.0	8.5	6.3	7.7	6.7
Semi-manufactured	48.9	40.6	37.9	39.4	17.0	29.2
Manufactured	5.0	9.8	11.1	10.3	8.7	9.1
Other exports	11.2	3.9	4.7	4.3	8.3	8.1

Source: CBN annual reports and statements of accounts various issues.

governance, both in the public and private sectors have led to high incidence of corruption and inequity in income distribution.

A review of the statistics from comparable countries shows that the share of primary commodities in total exports is 20.0% for Malaysia, 24.0% for India, 12.0% for China. For developed countries it is 17% for Britain and America and 9% for Japan. In Nigeria, the primary sector contributes 99% of exports with only 1.0% coming from the secondary sector (Table 3).

### Growth drivers

In Nigeria, agriculture dominates the primary sector, which dominates the entire economy. The population of the country has grown by about 150.0% between 1963 and 2006, approximately 3.75% per annum. A simple calculation shows that for the per capita income to remain the same as in the 1960s, every sector of the economy should at least have grown by the same percentage. But the agricultural sector which is the mainstay of the economy has declined in its contribution to the GDP, manufacturing has declined, building and construction has also declined, while the wholesale and retail trade as well as the services sectors have remained almost the

same as in the 1960s. Applying the Harrod-Domar<sup>1</sup> model, this implies that assuming a capital-output ratio of 5.0% and a savings ratio of 15.0%, the economy would grow at 3.0%; of course, the savings ratio depends on the difference between the population growth rate and the growth rate of the GDP (the economy). Figure 2 shows an average growth rate of real GDP of 5.3% in the period 1960-2009. If the average population growth rate of 3.8 is deducted from 5.3, we are left with a GDP growth rate of 1.5% of which no meaningful savings can be made. In effect, the economy has not been growing in real terms over the years. For Nigeria to make a quantum leap, the economy has to grow by at least double digit rates for a sustained period of time.

### Challenges facing the Nigerian economy

Nigeria is a mono-product economy with the bulk of government revenue coming from oil exports which is susceptible to shocks in the international oil market. Moreover, many other solid minerals with which the country is richly endowed with remain generally untapped.

<sup>1</sup> Harrod – Domar model is used in development economics to explain an economy's growth rate in terms of the level of savings and productivity of capital.

**Table 3.** Composition of exports in selected developed and developing countries 2000.

<b>Developing countries</b>	<b>Export as a percentage of GDP</b>	<b>Percentage share of primary commodities</b>	<b>Percentage share of manufactured goods</b>
Malaysia	110.0	20	80
Indonesia	40.7	46	54
Jamaica	19.6	30	70
Philippines	53.2	59	41
Bangladesh	11.9	9	91
Nigeria	48.7	99	1
Venezuela	27.2	88	12
Sri Lanka	33.0	25	75
Kenya	15.9	77	23
South Korea	37.8	9	91
Togo	25.0	82	18
Mexico	29.0	15	85
India	8.3	24	76
Brazil	9.4	46	54
China (excluding Hong Kong)	23.1	12	88
<b>Developed countries</b>			
United Kingdom	19.8	17	83
United States	7.9	17	83
Japan	10.2	6	94

More fundamentally, the economy has disproportionately relied on the primary sector (subsistence agriculture and the extractive industry) without any meaningful value addition. In light of this, the little growth recorded in the economy, thus far, has been without commensurate employment, positive attitudinal change, value reorientation, and equitable income distribution, among others. These could be attributed to poor leadership, poor implementation of economic policies, weak institutions, poor corporate governance, endemic corruption, etc. The challenge, therefore, is how to deploy/manage the receipts from the oil and gas exports to achieve the highest value for money in the economy; develop on a sustainable basis, the many untapped solid minerals; improve agricultural productivity by cultivating more of the available arable land with improved technology; process and preserve primary produce with the aim of increasing value addition; manufacture the basic durable and non-durable goods needed by Nigerians and the West African sub-region, market and ultimately looking at export such goods and sustain manufacturing by providing the core industries; and remain competitive by developing and improving on the investment climate of the country. These challenges have remained largely unresolved owing to the myriad of problems:

(i) Macroeconomic challenges: The Nigerian macro economy is still characterized by rigidities, dualism and the false paradigm model. Generally, the sectors of the economy are in silos to the extent that the primary sector

does not relate meaningfully with the secondary sector and the same for the secondary and the tertiary sectors. Agricultural produce end up as final consumer goods as only a small quantity is processed or used as raw materials for the local manufacturing industries. Also, the produce of the extractive industries are exported in their raw forms without local value addition. Given the higher incomes in the oil and gas sub-sector of the extractive industry, attention is concentrated there to the almost total neglect of the mainstream economy. Consequently, the economy is broken into the very rich (relying on the oil and gas industry) and the very poor (relying on the mainstream economy) with almost a complete vacuum in-between these two. The false paradigm model also plays out in the sense that while the few very wealthy group clamour for relevance in the context of “experts” advice, the very poor suffer from ignorance, disease and malnutrition. Thus, there is no structural change and, hence, the attitudinal changes of economic transformation are absent (UNIDO, 2002);

(ii) Infrastructural challenges: one of the main challenges facing the economy is poor economic and social infrastructure: bad roads, erratic power supply, limited access to portable water and basic healthcare, and much more. Building a vibrant economy or restoring growth to a sluggish economy takes resources. To ensure long-term growth and prosperity, Nigeria must use its resources wisely, invest in advanced technology and rebuild the infrastructure without which the economy will not gain from the “power of productivity” (Sanusi, 2010). A nation

enjoys higher standards of living if the workers can produce large quantities of goods and services for local consumption and extra for export. The deficiencies in the economy lead to low productivity, poor quality products and non-competitiveness in the global market place;

(iii) Poor institutions and corporate governance: another important challenge to sustainable economic growth in Nigeria is lack of effective institutions and good governance. These factors have been hindering various efforts and reforms of the government to stimulate economic growth for sustainable development in Nigeria. The prevalence of weak institutions and poor corporate governance as well as poor ethical standards in most public and private organizations, hinder the attainment of the goals of economic policies in the country (UNDP, 1997; Shabbir, 2004). Poor corporate governance has adversely affected the quality of institutions to the extent that public and private institutions are used for selfish interests, thereby, making regulation and law enforcement ineffective;

(iv) Corruption challenges: although corruption is a global scourge, Nigeria appears to suffer particularly from it. Everyone appears to believe that the nation has a "culture of corruption" (UNDP, 2002). Over the years, Nigeria has earned huge sums of money from crude oil, which appears to have largely gone down the sinkhole created by corruption. In an article, "Oil giant that runs on grease of politics," Nigeria was described as a rich nation floating on oil wealth "but almost none of it flows to the people" (San Francisco Chronicle, March 11, 2007). Corruption has denied Nigerians the value of the petrodollar that has accrued to the country over the years. The failure of infrastructure, political and ethical standards as well as moral and educational standards can easily be traced to corruption;

(v) Low quality of education: education is an important factor in economic growth and development but the nation's educational system has been facing myriad of challenges, which prevent the country from achieving its economic objectives. The problems include inadequate funding and planning and management, inadequate infrastructure, irrelevance of curricula to industrial needs and inadequate commitment on the part of students and teachers, among others. All these have combined to hinder the production of a high quality work force to propel the economy (UNESS for Nigeria: 2006-2015). As Dike (2006) noted, the state of a nation's educational sector, among other things, determines the economic health of the nation;

(vi) The Dutch disease<sup>2</sup>: since the oil price boom of the early 1970s, the country abandoned the agricultural and industrial sectors of the economy to the old and weak. Both the public and private sectors of the economy concentrate their efforts in the oil and gas industry to the

extent that the mainstream economy is denied funding, requisite investment and even managerial capabilities. Thus, the mainstream economy has become uncompetitive globally while the country has turned into a trading outpost for foreign companies. This has hindered the much-needed transformation of the economy in the last four decades.

(vii) Poor investment climate: the consequence of all that have been said above is the poor investment climate in the economy that has rendered the economy uncompetitive. In the absence of adequate infrastructure (power, roads, water, etc.) the cost of doing business in the country remain high, forcing to neighboring countries even companies that had existed in Nigeria for upwards of four decades.

### Prospects for the economy

Economic growth, especially in a developing country like Nigeria, must be people-oriented. Therefore, pro-poor policies and those that improve on the welfare of a majority of the people should be emphasized. It is fair to say that a broad consensus exists among key stakeholders in the Nigerian economy, government, private sector, households, and external actors on WHAT to do to get the economy going [see various government policy documents for various sectors, the Obasanjo economic direction, 1999-2003; the vision 2010 Reports; various summary reports of annual economic summits, World Bank's country assistance strategy papers (2001, 2002), IMF's memorandum of Article IV consultations, etc.]. It is broadly agreed that the challenge of development should be that of rapid growth with inclusion/poverty reduction, and that the key vehicle to achieve it should be a shift from statism and rent-seeking to a private sector-led, competitive market economy framework.

In summary, Sanusi (2010) observed that this growth prospect can be achieved and sustained if:

1. The balance of trade is persistently positive, as it has been in the last five years;
2. External reserves can be substantially built up to boost the credit worthiness of the economy and attract foreign investment;
3. Efforts are sustained to maintain peace in Niger Delta to boost crude oil and gas output;
4. Electricity supply is increased to 15,000-25,000 Megawatt between now and 2020, to boost manufacturing capacity utilization and activities in other critical sectors;
5. The banking sector reforms and efforts to resolve liquidity challenges are sustained to channel credit massively to the real sector of the economy;
6. Government sustains the current reforms in the various sectors of the economy to achieve rapid growth and development;

<sup>2</sup> Dutch Disease is resource boom leading to the decline of the erstwhile tradable sector.

**Table 4.** Selected economic indices for Nigeria and Malaysia.

Indicator	Country	2006	2007	2008	2009	2010
Real GDP (%)	Malaysia	5.8	6.2	4.6	-1.7	10.1
	Nigeria	6.0	6.5	6.4	6.7	
Inflation (%)	Malaysia	3.6	2.0	5.4	0.6	1.3
	Nigeria	8.5	6.6	15.1	12.0	
External reserves (US\$ billion)	Malaysia	82.4	101.3	91.4	96.7	96.0
	Nigeria	42.3	51.3	53.0	42.4	
<b>Sectoral contributions to GDP (%)</b>						
Sector	Country	1970	1990	2000	2008	2009
Agriculture	Malaysia	33.6	19.3	8.8	7.5	7.7
	Nigeria	55.8	32.3	34.2		40.3
Manufacturing	Malaysia	12.8	26.5	32.6	29.6	26.9
	Nigeria	6.6	6.1	4.9		3.9
Services	Malaysia	42.6	42.1	53.0	54.3	57.4
	Nigeria	15.3	9.8	11.5		15.5

Source: Economic Bulletins of Central Bank of Nigeria and Bank Negara, Malaysia.

7. We increase agricultural output barring adverse weather conditions, with continued implementation of various government programmes, especially preserving, processing and marketing activities;

8. We sustain the growth in the services sector, by increasing the local content of the industry and by expanding the tele-density of the country;

9. We deregulate the downstream petroleum sub-sector and encourage the setting up of private refineries;

10. Diversify the economy away from primary products and away from crude oil and natural gas;

11. Improve other key economic and social infrastructure; and sustain the subsisting democratic governance.

The global environment for development has changed quite significantly in recent years, with the rapid growth in world trade, capital flows and information and communications technology. Nigeria can benefit from these changes by providing a more conducive investment climate in the country.

### Lessons for Nigeria from the Malaysia experience

Nigeria and Malaysia share common historical antecedent. They gained their independence from British rule. They federal system of government is practiced with bicameral legislature and the regions are inhabited by different racial and ethnic nationalities. Both economies were relatively resource rich. At independence, Malaysia in 1957 and Nigeria in 1960 were leading exporters of primary product because basically the climate in the

countries is tropical. A comparison of Malaysia and Nigeria's growth record shows divergence in growth rates, and differing structural changes to the economy. Malaysia, on average has grown at a faster rate than Nigeria. In contrast to Malaysia's post-independent experience, political instability was more pronounced in Nigeria. The military has ruled for 25 out of its 50 years as an independent nation. In Malaysia there was, relatively, political stability and continuity, no changes in government and the present coalition government is still in power, after more than 50 years. Some key economic indices are presented in Table 4 to show the disparity in economic growth.

Malaysia achieved sustained growth of about 6% per annum growth for the past 50 years. It maintains large external reserve in comparison to Nigeria and has continued to maintain low inflation rates. Agriculture's share of GDP in 2009 has fallen to 7.7 from 33.6% in 1970, compared to Nigeria's 55.8% in 1970 and 40.3 per cent in 2009. Manufacturing in Malaysia accounted for 12.8% in 1970 and 26.5% in 2009 compared to Nigeria's 6.6% in 1970 and 15.5% in 2009, while the contribution of the service sector has increased to 57.4% in 2009, it stood at only 15.5% in Nigeria. The two countries have adopted almost the same ideology in their developmental efforts, while Malaysia plans and moves vigorously towards the attainment of its vision of becoming an advanced economy in 2020. Nigeria in its Vision 2020 which to become one of the 20 most industrialized economies by the year 2020, not much has been seen in this direction.

The possible lessons from Malaysia's growth experience for Nigeria could be summarized as thus explained

### ***Resource curse***

Resource curse is avoidable and growth can be sustained. Malaysia is a relatively resource rich economy with its supply of land, and has exploited its land for the production of tin, rubber and palm oil. Petroleum resources have become important from the mid-1970s.

### ***Diversification***

Diversification is essential for growth. The diversification strategies involved intra agricultural diversification, utilizing resources to raise productivity and diversification from tin and rubber into oil palm, and diversification from agriculture to manufacturing industries.

### ***Openness***

Openness and international integration is helpful for growth. International trade and long-term capital flows made important contributions to the growth of the Malaysian economy. Integration with Asian economies was of growing importance.

### ***Export-led growth***

Exports were an important source of growth and trade intensity has increased. The growth of labour intensive manufacturing industries absorbed the surplus labour, especially from the rural areas, which opened up employment opportunities and raised income levels.

### ***Human capital***

Education has played a crucial role in sustaining economic growth and raising incomes of households. Large public investment in education as it is a necessity. Private education should be encouraged and can supplement the supply of human capital.

### ***Stable prices and low inflation***

Growth with low inflation is possible. Inflation, with rare exceptions, in Malaysia has averaged less than 3% for the past 30 years. A combination of price controls, subsidies and an open economy has helped to contain inflation.

### ***Full or near-full employment***

Sustaining full employment with an unemployment rate of about 3% is attainable. But relatively high levels of growth put pressure on labour supply and utilising immigrant labour has been necessary. A ready supply of low cost immigrant labour can discourage the upgrading of labour.

### ***Private investment***

Private investment, domestic as well as foreign direct investment (FDI), is vital for economic growth as reliance on substantial public investment is not sustainable. Competition for FDI has and will intensify, policy reforms and strong institutions will be needed to attract and retain FDI.

### ***Fiscal discipline and managing revenue***

Fiscal discipline and strict management of revenue, including resource revenues, is essential for macro-economic stability. Containing the fiscal deficit and the national debt is essential for avoiding imbalances. Additional discipline through legal and administrative guidelines should assist the management of revenue.

### ***Industrial policies and foreign direct investment (FDI)***

Industrial policies are important for economic diversification and FDI. Export-led growth of manufactured products needs to be supported by fiscal incentives and infrastructure support, including industrial estates and free trade zones (FTZs). FDI can make important contributions to the growth of manufacturing industries and exports.

### ***Federal constitution and governance***

Federal constitution can provide a strong framework for the governance of politics of oil and forestry resources. Regional interests to claim a larger share of revenue and resources have to be managed. Weaker state/regional government can dissipate revenue.

### ***Strong independent national oil corporation***

Importance of relative independence, capacity and capability of national oil corporation is needed. The capability and capacity of Petronas, the national oil corporation, has been crucial in the management of revenue from petroleum. The capture by vested interests over the national corporation should be resisted.

## Conclusion

The prospects for growth in Nigeria are very bright going by the achievements recorded during the last ten years and the current reforms in the various sectors. However, for Nigeria to consolidate these economic gains and move higher in the frontlines of growth and development, it must deepen reforms that improve human capital, promote high-quality public infrastructure and encourage competition (Sanusi, 2010). The pillars to sustain this consolidation must include a firm fiscal policy, transparent fiscal operations, development-oriented monetary and exchange rate policies, strengthening of the financial sector and strict adherence to the rule-of-law and respect for the sanctity of contract, as well as commitment to fighting corruption and corrupt practices. In all of these, Nigeria has opportunity for progress. We must break away from the past to deliver a new Nigeria that the future generations of Nigerians would be proud of. Our electoral process must not only be credible, but must be seen to be credible, since robust economic performance necessarily requires a robust political environment to happen.

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