

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

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Abstract

This paper evaluates economic performance of Nigeria over the past half a century and this was juxtaposed with other countries like South Korea, Singapore, Malaysia and Botswana. Trends analysis using graphs was employed. The analysis reveals that Nigeria's economic performance relative to the aforementioned countries was disappointing over the past half century. Comparing the statistics of input factors, it was clear that the income divergence between Nigeria and Korea and Singapore cannot be explained by geographical factors non colonial history rather it is due to differences in investments and quality of institutions. It is therefore concluded that for Nigeria to rewrite her economic history in the second half of the century, conscious and solemn actions must be taken to increase investment in physical and human capitals and improve the quality of institutions such as rule of law, control of corruption, regulatory qualities and political institutions.

Key words: economic performance, GDP per capita, institutional quality, Nigeria

1) Introduction

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

There is need therefore to critically assess the growth performance of the country so as to clear some of these puzzles. In this paper, an assessment of fifty-three years economic performance of Nigeria is carried out using different indicators. Thus, the focus of this paper is in four folds: (i) evaluate the macroeconomic performance of Nigeria since independence; (ii) compare Nigeria's economic performance with other developing nations around the world; (iii) discuss the various factors that could explain the current situation of the country; and (iv) discuss how the country should plan for the next half a century. These four objectives constitute sections two, three, four and five of the paper respectively. While section six concludes the paper.

2) Nigeria Economy at a Glance

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

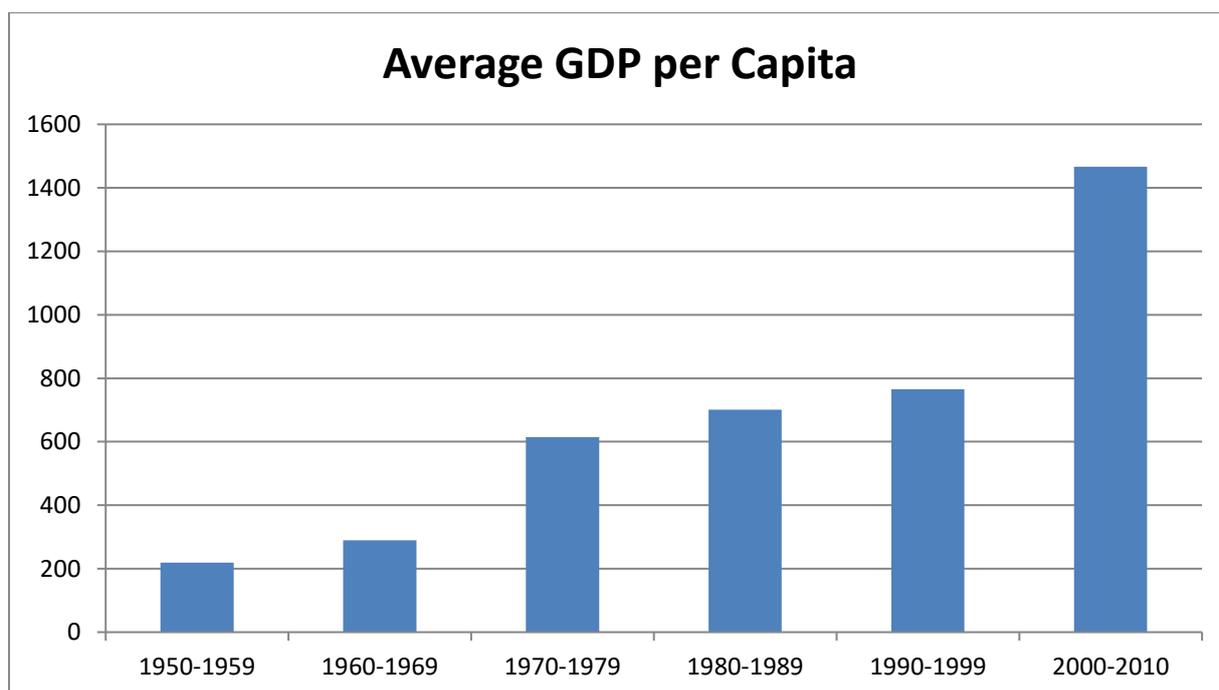
Sir. S. Ibi Ajayi

(Presidential Address at 44th NES Annual Conference)

The best indicator used by economists to measure the performance of an economy is the per capita income. Per capita income summarizes average income per person in an economy over a period of time. Hence, figure 1 depicts the 10 year averages of income per person in Nigeria. While figure 2 presents the growth rate of GDP as well as GDP per capita and figure 3 shows the income per capita in Nigeria relative to US income per capita. From figure 1, income of an average Nigerian in the 1960s was a little more than \$200 which has increase to slightly above \$1,400 in 2000s. This implies that on the average a Nigerian in 2000s is about seven times richer than a Nigerian in the 1960s. The growth of Nigeria economy fluctuates over the sample period as depicted in figure 2. There was rapid increase in growth immediately after independence which was truncated in 1966 by civil war, then, growth declines to negative. As the war ended, there was rapid growth again, however, this does not last long as the country experienced growth collapse again in the mid 1970s and it remain negative for must part of 1980s. Meanwhile some progress are recorded in recent time (2000s). The trend of growth measure by GDP and GDP per capita are similar over the years.

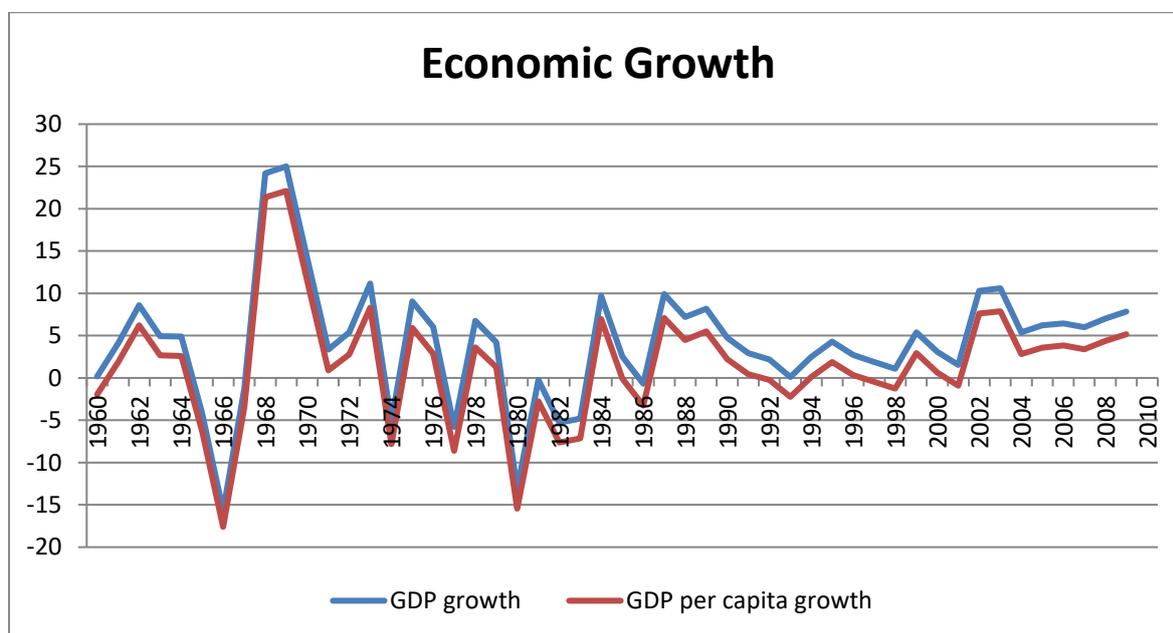
Figure 3 presents the GDP per capita of Nigeria relative to GDP per capita of United States (US). This measures the rate of convergence or divergence of Nigeria to the US. The figure depicts that Nigeria diverged through the entire sample period except in late 2000s when there is little convergence. This picture is important in the context of vision 20 2020, the dream of the vision is that Nigeria will converge with the twenty must developed nations of the world by year 2020. It is evidenced in the figure that Nigeria was diverging away from the top economies of the world since independence. The literature is very clear on the issue of convergence, (see, Baumal, 1986; Maddison, 2001; and for recent studies see Barro & Sala-i-Martin, 1991, 1992, and 2004) for any two countries to converge to similar income level, they must share similar characteristics (such as institutional quality, policies, technology and even investment). This is known as conditional convergence, there is no evidence of unconditional convergence in the literature. That is, countries with different characteristics would never converge.

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



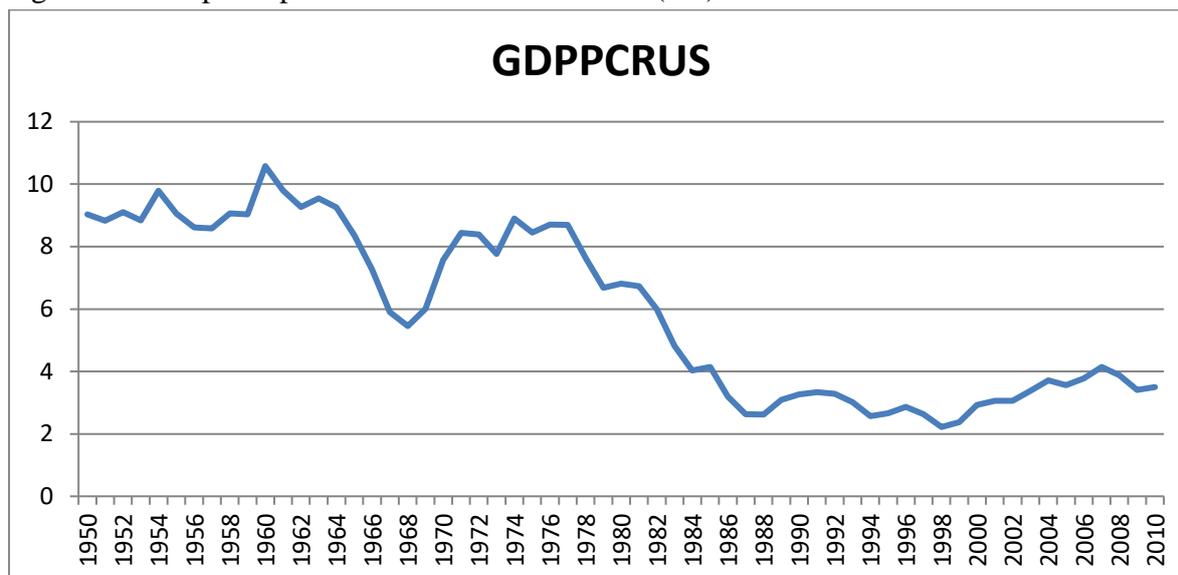
Source: computed by author using data from Pen World Table

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



Source: computed by author using data from African Development Indicators

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



Source: computed by author using data from Pen World Table

3) Nigeria in the Comity of Nations

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

I do not see how one can look at figures like these without seeing them as representing possibilities. Is there some action a government of India (Nigeria) could take that would lead the Indian (Nigerian) economy to grow like Indonesia’s or Egypt’s? If so, what exactly? If not, what is it about the “nature of India (Nigeria)” that makes it so? The consequences for human welfare involved in questions like these are simply staggering: once one starts to think about them, it is hard to think about anything else.”¹

Robert Lucas
(Marshall Lectures 1985)

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

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

¹ The parenthesis are mine

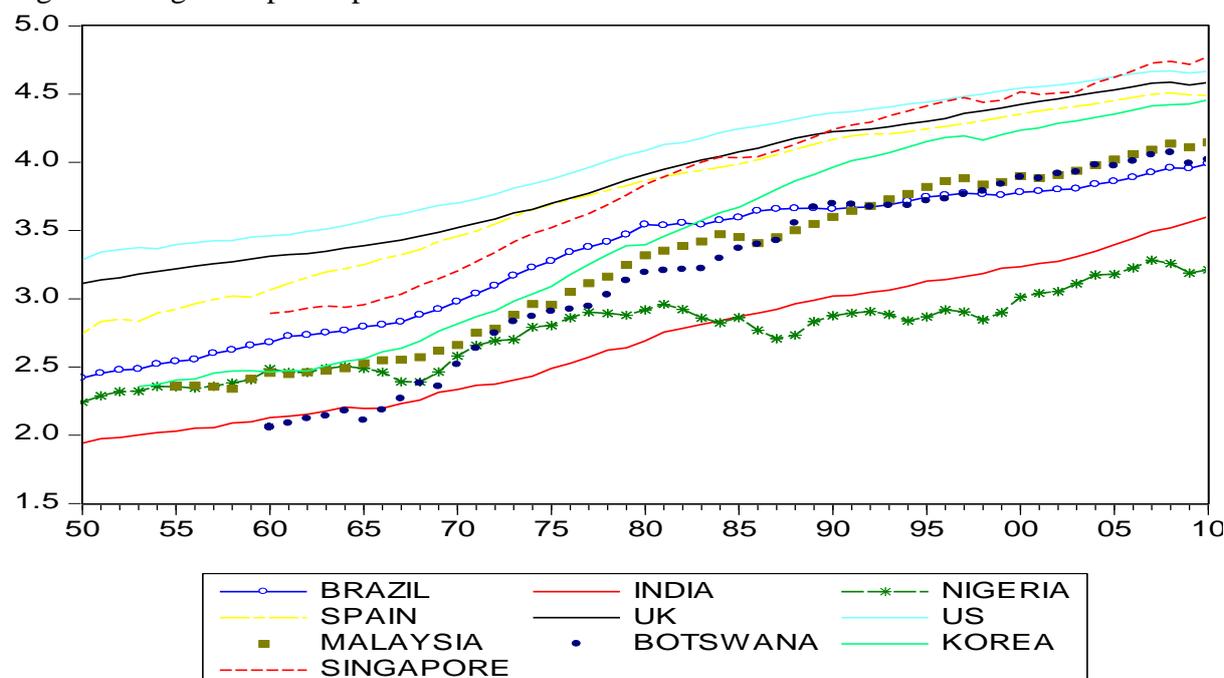
² Income alone may not provide enough information to understand issues in development of countries.

South Korea has transited from one of the poorest countries to one of the richest in the world. Botswana, Malaysia and Brazil moved from the bottom of income distribution to join the middle income countries. Singapore in the figure equally started at lower level in the 60s but it has recorded rapid growth and even surpasses U.K. today. Though, India did not experienced rapid progress like it was experienced in South Korea, yet India overtook Nigeria in 1980s. However, Nigeria still remains at the bottom of the ladder, with income per capita in 2000s that is far below its 1960s contemporaries.

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

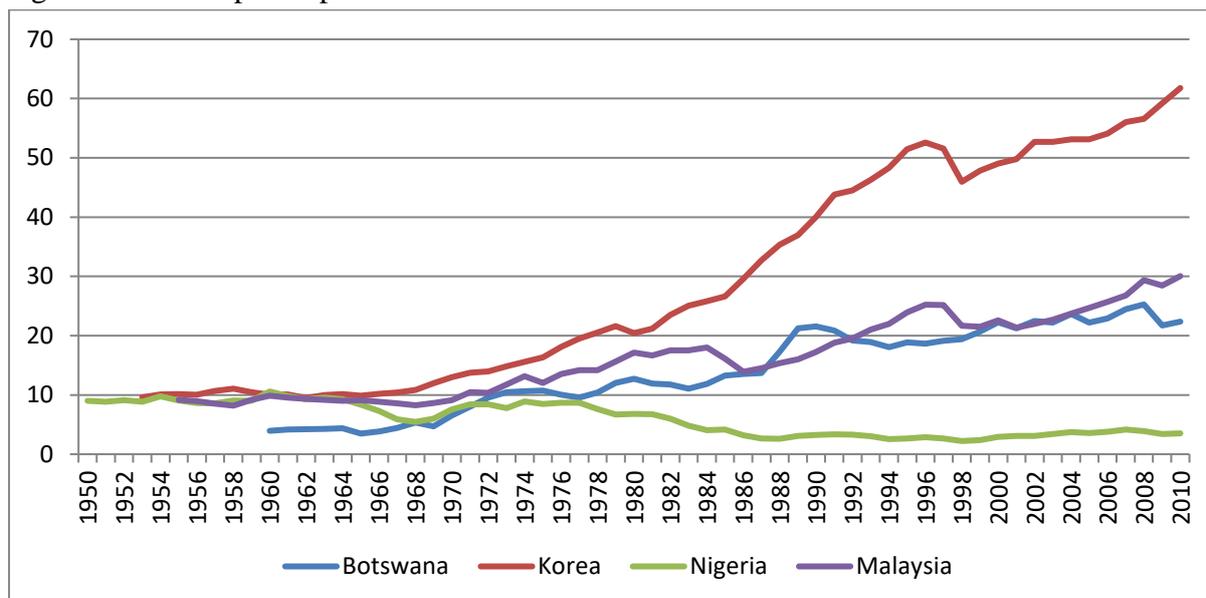
A careful examination of these figures raise a number of questions. For example, how did Singapore, South Korea, Malaysia and Botswana manage to grow at relatively rapid pace in the last thirty years? Why did Brazil stagnates during the 1980s? What is responsible for the disastrous growth performance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

Figure 4: Log GDP per Capita of Selected countries



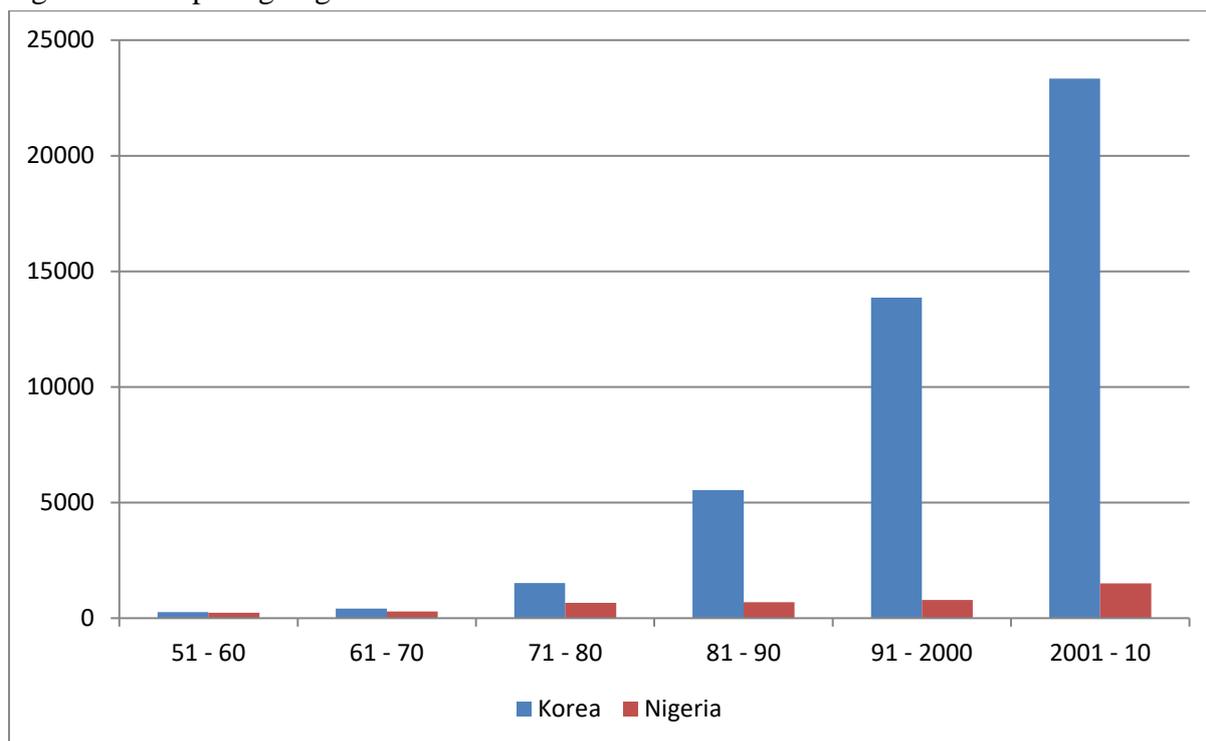
Source: computed by author using data from Pen World Table

Figure 5: Income per Capita of Selected Countries Relative to US



Source: computed by author using data from World Bank Databank

Figure 6: Comparing Nigeria and South Korea

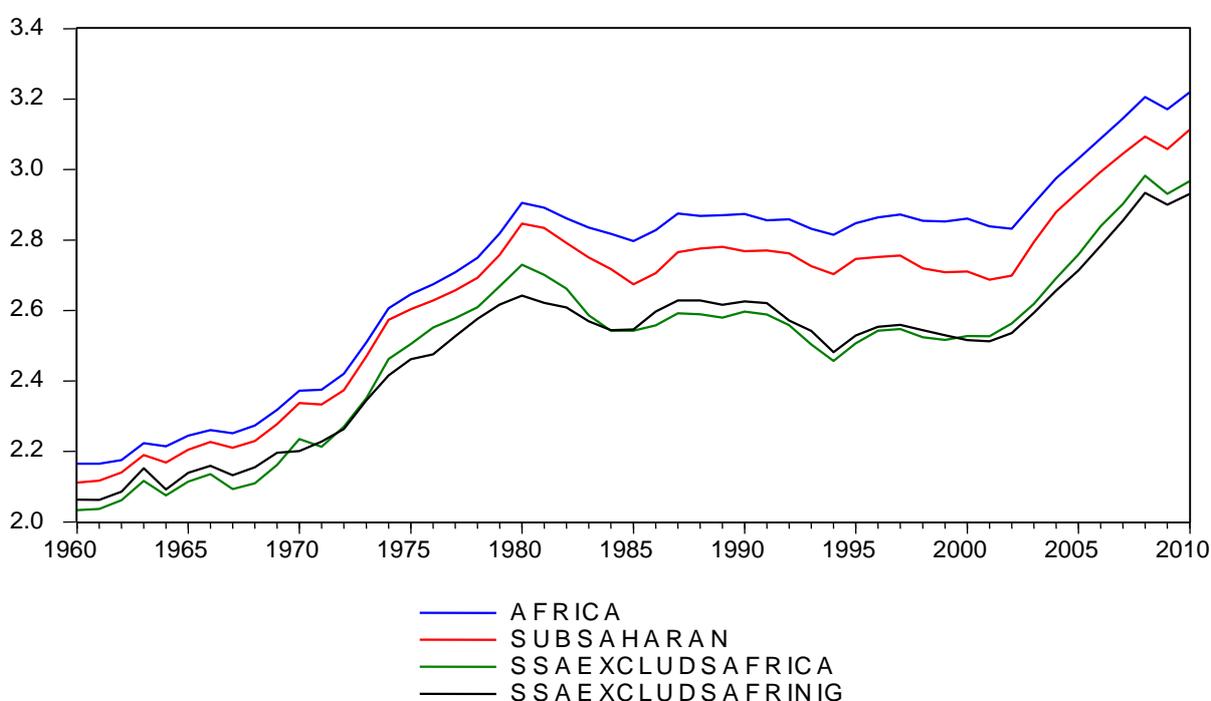


Source: computed by author using data from Pen World Table

What is the economic status of Nigeria in Africa? There is perception by some people that Nigeria is the giant of Africa. This is true in term of population but not correct in term of economic giant. Figure 7 below displays the log of per capita income of Africa as a whole, that is including North African countries (Africa), sub-Saharan Africa excluding North Africa

countries (SUBSAHARAN), sub-Sahara Africa excluding South Africa (SSAEXCLUDESAFRICA) and sub-Sahara Africa excluding South Africa and Nigeria (SSAEXCLUDESAFRINIG). It is obvious from the figure that Africa is richer than sub-Sahara Africa. This reflects the fact that North African countries are relatively richer than their sub-Saharan Africa counterparts. In other words, if North Africa is excluded from Africa sample, Africa is poorer. Similarly, sub-Sahara Africa excluding south Africa is poorer than the Sub-Saharan Africa. This means that South Africa is an economic giant in sub-Sahara Africa. However, when Nigeria is excluded from the sample it does not make any difference. It can be deduced that Nigeria's contribution to the income of sub-Sahara Africa is not significant, hence Nigeria is not an economic giant of Africa, not even in sub-Sahara Africa.

Figure 7: Log of Income per Capita in Africa and Sub-Regions of Africa



Source: computed by author using data from African Development Indicators

4) What Went Wrong?

“. . . the recent empirical literature on economic growth has identified a substantial number of variables that are partially correlated with the rate of economic growth”

Sala-i-Martin

(I just ran four million regression, 1997)

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

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

If capital accumulation and technological advancement are so important (which of course they are), why did Nigeria fail to invest more on them? Why is the physical capital still low in Nigeria? Why is the existing human capital in Nigeria not being used more effectively? Answering these question goes beyond the neoclassical theories and therefore, researchers seek explanations from other perspectives. These led to the emergence of four sets of broad literature, the first emphasize the importance of political system, the second emphasize the importance of geography, the third emphasize the importance of culture and the last emphasize the importance of institutions.

The central thesis on importance of politics is that, the type of government whether democracy or autocracy; political stability, political freedom, the nature and form of election and distribution of political power all matter for economic performance. Prominent papers in this

set of literature include: Barro, (1997); Persson & Tabellini, (2003, 2009); and Mulligan, Gill & Sala-i-Martin, (2004).

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

Social psychologists used both theoretical and historical analyses to show that societal organization matters for economic performance, (Bellah et al, 1985; Reynolds & Norman, 1988; Triandis, 1990; and Greif, 1994). One of the most important arguments in this set of literature is that most developing countries are culturally "collective", whereas the developed West is "individualistic". That, in collectivist societies the social structure is "segregated" in the sense that each individual socially and economically interacts mainly with members of a specific religious, ethnic, or familial group in which contract enforcement is achieved through "informal" economic and social institutions, and members of collectivist societies feel involved in the lives of other members of their group. At the same time, noncooperation characterizes the relations between members of different groups. On the other hand, in individualist societies the social structure is "integrated" in the sense that economic transaction are conducted among people from different groups and individual shift frequently from one group to another. Contract enforcement is achieved mainly through specialized organizations such as the court, and self reliance is highly valued. Thus, resulting to different form of institutional structures: weak and ineffective in the former and strong and effective in the later.

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

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

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

A close look at this table reveals that tropical climate, though may be a disadvantage does not predestined a country to poverty because Singapore broke the chain of poverty despite the

tropical climate. The coastline in Nigeria is even more than coastline in Singapore, therefore, this could not be the reason for the income difference between the two countries. The economic factors seem to matter, Korea and Singapore have invested more in physical and human capitals. More important are the institutional qualities, while Korea and Singapore made significant improvement in their quality of institutions, Nigeria has failed in this direction. The institutional qualities are low in Nigeria, this may even explain why investment is low because private investors would not like to invest in an environment where property right over private property is poorly protected, cost of doing business is high, and control of corruption, regulatory quality and rule of law are low. Colonial history can never be a reason while Nigeria failed to grow since Singapore share similar colonial history with Nigeria.

To answer the question, what went wrong? Or what has South Korea and Singapore did which Nigeria fails to do that led to wide income gap between Nigeria and these two countries? Korea and Singapore improved their institutional quality and equally invested in physical and human capital, while Nigeria's institutional quality are weak and investment in capital is relatively lower.

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

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

Source: computed by author using different data sources

5. Preparing for Second Half of the Century

“.....on the question: is Nigeria a nation today? My answer is- Not yet. Is Nigeria aspiring to be a nation? The answer- unsure. Can it? Possibly.....”

Prof. Wole Soyinka

(2008 Awolowo Foundation Centenary Lecture Series)

The preview in section 2 and 3 evident that Nigeria’s economic performance in the last half a century is relatively poor. An important question is what should the government do to rewrite the history of the country in the next half a century? How can Nigeria converge with countries like South Korea in the next less than fifty years of the second half century?

The answer to these questions can to be deduced from Table 1, first, improve the quality of institutions. There is need to ensure property rights on individual property and intellect, allow the operation of rule of law, make business environment conducive so as to reduce the cost of doing business, government has to be serious about fighting corruption, address root causes of violence and political instability. Equally, there is need to ensure constraint on exercise of executive power because in any economy where executive are too powerful, institutions are likely to be weak, corruption will be high and property rights will be poorly protected. The political institutions should also be improved to allow free and fair elections. Investment in physical and human capital and even efficient use of existing human capital are important things government of Nigeria should focus on for the second half of the century to be different from the first half.

However, institutional reform is not as mechanical as it appears. It involves political process and those who control political power are key players in this process. In the short run, reforms creates losers and gainers, though in the long run everyone is a gainer. Because of the short run loss, political elites without foresight are not likely to support institutional reforms. Therefore, Nigeria needs a visionary leader to kick start sincere institutional reforms.

6. Concluding Remarks

Nigeria has experienced disappointing economic performance in the past over half a century of its political independence. Comparing the historical trajectories of Nigeria and some success stories of past three decades (such as South Korea, Singapore, Malaysia, Botswana), important lesson can be learnt. First, colonial history none geography can be blamed for Nigeria’s disastrous half a century economic history. Second, Nigeria’s development mates in the 1960s were able to grow fast and converged with top countries in income distribution by improving their institutional qualities and investing more in physical and human capital. Thus, Nigeria can rewrite its history in the second half of the century by investing more in capital and strengthening institutions.

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