Economic Diversification in Nigeria: The Politics of Building a Post-Oil Economy

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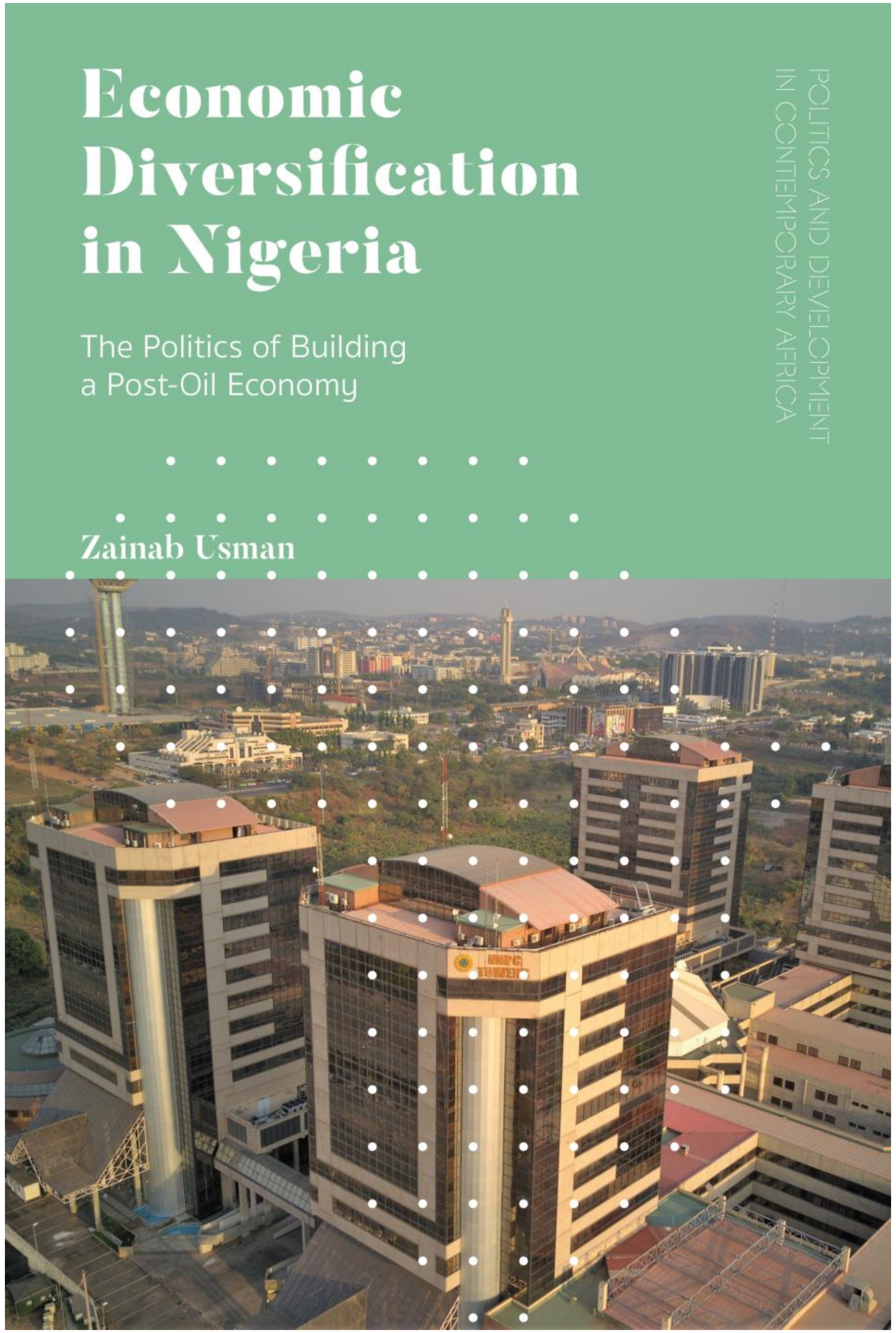


Background

What problems is this book trying to address? Why now? Why is this important?

Nigeria: Some Basic Facts

210 million

Most populous African country with dynamism and poverty

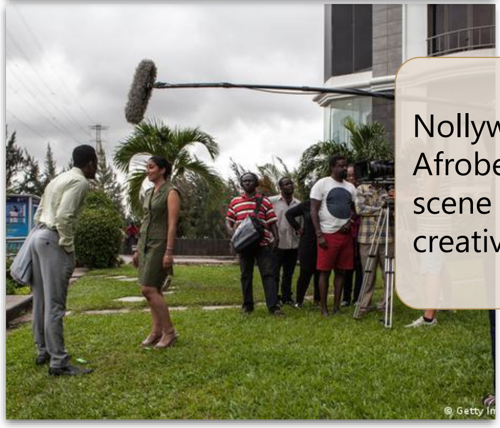
3.3% Growth

Slow growth, after two recessions in Africa's 4th largest economy

44.5 million MSMEs

Large entrepreneurial base including MSMEs, industrialists, bankers etc.

2nd Largest Film Industry



Nollywood, Afrobeats, art scene and other creative industries

Africa's Largest Oil Producer

Producing 1.4m bb/d, below nameplate capacity

A decade-long enquiry into the development challenges of resource-rich countries

What is the reason for the underperformance of the Nigerian economy?

What role does Nigeria's resources, especially its oil wealth, play in this economic underperformance?

How do power, politics, and decision-making affect this economic development challenge?

Key Messages

What points does the book make?

1. An alternative framework for conceptualizing the challenges of oil-rich countries.

Prevailing theories attribute failure of oil-rich countries to sustain growth and industrialize, due to some inherent characteristic in the country.

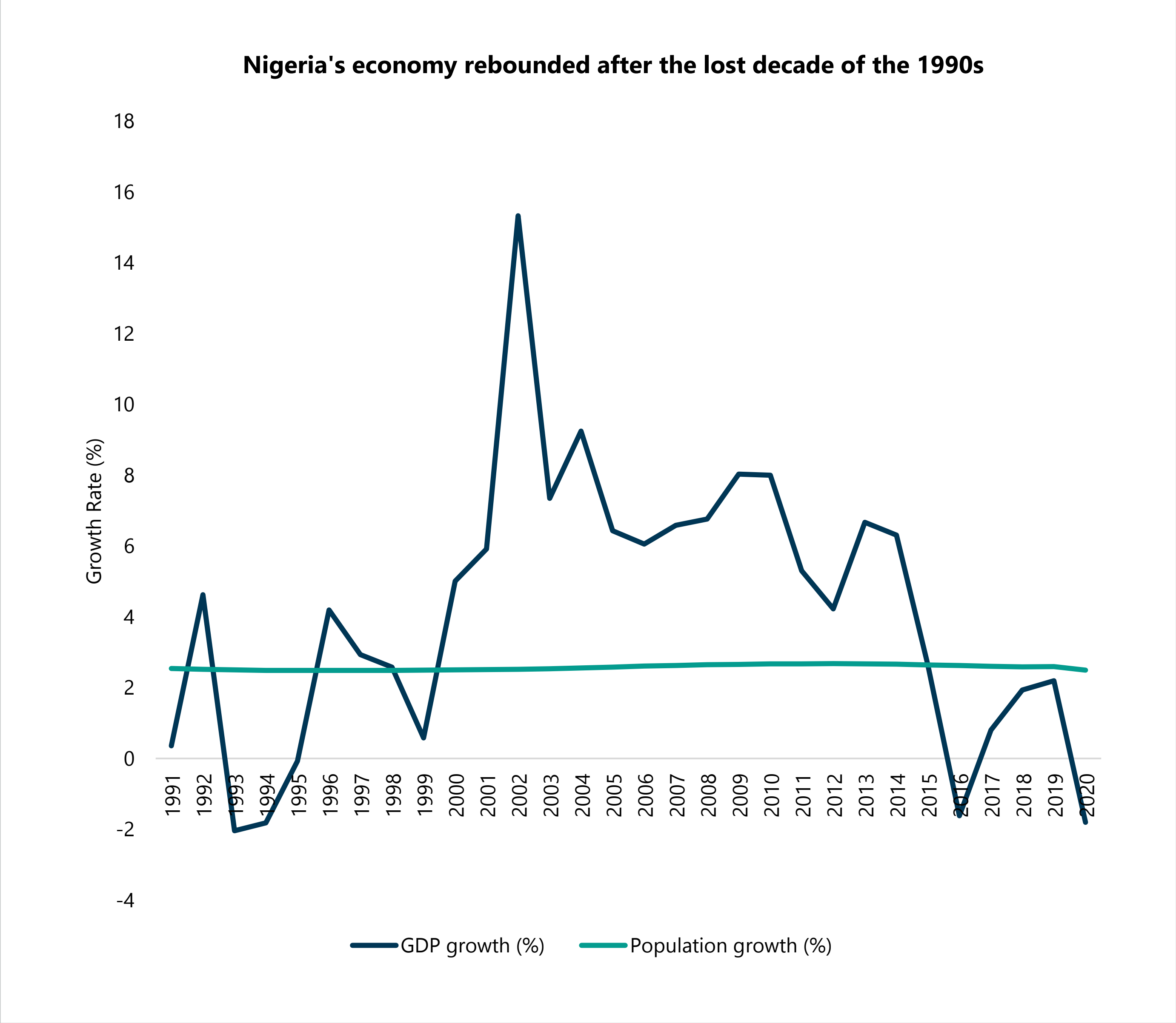
- **the "oil curse**": that oil-wealth singularly causes economic stagnation, corruption, bad governance, and conflict
- **a "neopatrimonial culture**": a fusion of traditional and modern institutions results in distorted governance institutions that are unable to facilitate economic transformation

2. The nature of a country's political settlement shapes policymaking and economic outcomes.

- Nigeria's central economic development challenge, is to diversify and transform its economy. This challenge lies at the **intersection of its politics and policymaking**.
- Specifically, **an unstable political settlement** or distribution of political power, causes Nigeria's leaders to be in a perpetual state of crisis management.
- In crisis management mode the focus is towards, **easy fix reforms,** macroeconomic stabilization, restoring growth, and selective public sector reforms.
- **Systematic, long-term orientation** is elusive, limited efforts to support the structural transformation necessary for economic diversification. E.g., land; civil service and downstream deregulation.
- **Historical consistency.** This dynamic has occurred throughout Nigeria's history, regardless of the type of government, whether military rulers or elected politicians.

3. Policy reforms in Nigeria have been focused on crisis-management rather than economic diversification.

- After the "lost decade" of the 1990s, **a growth episode occurred in Nigeria in the 2000s** following reforms in the first decade of democratic rule. This was before the balance of power became highly unstable from 2010.
- **Nigeria's economy grows rapidly** during periods of relative political stability. This is due to the implementation of meaningful policy reforms and national projects

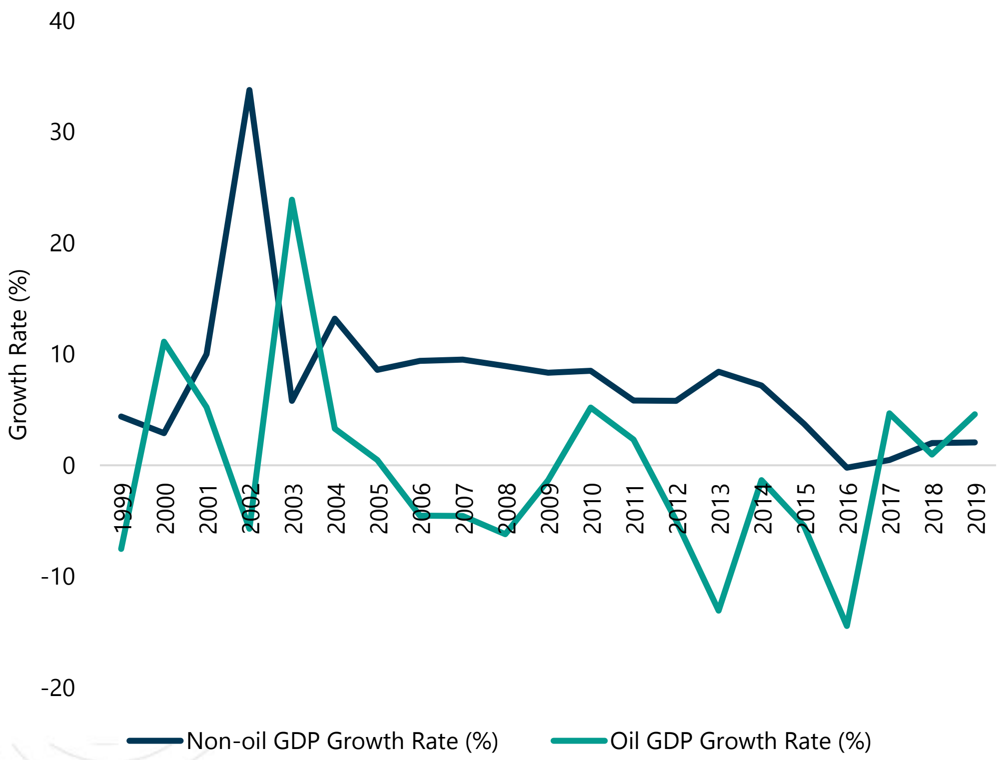


4. Policy reforms have expanded non-oil sources of growth

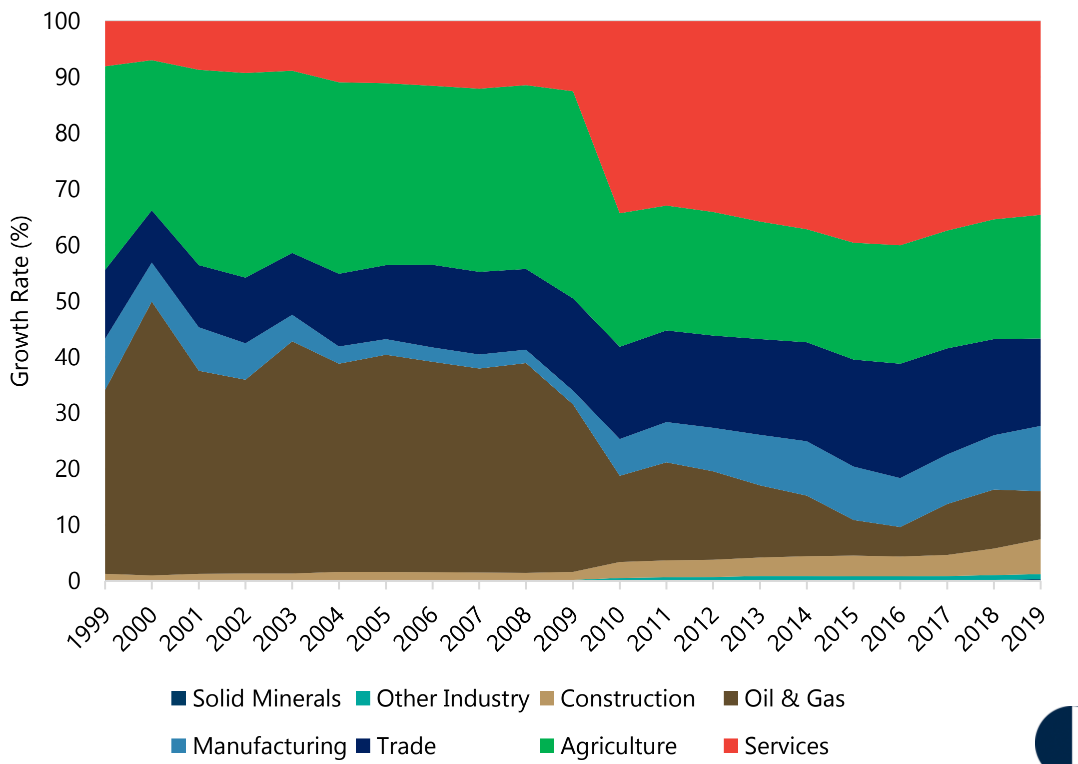
Growth driven by non-oil sectors. Averaging 7% and was driven by sectors such as finance, ICT, entertainment, trade, and other industries where easy-fix reforms were implemented.

This decade-long non-oil growth was associated with a decline in the oil sector's share of GDP: from nearly 50% in 2000 to less than 10% today.

Non-oil sectors grew faster than the oil sector between 1999 and 2019

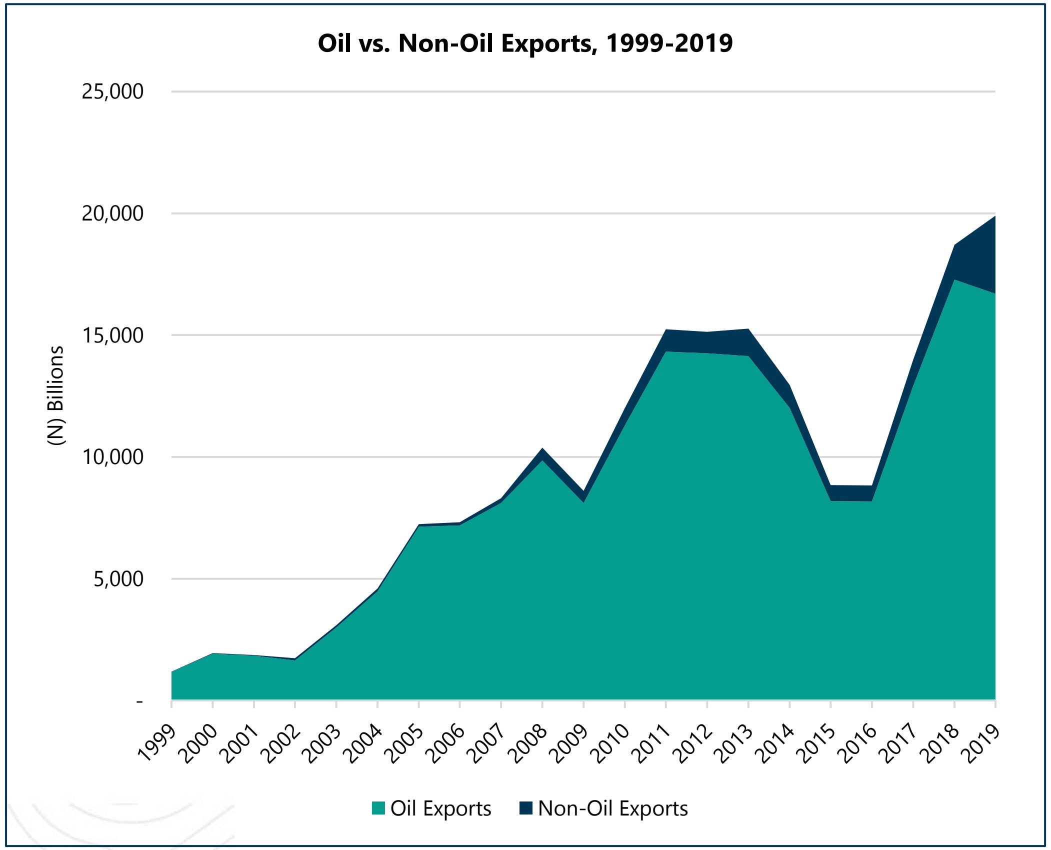


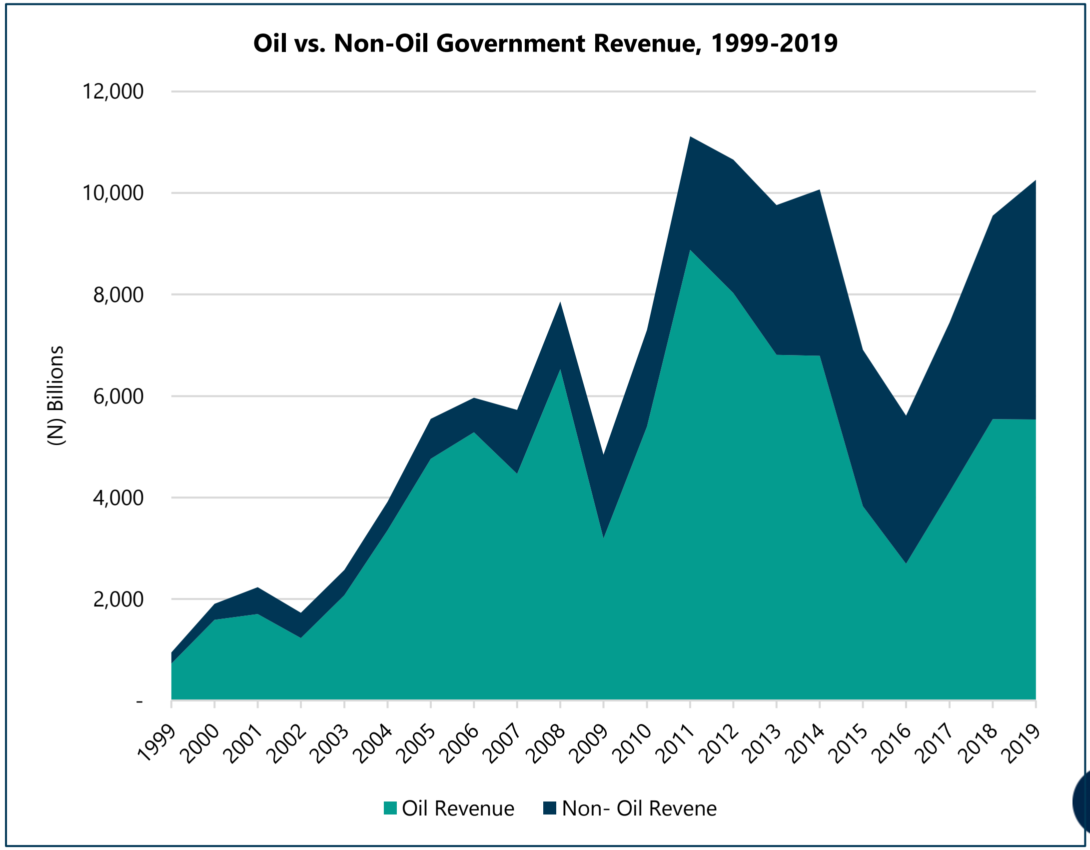
The oil sector has declined as a share of the Nigerian economy between 1999 and 2019



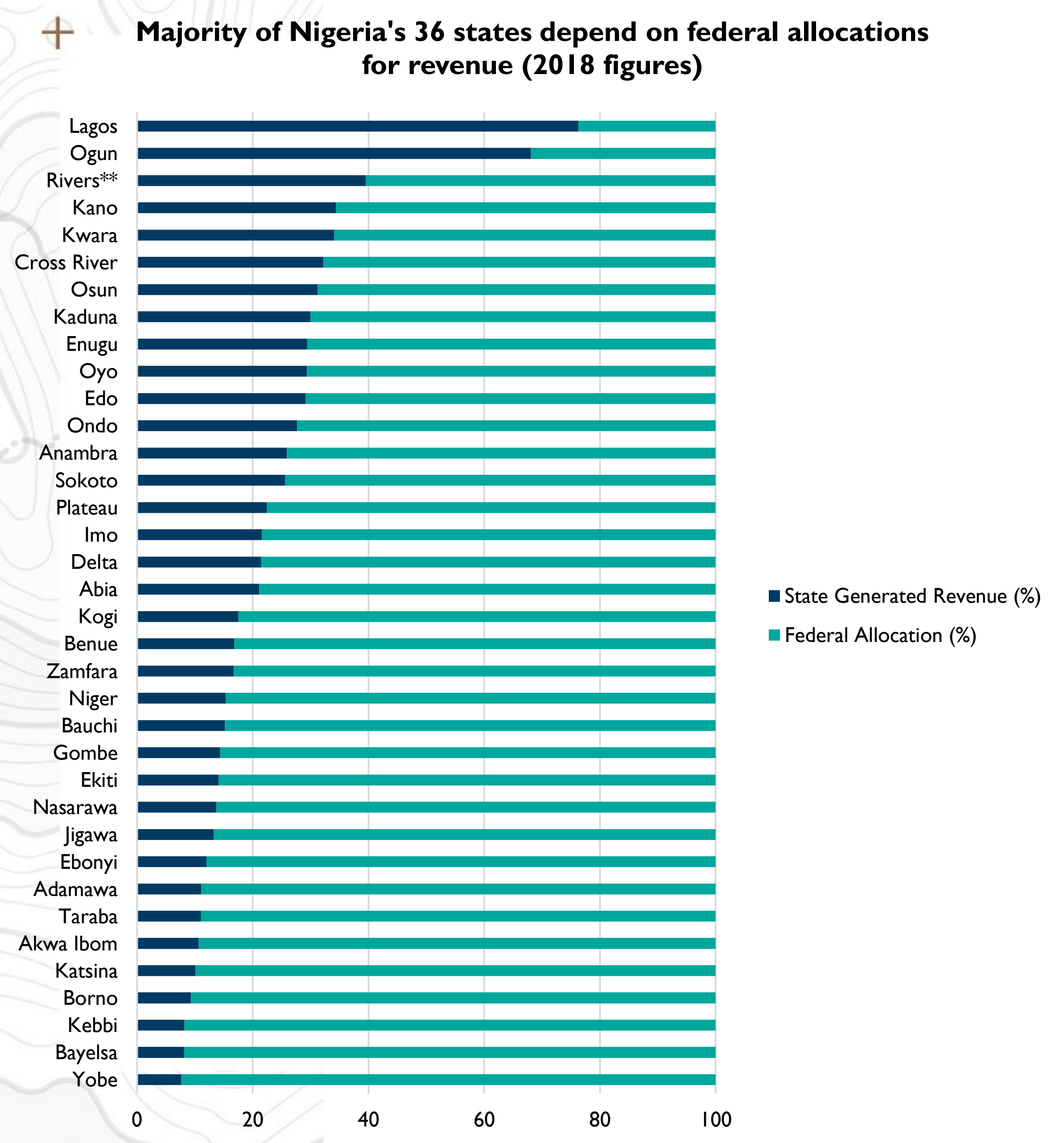
5…but have not diversified Nigeria’s exports or fiscal revenues

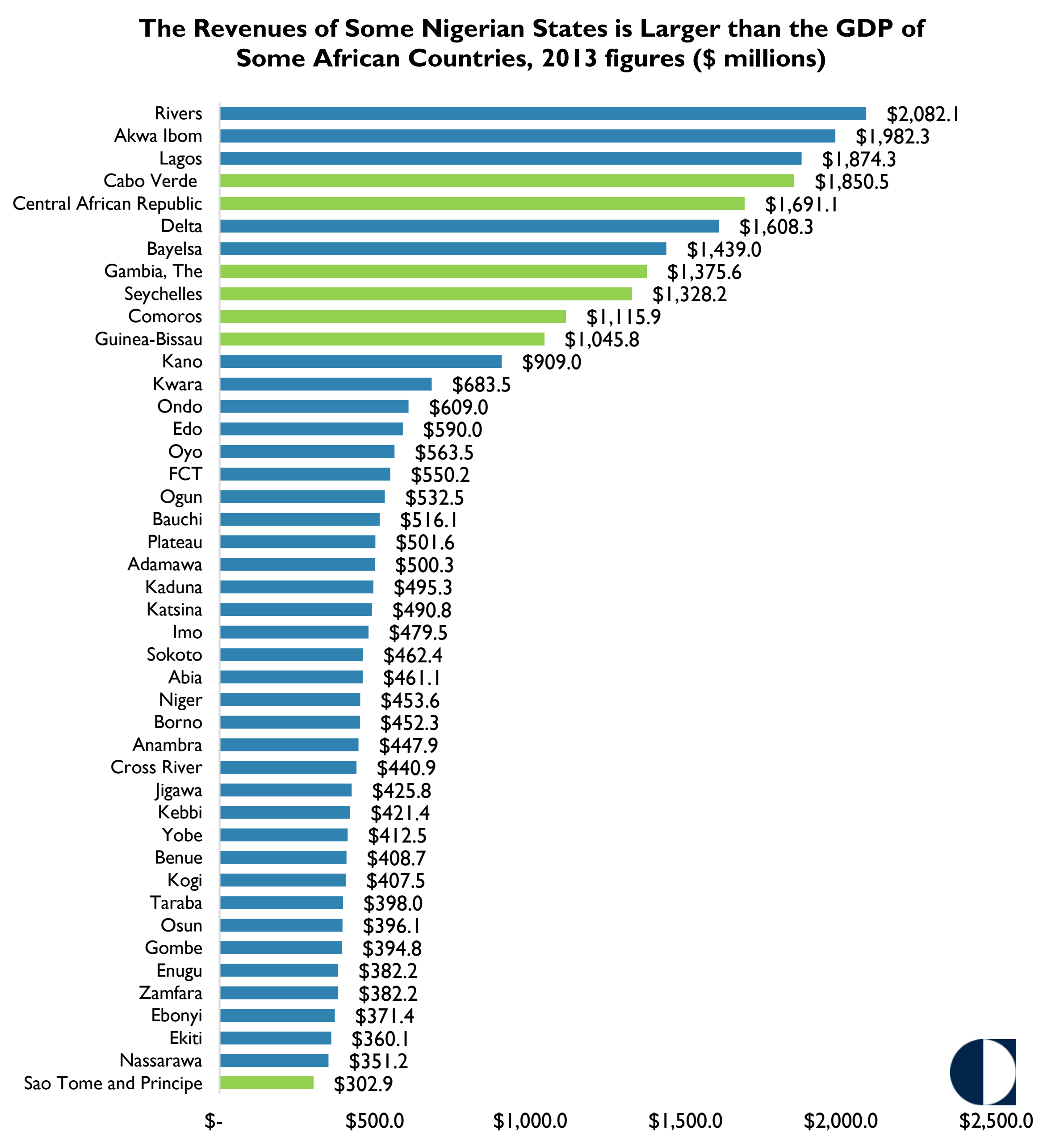
- The oil sector still accounts for >**80% of export earnings** and more than **50% of government revenue**.





6. The dependence on oil revenues is acute at the sub-national level



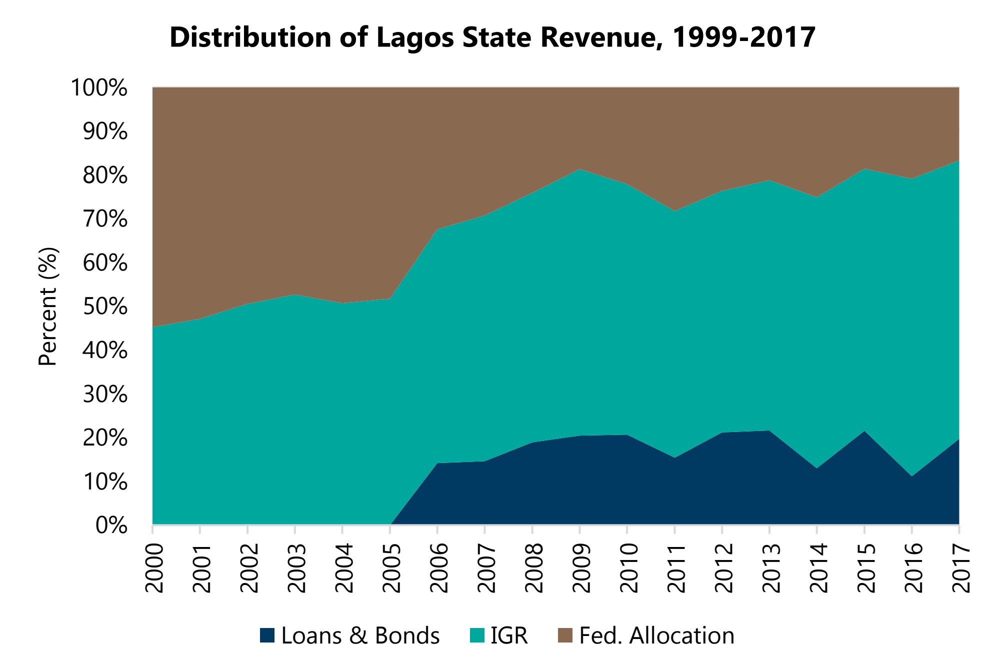


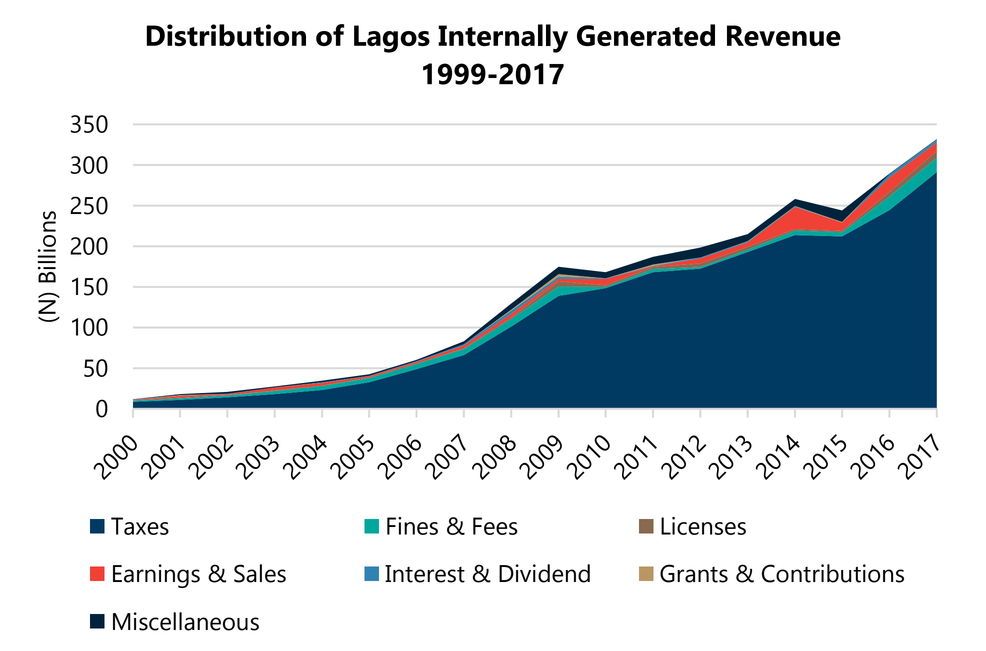
7. But Lagos State has diversified its fiscal revenues

•**Nigeria's commercial capital, Lagos, has diversified its revenues**. Federal transfers have declined to around 20% of state revenues, while 80% comes from internal sources.

•**This fiscal diversification is the result of deliberate policy reforms. Ruling elites became reform-oriented because of constraints** such as intra-party factionalization, population explosion, urban decay, violent crime and inter-governmental schisms. These constraints pressured ruling elites to implement tax and public finance reforms.

•**Successive policymakers** built a political coalition that envisioned the transformation of Lagos into a global megacity, through tax and governance reforms.



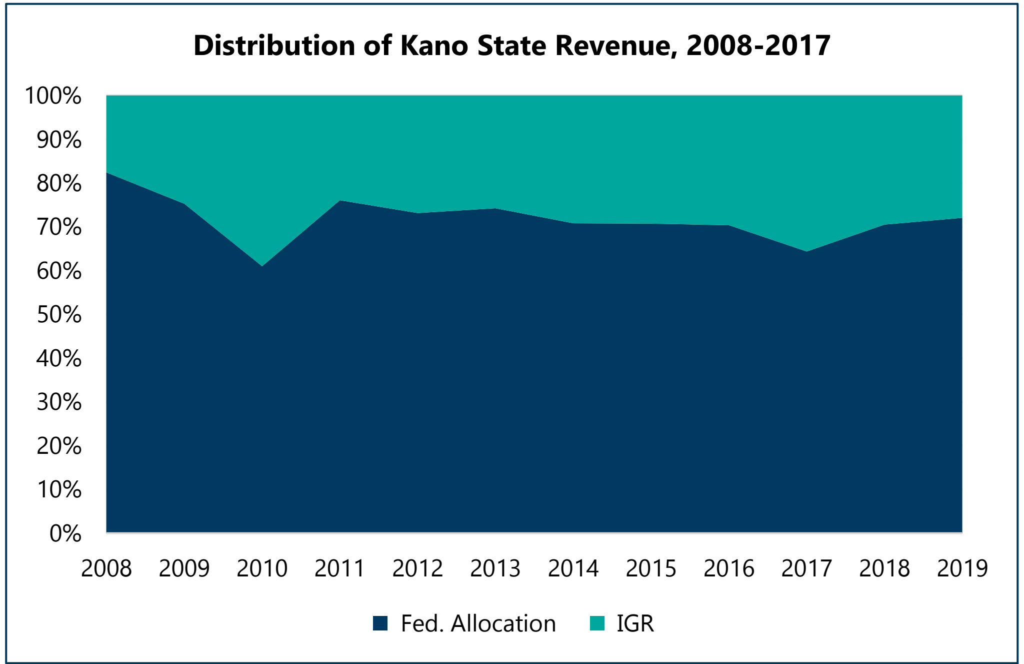


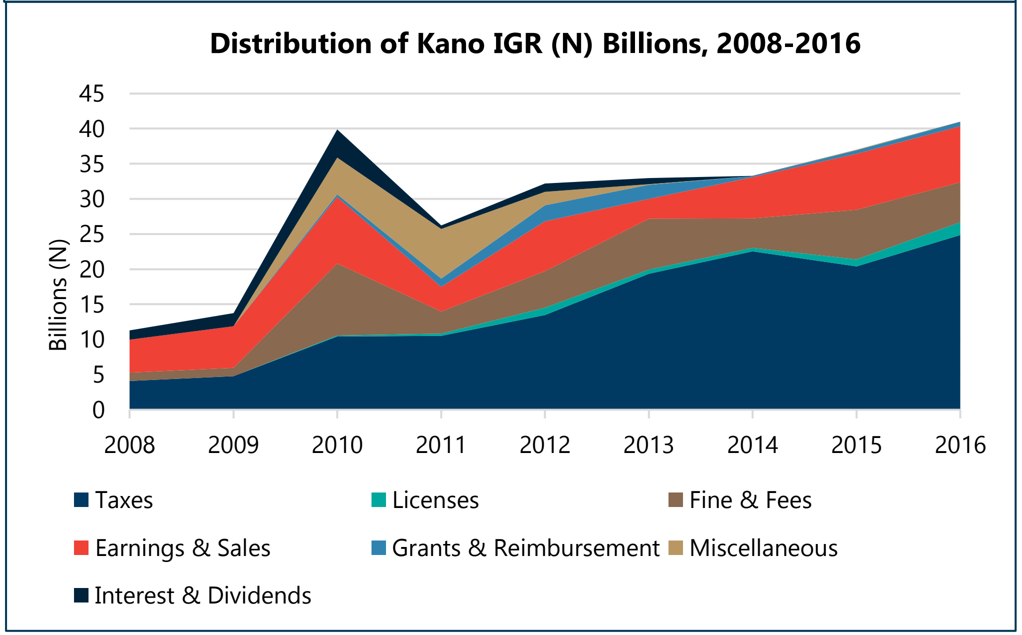
8. While Kano State is a microcosm of Nigeria’s failed industrialization

•**Kano is a microcosm of Nigeria's failed industrialization** in the agro-allied sectors, decimated by globalization. Despite its population size and potential, is economy is underperforming

•Due to the nature of the political settlement in Kano, the policymakers have been **unable to reimagine a growth agenda** that harnesses the region's comparative advantage of agro-industrial activities and supports new industries, such as “Kannywood”. Although some limited efforts were made at increasing tax revenues.

• **Absence of a consistent pro-business leadership** that enables new industries, to mitigate the worst impacts of Kano's deindustrialization.





9. Nigeria is neither a failed state nor a developmental state.

- **Neither a failed state** doomed to economic stagnation, nor a **developmental state** facilitating sustained economic growth and structural transformation.
- **An intermediate state** capable of episodic reforms that produce growth spurts. In its current configuration, incapable of policy reforms that transform and diversify the economy. This is due to the unstable political settlement.
- **Constrained to short-term stabilization policies.** Nigeria’s ruling elites are constrained to lean towards stabilization policies that can drive sporadic economic growth, but neither sustain growth or diversify exports.
- **Constrained to “easy-fixes”** such as information and communication technology, financial liberalization, and improved public financial management.
- **Cannot pursue difficult transformation policies** to increase productivity and diversify the economy. Previously, the country has struggled with:
    - ➢ Supply-side: Providing transport, electricity and connectivity infrastructure, agriculture, petroleum sector deregulation
    - ➢ Demand-side: implementing social protection policies
    - ➢ Comprehensive Civil Service Reform

Key Conclusions

I conclude the book with the following five recommendations.

Five Conclusions

01 **Conceptualize economic diversification as a political project**
to build a strong Nigeria of shared prosperity, inclusive of rival elites and to create the economic base to address internal threats to the country's survival.

02 **Stabilize Nigeria's volatile balance of power**
Through an enforcement of systematic power sharing, to resolve collective action problems, and reduce the volatility of political competition, to allow for a long-term economic policy orientation

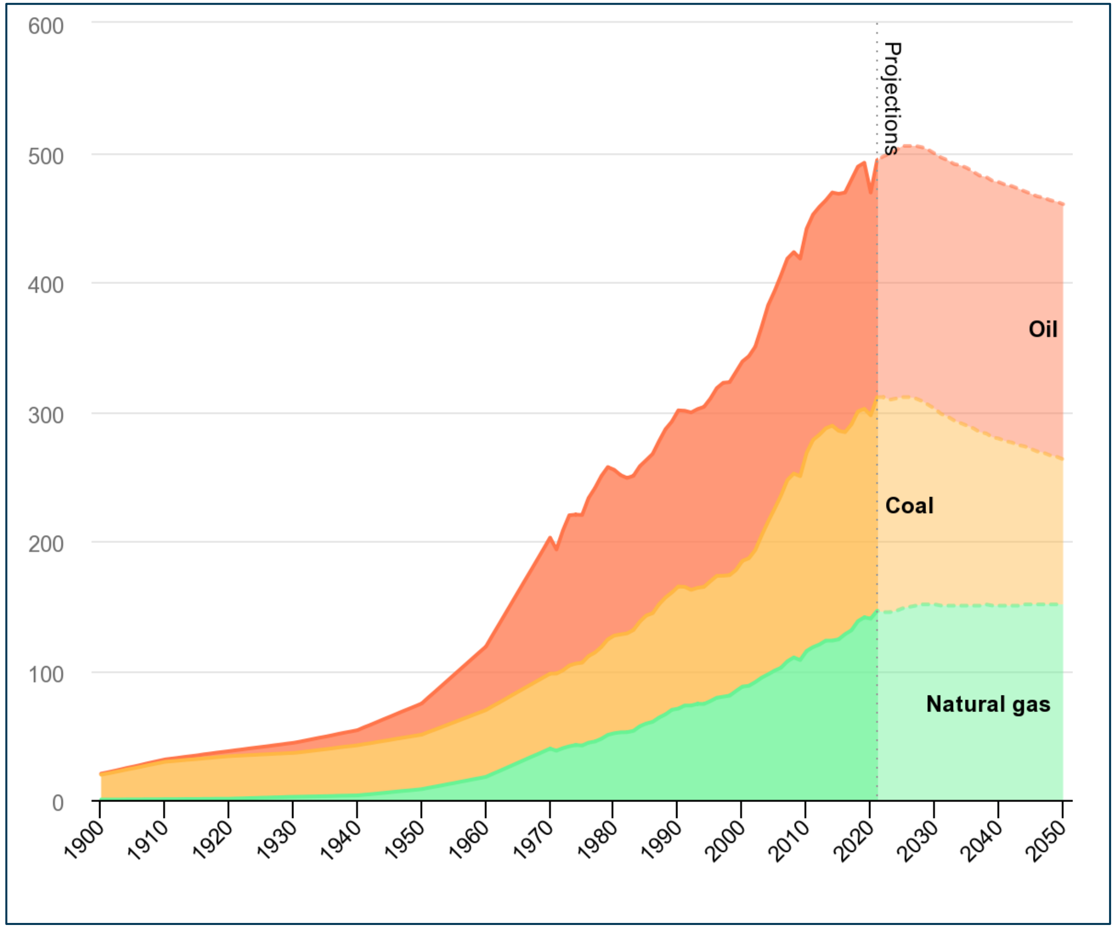
03 **Develop a shared vision for transforming the economy**
Envision an economy that works for all, balances the role of the state and the market, accommodates regional differentiations, and addresses revenue sharing complexities

04 **Proactively tackle market failures**
On the supply and the demand side, as the urgent policy priority for building a post-oil economy

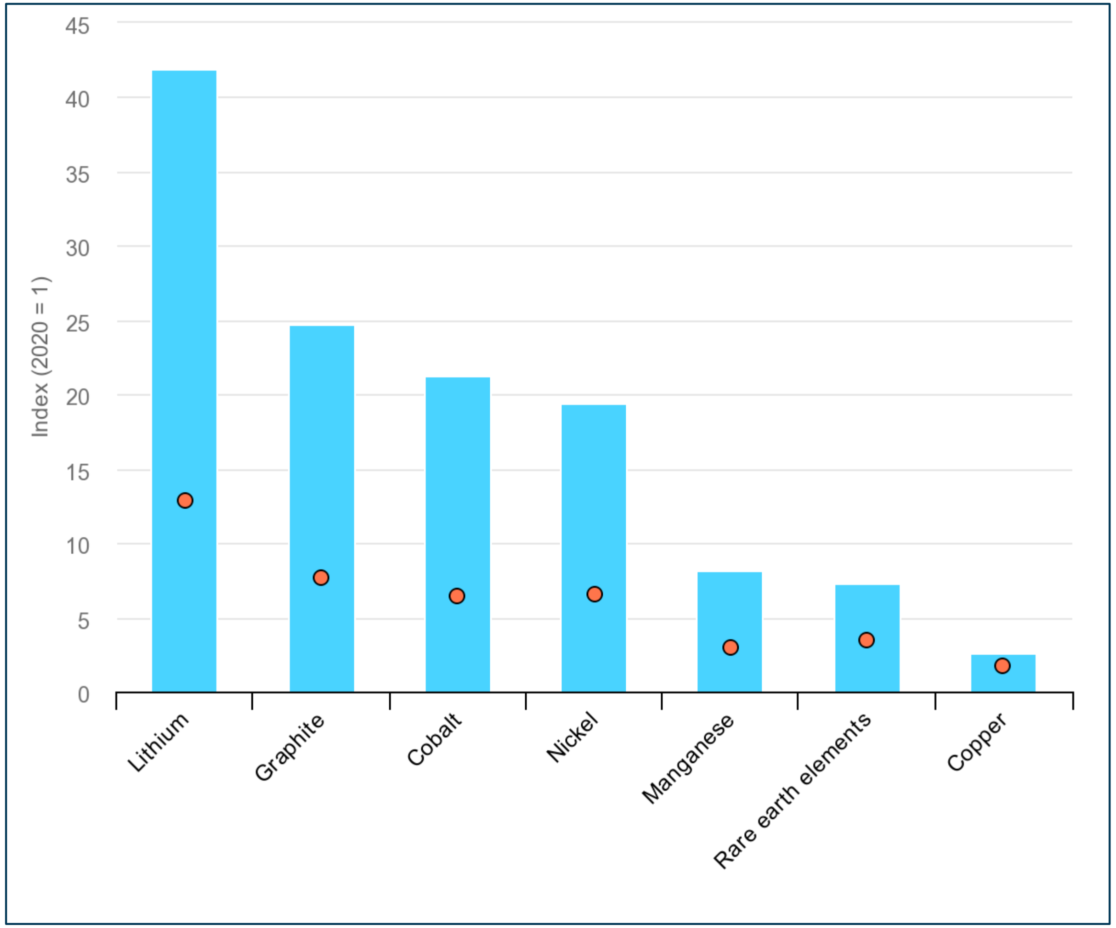
05 **Update our mental models on resource-rich countries**
The challenge of achieving economic diversification in Nigeria is not rooted in a "resource curse" or a backward neo-patrimonial culture. Stems from a highly unstable political configuration that makes deep-rooted structural reforms nearly impossible.

Addendum 1: Low carbon transition will cause divergence in global demand for fossil fuels vs. Transition minerals

Fossil fuel demand in the Stated Policies Scenario, 1900-2050



Growth in demand for critical minerals from clean energy technologies by scenario, 2040 relative to 2020

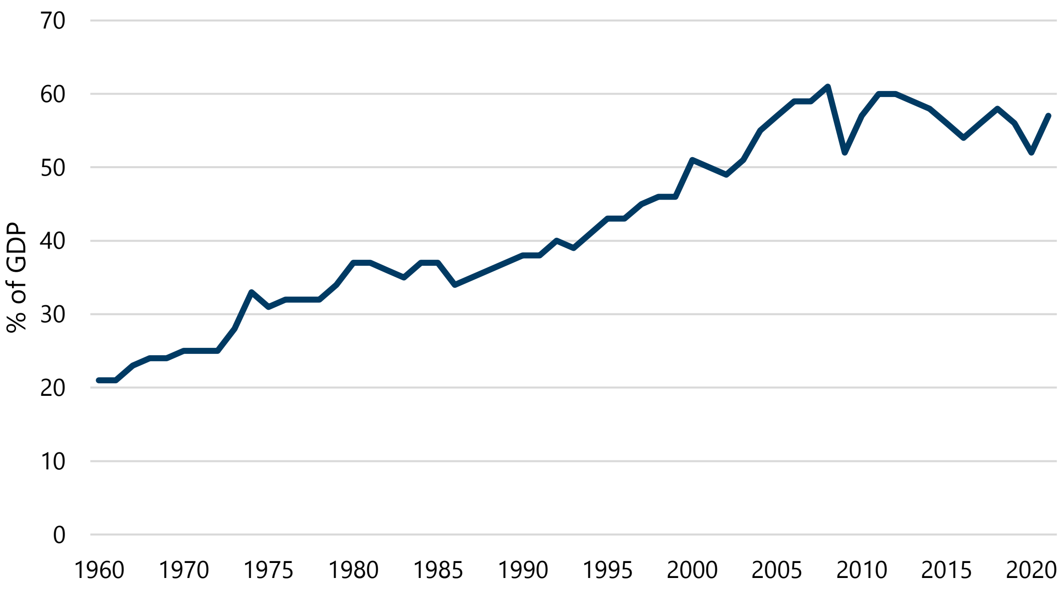


Source: International Energy Agency (2021 & 2022)

Addendum 2: Less Open, More Turbulent Global Trade Environment

- The share of trade in global GDP is starting to decline, as trade wars and competition among the large economies intensify

Global Trade (Goods and Services) as Share of GDP, 1960 to 2021

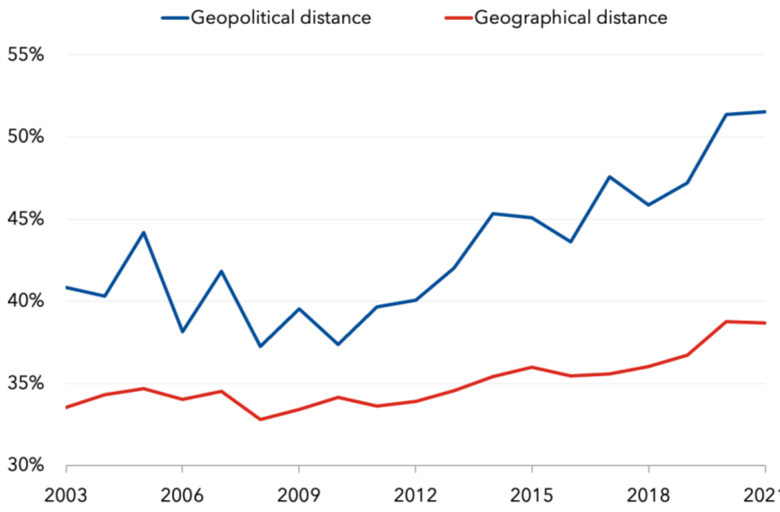


Last data point 2021 **Source** World Bank Data

Flows to friends

FDI is increasingly directed to geopolitically close countries.

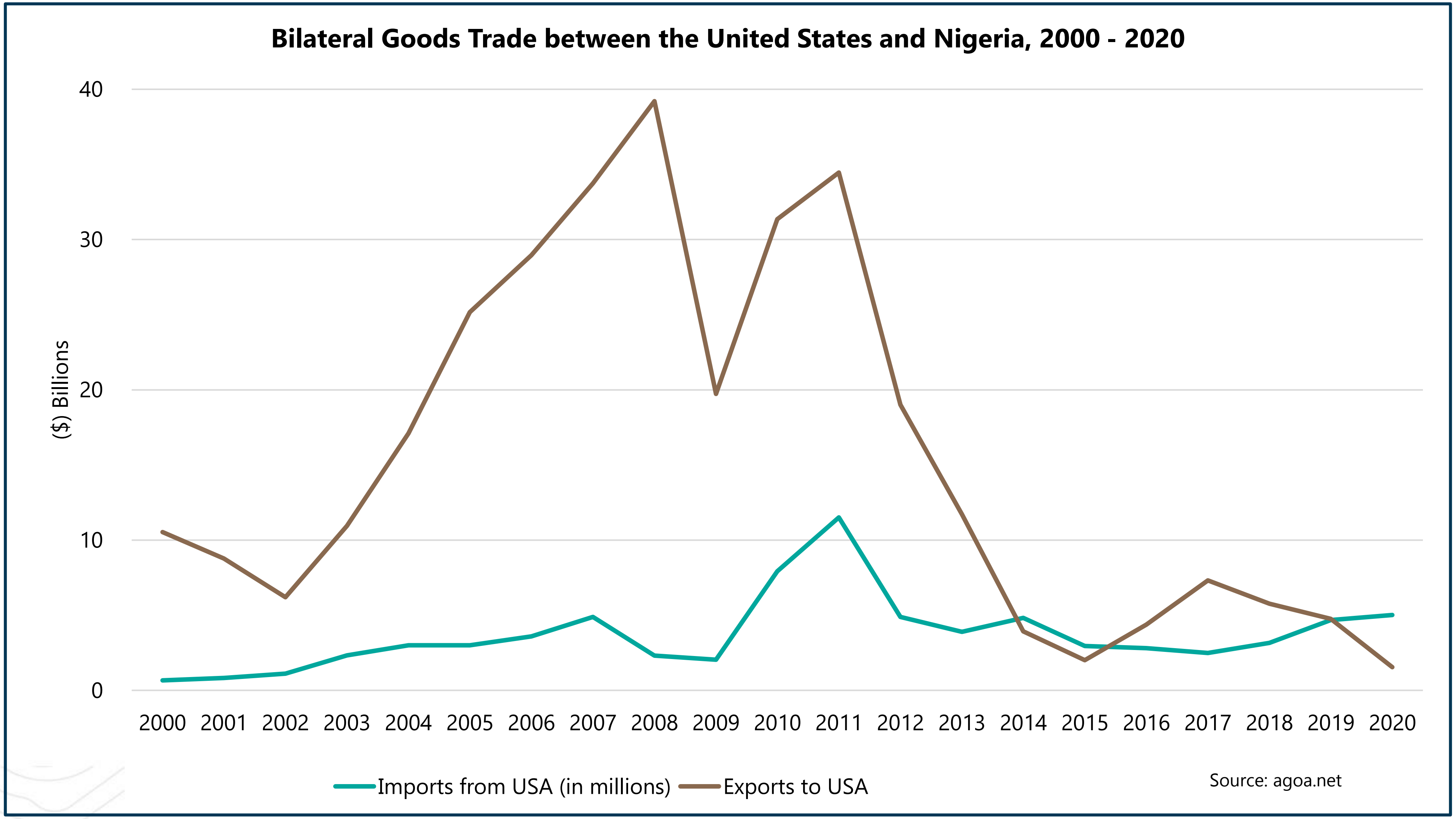
(share of total FDI between geopolitically and geographically close countries)



Sources: Atlantic Council; Bailey, Strezhnev, and Voeten (2017); CEPII, Gravity database; fDi Markets database; NL Analytics; and IMF staff calculations.
Note: Figure shows the annual share of total foreign direct investment between countries that are either geopolitically or geographically close. Two countries are close if they are in the same quintile of the distribution of the relevant (geopolitical or geographical) distance from the United States. Geopolitical distance is measured by the Ideal Point Distance in Bailey, Strezhnev, and Voeten (2017).

IMF

Addendum 2 (cont'd): What is Nigeria's Trade & Investment Policy in the 2020s?



Thank you!

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