CHAPTER 3

NIGERIA IN THE GLOBAL ECONOMY

Introduction

Chapter 2 has shown how little the Nigerian political economy has changed since independence in 1960 and the serious cumulative adverse consequences of this stagnation on the people and the society. So dire are these that Nigeria readily qualifies as a country whose political economy is in need of an urgent surgical operation. Policies and practices over the past two decades have brought retrogression rather than progression. Overall macro economic policies, institutional and structural arrangements and strategies failed to provide an enabling environment that could motivate the people and different stakeholders. The long period of retrogression gave ample opportunities to negative factors which are anti-development and anti-society in their effect — lack of personal and social discipline, lack of proper work ethics, pandemic corruption and general inefficiency. Little wonder that poverty has become widespread — 70 per cent of the population are living in poverty and 70 per cent of these are women and girls. Massive unemployment is the order of the day. Indeed, it is an understatement to state that the country has a good deal of catching up to do. The country will have to work very hard during the next two to three decades to be able to restore the level of production it had achieved by 1980. In this chapter, the focus will be to examine Nigeria from the global perspective and with a global lens.

What is the significance of the Nigerian economy in the world and what is the impact of globalisation on it? What is the country's share of the world exports and imports? How open is the Nigerian economy to world trade? What are the magnitude and trend of foreign resource flows — foreign direct investment and official development assistance? If Nigeria is to succeed in addressing the current obstacles and impediments to taking full advantage of the ICT revolutions and consequently the technology-driven globalisation what concrete terms are the measures which it must take? What complementary measures must be taken in the domain of macroeconomic policy framework that will ameliorate the country's current marginalisation, reverse it and turn the country into a full and effective partner in the globalisation process? Since the globalisation process is irreversible, Nigeria has to be well positioned for international competition or lose out completely. It is therefore imperative to locate areas of comparative advantage.

The global significance of the Nigerian economy

But first let us establish the global significance of the country. Nigeria's millennium population is about two per cent of the world population. On the basis of current population projection, Nigeria, as indicated in Chapter 2, is likely to be among the five to six most populous countries in the world by 2025. It is already one of the ten most populous countries. But its economy falls far short of its demographic high profile. For example, its contribution to global GDP is rather infinitesimal (00.22%). Indeed, the whole subcontinent of Sub Sahara Africa currently accounts for only one per cent of global GDP. Forty years ago, it accounted for 2.1 per cent which rose to 2.4 per cent in 1980. But since 1985, its share has been halved. It has been 1.00 per cent (Figure 3.1).

While Nigeria is currently the 10th most populous nation in the world and is forecast to be among the five to six most populous countries by 2025, its economy, which is only 0.22 per cent of the global GDP, falls far short of its high demographic profile.

Similarly, Africa's regional share of world exports of goods and services has been falling since 1960. The attempt to reverse this trend succeeded in 1980 but was short-lived. Consequently, whereas in 1960 Africa's share in world trade was about 4.00 per cent, it had fallen to 2.9 per cent by 1975 only to rise to 3.4 per cent in 1980 but thereafter the fall became unstoppable. It is currently 1.3 per cent. Nigeria's share of world exports of goods and services which is currently 0.2014 per cent had risen from 0.2260 per cent in the 1960s to 0.5490 per cent during the second half of the 1970 only to slump to 0.1779 per cent between 1985 and 1990. It rose to 0.2014 per cent during the 1990s (Figure 3.1).

Similar trend has been exhibited by the import trade. The low share of Nigeria's import trade is no doubt accounted for by the low and narrow export capacity of the economy. The heavy dependence of the country on crude oil exports has exposed the economy to the boom-and-bust cycles and the concomitant unstable and unpredictable volume of revenue receivable by the government in the country.

The crash in commodity prices has severely adversely affected the country's pre-

oil traditional export commodities — namely, cocoa, groundnuts and groundnut oil, palm oil and palm kernels. Because of their low elasticities of demand, these commodities have consistently faced weak world demand and decreasing world market prices. Not surprisingly, the region lost a substantial proportion of its share in the world trade of these commodities. For example, its share of cocoa beans decreased from 82.2 per cent in 1965 to 59 per cent in the 1990s; coffee from 26.4 per cent to 13.4 per cent; groundnuts (shelled) from 61 per cent to 33.0 per cent; palm oil from 20.4 per cent (it had risen as high as 60.2 per cent in 1961) to 1.5 per cent; and, palm kernels from 92.7 per cent to 17.2 per cent during this period 1965 to 1999.

In Nigeria, this has had a devastating impact on the volume, value and structure of its export trade resulting subsequently in low growth of production of these major export commodities. Whereas in the fifties, sixties and seventies rapid increase of primary products became the engine of growth, with Nigeria becoming the principal world producer of palm kernel and groundnuts and the third producer of cocoa, the liberalisation of cocoa trade in the 1980s and the plunge in prices had a devastating lasting effect. Farmers suddenly — after many years of protection — found that they were unable to recover their costs of production, including fertilisers and other inputs obtained on credit. Consequently, they abandoned their farms, thus precipitating a steep secular decline in output.

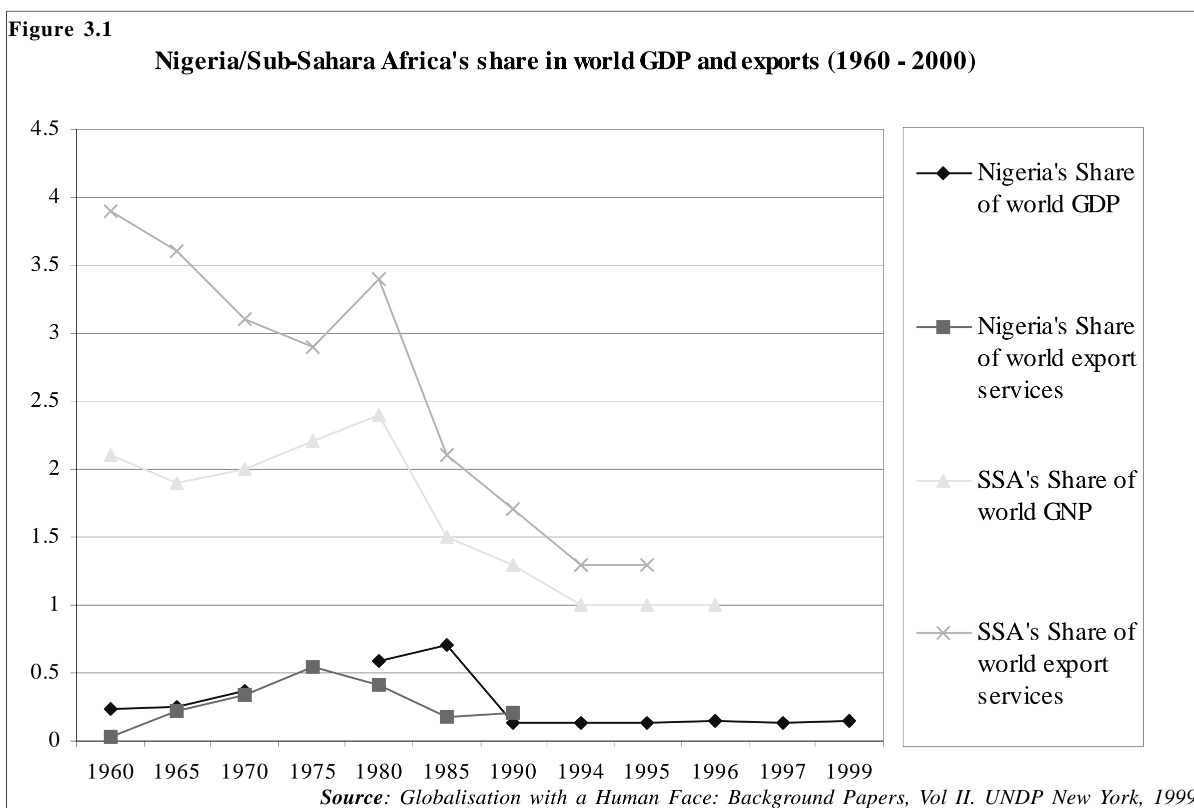


Figure 3.1

Nigeria/Sub-Sahara Africa's share in world GDP and exports (1960 - 2000)

***Source**: Globalisation with a Human Face: Background Papers, Vol II. UNDP New York, 1999*

In 1976 the World Bank hailed the "Ivorian miracle" as man-made. This was a miracle which catapulted Cote d'Ivoire into the position of the second largest producer of cocoa. It increased its share from 11.1 per cent in 1970 to over 30 per cent in the beginning of the 1990s. With the introduction of liberalisation in the 1980s, that country dropped from a lower-middle-income category to a low-income category. However, in Cameroon which still operates a state-buying agency, the cocoa farmers are better off with guaranteed prices. But in the light of the sizeable stocks of cocoa in the world and the European Union decision to approve more vegetable oil substitutes for cocoa fat by confectioneries, the decline in demand has become secular. Unfortunately, the various attempts to increase value added through the local processing of more cocoa beans has proved difficult to accomplish due to mismanagement and corruption in addition to the devaluation of the naira. Of the 17 cocoa processing plants sponsored by the governments between mid-1980s and the early 1990s with a total capacity for over 200,000 tons of beans per year only three processing plants of less than 5000 tons per year are currently functioning (Box 3.1).

Because of the failure in the commodities export sector and the sustained high demand and, sometime, high export prices for oil, Nigeria's foreign trade has become dominated by the oil sector. It accounted for 77.3 per cent in 1996 (Figure 3.2a). Whereas in 1970 oil exports accounted for 58.3 per cent, its share had increased to 95.4 per cent of total exports by

1998 (Figure 3.2b). In that same year, oil imports accounted for 21 per cent of total import (Figure 3.2c). Non-oil imports were made up of consumer goods (38.7 per cent) raw materials (42.0 per cent) and capital goods (19.2 per cent) in 1996 whereas a quarter of a century earlier (1970) capital goods and raw materials accounted for 35.1 and 35.7 per cent respectively. In other words, over 70.8 per cent of the inputs for domestic production came from external sources, consuming scarce foreign exchange resources. The patterns and trends in external trade underscore the high degree of external dependence and vulnerability of the Nigerian economy. Between them, exports and imports accounted for 79.5 per cent of GDP in 1996 — exports and imports contributing 55.6 and 23.9 per cent of GDP respectively.

There is therefore considerable asymmetry between the Nigerian economy and the global economy. While the latter looms alarmingly large in the Nigerian horrizon, the relationship is not reciprocal. Instead of interdependence, it is an overly dependent relationship with Nigeria being extremely insignificant economically in the world.

If the country were to cease producing goods and services, it is only 0.22 per cent of the world output that will be lost. If it ceases to trade, only 0.2 per cent or even less will be lost. Figure 3.3 compares Nigeria's shares of world exports between 1960 and 1994 with those of South Africa, Botswana and Ghana. Its gross domestic product of US$35.045 billion in 1997 ranked it as the 54th country in the world while its real (purchasing power parity) gross national product of US$ 95.0 billionranked it 51st. Yet this is the country that harbours 2.0 per cent of the world population and ranks as the 10th most populous country in the world.

Box 3.1

Africa's commodity sector — why the failures?

The many reasons for the failure in Africa's commodity sector, reflected in low productivity and uncompetitive production, also include ill-advised government policies, unenlightened administration and organisation, a serious lack of agricultural scientists and extension officers, a poor knowledge of international markets, a lack of investment in transport and other infrastructural essential to effective competitive production and an economic policy framework which offers overseas investors few incentives. All of these have provided an inadequate environment in which productivity growth and competitiveness could be maintained, let alone increased, and in which commodity production could be increased to meet Africa's needs.

Source*: Africa's Commodity Problems: Towards a Solution: A Report by the UN Secretary-General's Expert Group on Africa's Commodity Problems*

Nigeria's global competitiveness

According to the **African Competitiveness Report 2000/2001** published jointly by the World Economic Forum and Harvard University, Nigeria topped the millennium ***Optimism Index League Table*** of twenty-four African countries. This high ranking is no doubt a confirmation of the high expectations, both within and outside Nigeria, that heralded the restoration of democracy and the outlining of the programme of the newly elected federal government in May 1999. The government, on assumption of office, identified corruption, governance, pervasive poverty and the democratisation of the development process as issues that should be forcefully tackled in order to begin to reverse the economic decline.

Indeed, the optimism index league table, by putting Nigeria at the top, truly reflected the global consensus that Nigeria, after the restoration of democracy, was at a threshold. It has the potential to become an economic giant in Africa and eventually in the rest of the world by virtue of its size, population, human talent, rich resource endowment and economic capacity. Or it could squander the opportunity away as indeed it has done several times during the past forty years. The challenge facing Nigeria is brought clearly home by the ***Africa Competitiveness Index 2000***. Here Nigeria was ranked 20th out of 24 countries (Figure 3.5). While the optimism index is based on expectations, the competiveness index is based on current objective reality.

Nigeria's lack of competiveness manifests itself most glaringly in the manufacturing sector. After more than four decades since the country embarked on industrialisation, the sector currently accounts for only 6.4 per cent of GDP and has been providing very little employment. Manufacturing value added has risensteadily from 2.6 per sent of GDP in 1958 to over 10.0 percent in the 1970s. Then, from the mid 1970s, partly as a result of persistent economic crisis and shortag of foreign exchange resources to pay for imported raw materials and machinery and partly as a result of deregulation and removal or drastic reduction of tariff and non-tariff barriers, there was a dramatic fall in demand for home-produced goods in favour of imported manufactures. Consequently, capacity utilisation in the the manufacturing sector has plummeteed to less than one-third. Befor this fall, the Nigerian manufacuring products had made deep inroads in the ECOWAS markets.

Nigeria is once again at a threshold.It has the potential to become an economic giant or it could squander the opportunity away as it has before.The high rating in the Pptimism Index League table has assumed that it will exploit fully its new opportunity by putting corruption behind it and by developing a culture of good governnance and democratisation of the development process

Figure 3.2a

Figure 3.2b

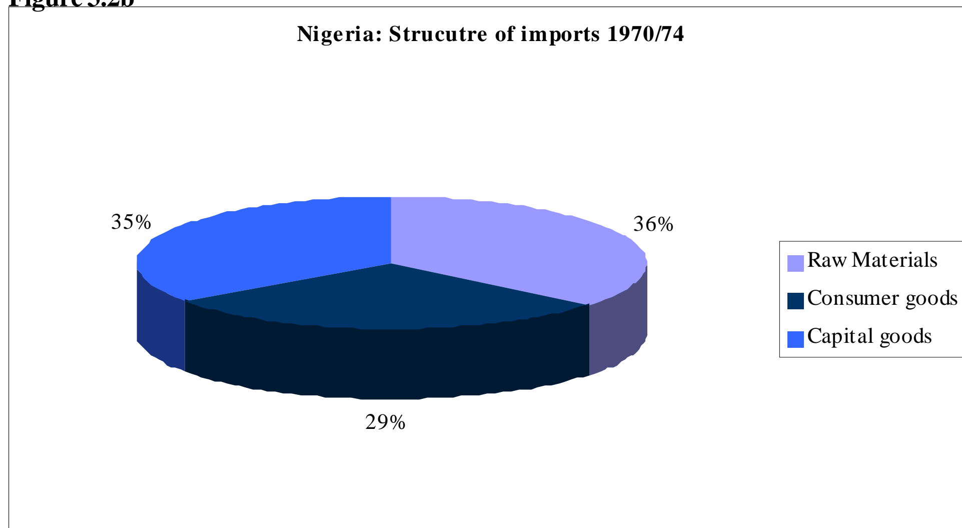
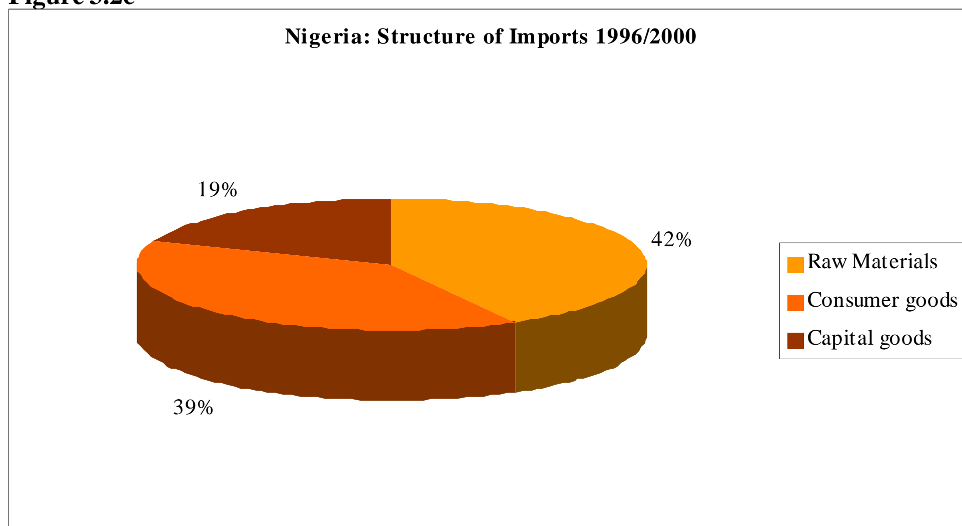


Figure 3.2c



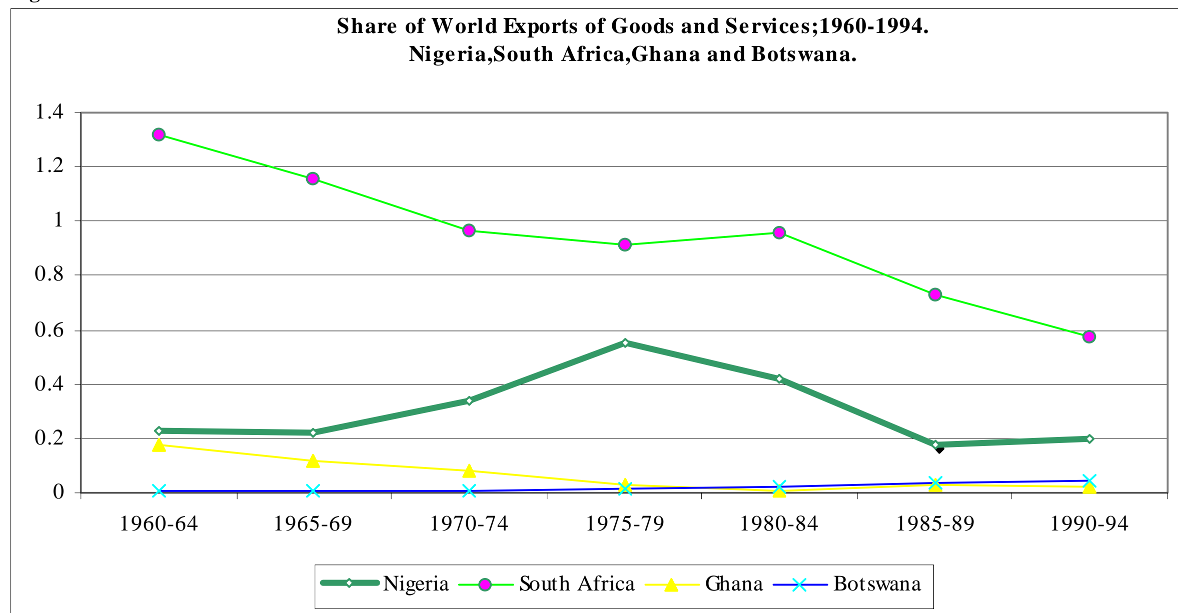
Source: *CBN, Chainging Structure of Nigeria's Economy, Lagos, 2000, Page 23*

Since consumer goods industries dominate manufacturing activities, accounting for between 70 and 75 percent of value addes employment and are basically small-scale or micro-industries — about 65.2 per cent — and given the perennial shortage or lack of infrastructural facilities, there was no way in which these industries could be competitive globally. The playing field is far from being level. The average Nigerian manufacturer has to provide private electricity, water, transport and even security services to supplement the inadequate, unreliable supplies from the public sector. How can he/she be expected to compete successfully with foreign rivals where these infrastructural facilities are public goods, available to individual manufacturers at little or no cost to the enterprise? Nigerian industry competitiveness will be greatly enhanced with the provision of efficient, reliable and cost-effective infrastructure service.Privatisationand marketisation before meeting these conditions would most likely prove abortive. It is now often forgotten that the competitive model of classical economics was the domestic economy and market. Unless and until a country achieves a high level of efficiency and competitiveness domestically it cannot be competitive abroad.

The liberalisation of an underdeveloped economy without satisfying these conditions is unlikely to lead to a workable market system. It is imperative that structural deficiencies and rigidities should be eliminated by fundamental socio-economic reform as precondition for full and effective participation in the globalisation process Boxes 1.5 and 3.2).

The agricultural sector is even less competitive or at best as uncompetitive as the manufacturing sector. Its capacity to fulfil its traditional role has been constrained by various political, socio-economic and structural factors since independence in 1960. These include persistent political instability which culminated in the civil war in the late 1960s, the severe drought of the early 1970s and 1980s and, of course, the rise of oil as the most dominant contributor to exports and GDP. While the civil war alienated many people from farming, the oil boom of the 1970s created relative-disincentives for agriculture vis-a-vis the other sectors (the Dutch disease). The plummeting of commodity export prices was the straw that broke the back of the agricultural sector's camel.

Figure 3.3



***Source**:UNDP,Globalisation with a Human face(New York,1999)pages177-181*

The sector's contribution to GDP,according to FOS *Socio-economic Profile of Nigeria 1996* was in 1960/61 65.6 per cent for agriculture, livestock, forestry and fishing while the agriculture subsector accounted for 56.6 per cent. By 1977/78 it had plummeted to 21.4 and 13.3 per cent respectively before an upward swing to 34.7 and 25.3 per cent in 1981 peaking at 42.7 and 32.8 per cent in 1986, due primarily to a fall in oil prices and consequently fall in the contribution of oil relative to agricultural output and productivity.

Since then the sector's contribution to GDP has been wavering between 37 and 43 per cent annually, while the agriculture subsector was at an average of 30.5 per cent. On the whole, the average annual growth rate of the sector during the four decades after independence was 2.6 per cent per annum as against the corresponding GDP average annual growth rate of 3.5 per cent. Whereas the latter is slightly higher than the population average growth rate during the same period, the former is well below the annual population growth rate. Inevitably, therefore, the country's dependence on imported food and raw

It is imperative that Nigeria improves the competitiveness of its agricultural and industrial sectors, both domestically and internationally. Unless a country achieves a high- level of efficiency and competitiveness domestically, it cannot be competitive abroad. The libralisation of an underdeveloped economy without satisfying these conditions is unlikely to lead to a workable market system.

Rapid rise in the flows of resources is one of the characteristics of globalisation but Nigeria and indeed the rest of Africa are marginalised in private flows.

materials has grown over the years.

To improve the competitiveness of the agricultural sector, both domestically and internationally, its major constraints must be addressed squarely and without delay. They are:

- Inadequacies in the supply and use of farm inputs
- Inadequate working capital
- Lack of infrastructural facilities
- Low rate of adoption of appropriate technology
- Poor post-harvest technology
- Environmental degradation
- Pemature liberalisation and deregulation
- Lack of proactive pro-farmer food pricing

Marginalisation in world trade

Recent empirical evidence has shown that SSA's marginalisation in world trade is due primarily to lagging growth in GDP. It is not due to low trade ratios (relative to GDP). Indeed, the data have convincingly showed that African countries, on the average, trade as much as would be expected by international standards once their individual characteristics (such as income levels and size of their economies) are taken into account. Because they have failed to expand their economies at sufficient rates, their importance in world trade has shrunk. Consequently, the way to reverse the trend is not to target trade volume *per se* through trade liberalisation but to raise overall growth rates and diversify the economy away from the traditional export commodities and, in the case of Nigeria, away from oil exports.

While the average annual growth in Nigeria's GDP is close to that for the whole world, that of growth in trade lagged progressively behind that of the world at an average of 44 per cent thereof - thus becoming cumulatively more marginalised now than it was three decades ago. On the other hand, the growth rates in exports of goods and services of the European Union, East Asia, Latin America and South Africa countries were, on the average, 5.5, 9.0, 5.6 and 6.3 per cent per annum respectively.

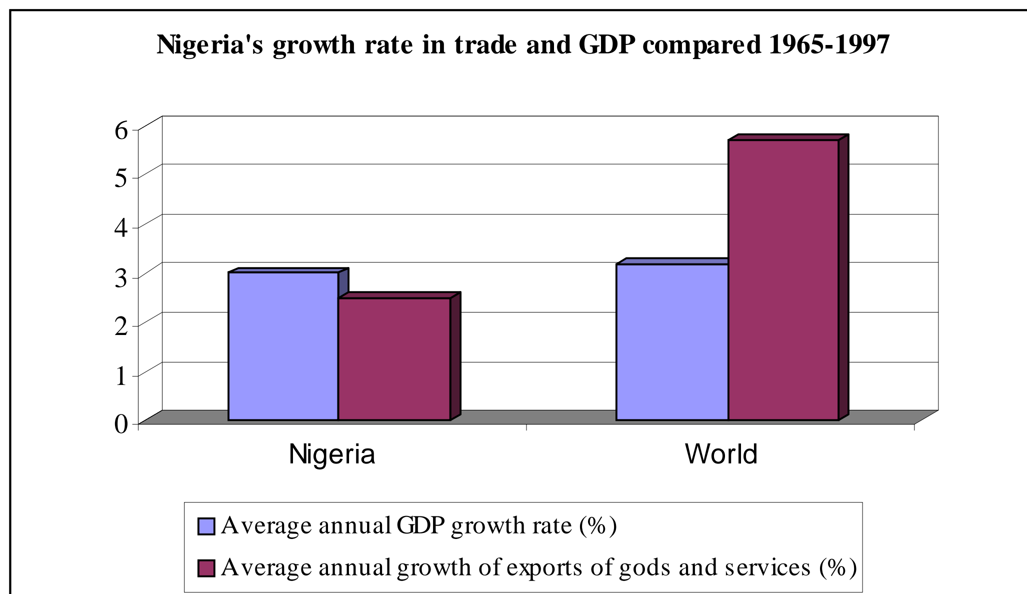
Resources flows, economic freedom and capital inflows

One of the most outstanding characteristics of globalisation is the rapid rise in the flows of resources. Indeed, developing countries as a group experienced a phenomenal increase in resource inflows during the 1990s. Aggregate net transfers (i.e. net of debt service payments and repatriated profits) increased by between five-fold and seven-fold. Table 3.1 shows annual aggregate net transfers as a percentage of GNP.

While foreign direct investment has been the dominant source of capital inflows in East Asia, portfolio investment has dominated the Latin America resource flows. In Sub Sahara Africa, private flows are small and declining except in Nigeria where due to heavy investment in oil, it has been relatively high. Between 1993 and 1996 it was on the average about 7 per cent of GDP. Yet, from 1992 until 1998, the country was engulfed in a major political crisis and was declared a pariah state in 1995 with sanctions imposed by the international community. Yet as, Table 3.2 shows, foreign direct investment in Nigeria as a percentage of GDP was at its highest in 1995.

But in spite of this performance, foreign direct investment (FDI) and portfolio equity flows (PE) to Nigeria and the rest of Sub Sahara Africa is very negligible when compared to what has

Figure 3.4



Source: World Bank, World Development Indicators, 1999 (Washington DC, 1999); page

been going to Asia. In 1995, for example, 55.2 per cent SSA received only 2.2 and 1.1 per cent respectively during the same year.

The marginalisation of Nigeria and the rest of SSA in private flows is no doubt the cumulative consequence of their image as the backward and hopeless continent (Box 1.6). High debt burdens have also crowded out private investment. But in spite of the

Table 3.1

Annual aggregate net resources transfers (as percentsge of GNP) 1990-95

Regions	1990	1991	1992	1993	1994	1995
Sub Sahara Africa	2.5	2.5	2.3	2.3	4.6	5.
East Asia & Pacific	1.9	1.9	3.6	6.4	5.8	5.8
South Asia	1.1	1.6	1.4	1.7	2.1	0.5
Middle East and North Africa	0.8	1.1	-0.1	0.6	0.3	-0.1
Latin America & the Caribbean	-0.3	0.5	0.6	2.9	1.5	1.7

Source:World Bank, World Bank Development Indicators 1999 (Washington DC, 1999)

Table 3.2

Foreign Direct Investment in Nigeria – Net Inflows (% of GDP)

1970-79	1980-8	1986-90	1991	1992	1993	1994	1995	1996
1.6	0.7	3.0	2.	3.1	5.8	7.8	9.2	4.3

Source:World Bank, World Bank, ibid

Box 3.2

Dangers of premature adoption of trade liberalisation

In the post-1985 Nigeria, the adoption of open and liberal trade policies overnight, which was implemented unilaterally, accentuated the negative rather than the positive effects of trade liberalisation. Thus, the inability to prepare local industries for competition with foreign manufacturers in the local market led to the closure of existing industries and in some cases to bankruptcies in addition to the problem of dumping. With no new investment coming in to replace the industries, the result has been disastrous — economic regression, unemployment, loss of earnings and increased human misery. The experience has demonised the international agencies — IMF, World Bank — and undermined the climate of opinion for trade liberalisation. The problem was not in the soundness of the policies but in the mode of implementation which did not allow time for planning, preparation and adaptation of the Nigerian manufacturing system. It seems evident from the experience of the successful and unsuccessful industrialised economies that success depends on the existence of three inter-linked strategies and plans:-

- A strategy for industrialisation through international competitive exports;
- A strategy for global contact through interconnectivity with the rest of the world by building the necessary infrastructure in communication, power, transport etc.
- A strategy of human capital development through imaginative policies and programmes in education and health.

The success of these strategies depends on the robustness of the national system of innovation and on the nation's ability for technological learning.

Source: *Professor Anya O. Anya*
Forum on Globalisation organised by the
Federal Ministry of Commerce, Abuja
June 2000

percieved high risks in SSA, rates of return are much higher in Africa than in other regions. But in politics, national or international, perceptions are the only reality which are similar to the twelve 'Commandments' of the US Chamber of Commerce, are trade policy, government intervention in the economy, monetary policy,

Box 3.3

The Twelve 'Commandments' or Principles of promoting direct foreign investment

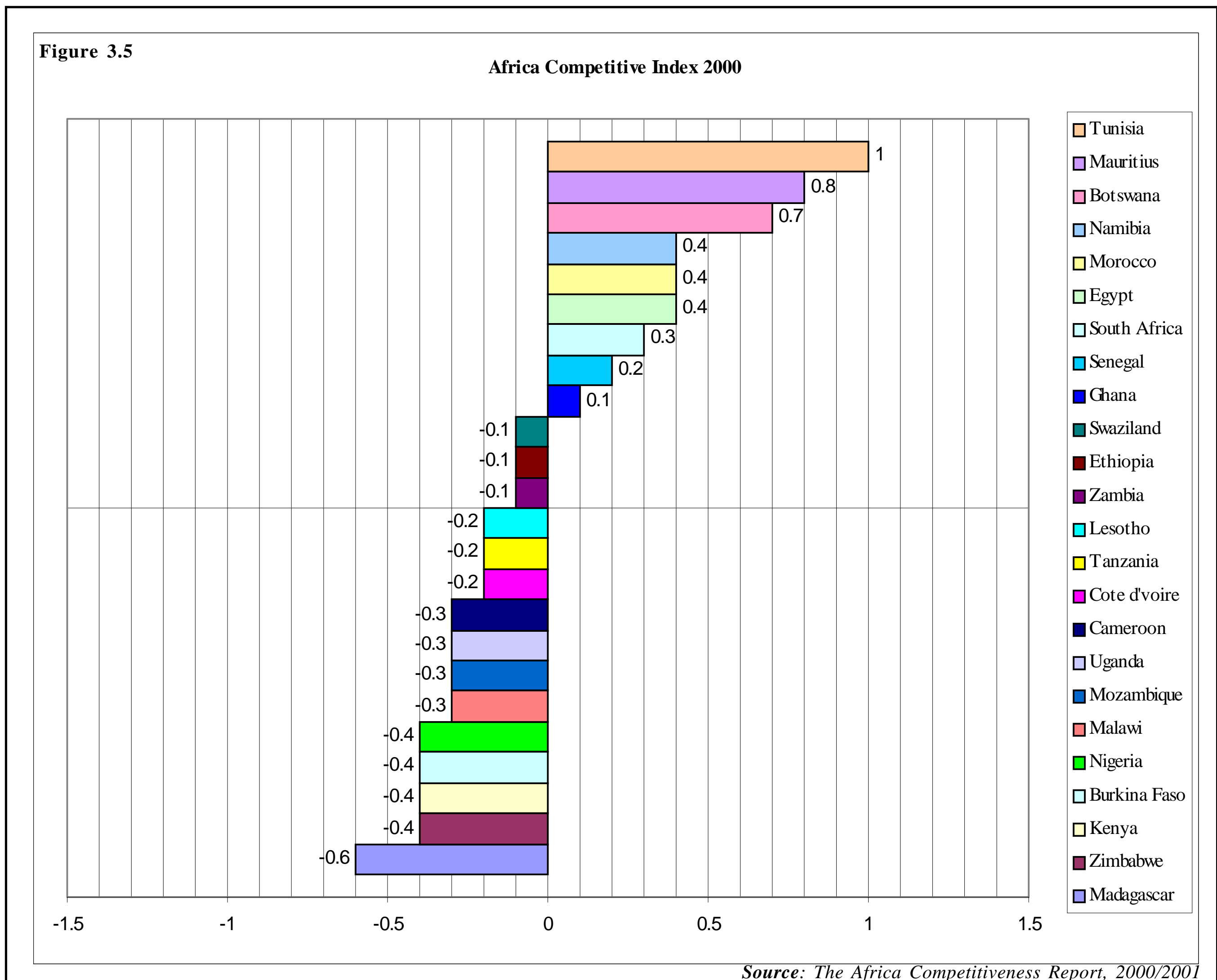
I Stable and predictable macroeconomic policy
II An effective and honest government
III A large and growing market
IV Freedom of activity in the market — the freer the market the better for promoting foreign investment
V Minimal government regulation
VI Effective protection of property rights
VII Reliable infrastructure
VIII Availability of high quality indigenous work force and local raw materials
IX A strong local currency that retains its value
X The ability to remit profits, dividends and interest
XI A favourable tax climate
XII Freedom to operate between markets

Based on a survey conducted by the ***U.S. Chamber of Commerce***

The Heritage Foundation, a conservative US think-tank, in association with the **Wall Street Journal**, publishes an Index of Economic Freedom based on ten broad economic factors that are supposed to measure the level of economic freedom. These factors, capital flows and foreign investment, banking, wage and price controls, taxation, property rights, regulation and black market (Box 3.3).

The score on each factor ranges from 1 to 5; the higher the score, the less the economic freedom due to a high level of

Figure 3.5



Source*: The Africa Competitiveness Report, 2000/2001*

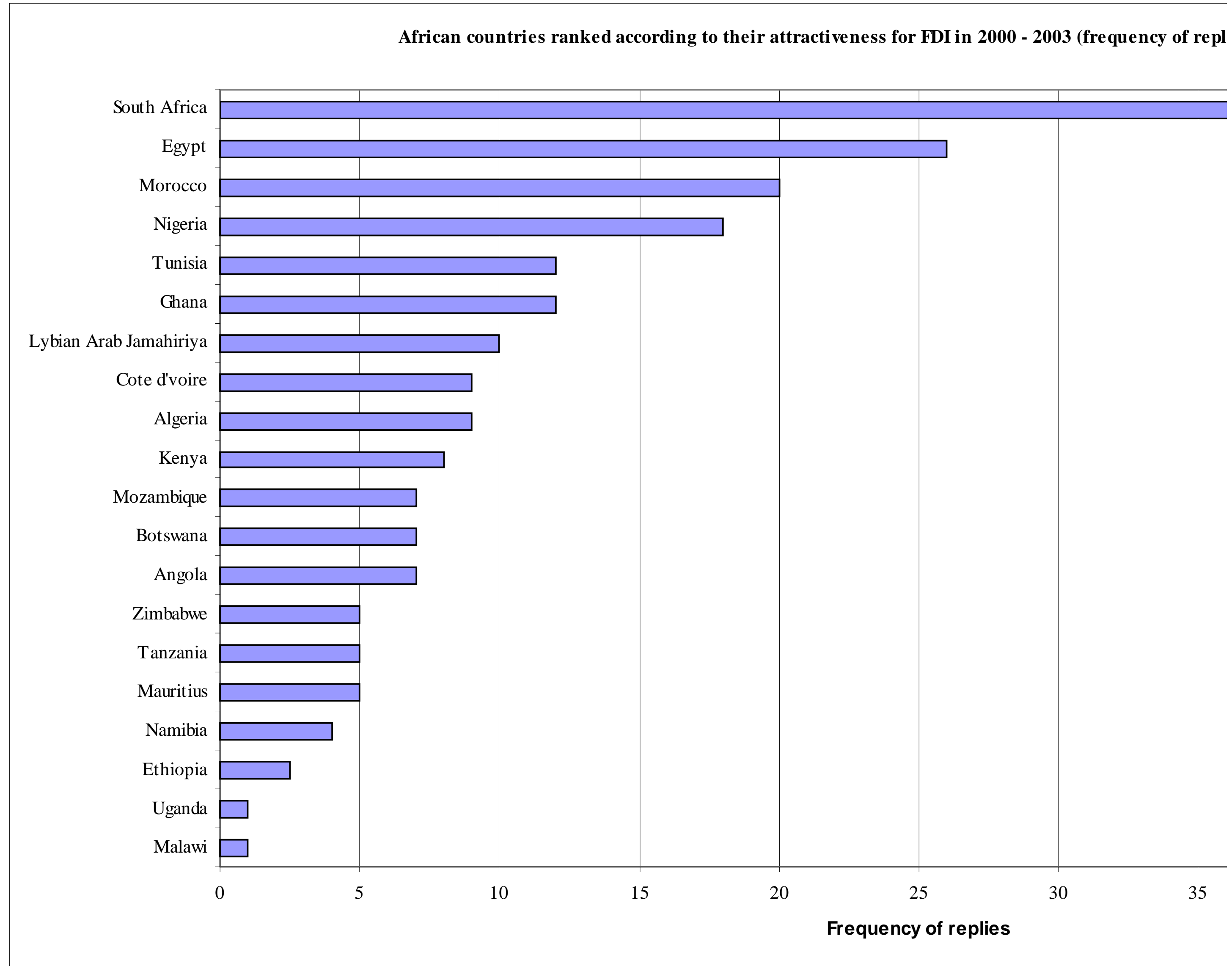
Table 3.3

Index of Economic Freedom Rankings of SSA Countries in the global context

Country	1999 World Rank	1998 World Ramk	1998 Score	1997 Score	1996 Score	1995 Score
Mauritius	43	na	na	na	na	na
Botswana	48	49	2.75	2.85	2.8	3.05
Namibia	48	49	2.75	2.95	na	na
Swaziland	54	47	2.70	2.8	2.9	2.9
Uganda	54	53	2.8	2.9	2.83	2.94
South Africa	62	66	2.9	3	3	3
Gabon	65	69	2.95	2.95	3.05	3.05
Ghana	72	74	3	3.2	3.2	3.3
Benin	75	69	2.95	2.95	2.95	na
Kenya	75	77	3.05	3.05	3.05	3.05
Zambia	75	77	3.05-	2.85	2.95	3.05
Mali	81	80	3.10	3.10	3.10	3.5
Djibouti	88	85	3.20-	3	na	n
Senegal	90	88	3.25	3.25	3.45	n
Tanzania	90	88	3.25	3.25	3.25	3.5
Nigeria	95	94	3.3	3.2	3.35	3.15
Guinea	97	88	3.25	3.45	3.35	3.35
Cote d'Ivoire	97	96	3.35	3.35	3.35	3.25
Madagascar	106	96	3.35	3.25	3.65	3.5
Lesotho	106	107	3.5	3.65	3.7	na
Burkina Faso	111	107	3.50	3.5	3.6	na
Cameroon	111	107	3.5	3.6	na	3.6
Gambia, The	115	112	3.60	3.60	3.4	na
Malawi	116	114	3.65	3.55	na	3.4
Cape Verde	119	na	na	na	3.7	na
Ethiopia	120	117	3.70	3.6	3.70	3.8
Niger	120	117	3.70	3.70	3.8	
Congo	123	120	3.75	3.75	na	3.9
Chad	124	125	3.80	3.8	na	na
Mauritania	124	na	na	na	3.70	na
Zimbabwe	124	129	3.9	3.70	4.05	3.5
Mozambique	129	136	4.1	4	na	4.4
Burundi	133	129	3.9	3.8		na
Togo	134	na	na	na	na	na
Sierra Leone	137	128	3.85	3.85	3.75	3.75
Sudan	141	139	4.20	4.20	4.1	4.22
Equatorial Guinea	143	na	na	na	na	na
Rwanda	143	140	4.3	4.20	na	na
Angola	149	142	4.35	4.35	4.35	4.35
Guinea Bissau	151	na	na	na	na	na
Congo DR	153	147	4.7	4.20	4.20	na
Somalia	155	147	4.70	4.70	4.70	na

Source: *Human Development Report 1999, Background Papers, Vol. II*

Figure 3.6



Source: *UNCTAD/ICC (Geneva 2000*

government interference. The average score on the ten factors determines the broad ranking of economic freedom. Countries with an average ranking of less than 2.00 are categorised as ***free*;** those with a score of between 2.00 and 2.99 are ***mostly free***; 3.00 to 3.99 are ***mostly not free***; and, 4.00 score or higher are classified as ***repressed*** economies.

Nigeria's score which was 3.15 in 1995 had increased to 3.3 by 1998 and 1999 i.e. ***mostly not free*** and was ranked 94th and 95th in 1998 and 1999 respectively.

Forty-two African countries were scored and graded. Not one received a score of less than 2.00 and a rating of ***free***; seven were graded ***mostly free***. These are Botswana, Gabon, Mauritius, Namibia, South Africa, Swaziland and Uganda. Twenty-seven countries were rated unfree or ***mostly not free*** while the rest were classified as ***repressed economies*** (Table 3.3).

In other words, in spite of extensive trade liberalisation undertaken in many an African country, despite the massive devaluation of their currencies so as to make them convertible and despite the spread of the establishment of stock exchanges throughout the continent their countries remain economically unfree and repressed. There is some correlation between economic freedom index and human freedom index and, of course, between both and human development index.

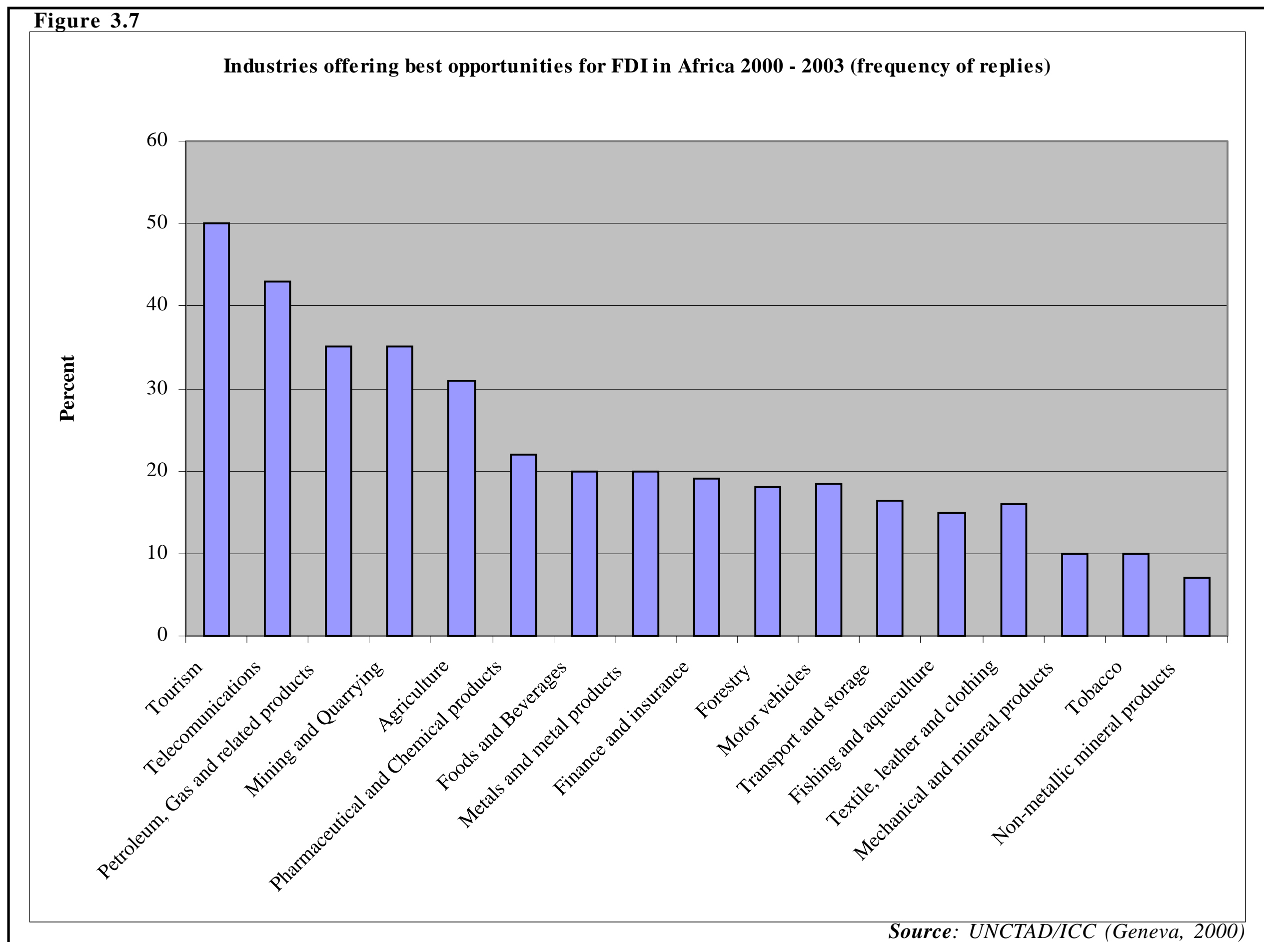
Growing optimism about Nigeria's potential to attract FDI

With the spread of democracy in Africa, the optimism about the future of the continent continues to hold. The recent peaceful handing over of political power in Ghana following the example of Senegal after democratic elections give cause for optimism. It is not surprising, therefore, that one–third of the TNCs that responded to a poll on foreign direct investment (FDI) in Africa conducted by UNCTAD and the International Chamber of Commerce (ICC) at the end of 1999 expressed confidence that there will be increased flow of investments into Africa. Although about 73 per cent of the respondents assessed the overall potential for FDI in Africa as "limited", only 12 per cent considered it to be "very large" or "large". All the respondents had assumed that individual African countries will be successful in eliminating those negative factors that always stand in the way of FDI. These include the prevalence of extortion and bribery, difficult access to global markets, high administrative costs of doing business and lack of personal and public security.

The TNCs concerned gave clear profiles of their assessment of investment potential (Figure 3.6). These vary according to regions as follows:

- **North Africa:** petroleum, gas and related products, telecommunications and tourism;

Figure 3.7



Source: *UNCTAD/ICC (Geneva, 2000)*

- **West Africa:** petroleum, gas and related products, agriculture, forestry and telecommunications;
- **Central Africa:** mining, quarrying and forestry;
- **East Africa:** tourism and telecommunications;
- **Southern Africa:** tourism, transport and storage and telecommunications; metals and metals product; motor vehicles; pharmaceutical and chemical products and agriculture.

As Figure 3.7 shows, tourism, telecommunication, petroleum and gas and mining and quarrying are on top of the preferences list as offering the best opportunities for FDI in Africa during the period 2000 to 2003. Figure 3.6 on its part, shows that in in terms of the attractiveness of individual countries for FDI during the same period, South Africa ranked the highest followed by Egypt, Morocco and Nigeria while Ethiopia, Uganda and Malawi ranked lowest.

The financial market is highly dependent on the free and fast flows of information, a reason why it has been profoundly affected by ICT revolution and globalisation. Efficiency has consequently been fostered in the financial services sector because of the very high degree of competition. This has been partly encouraged by the dismantling of regulatory barriers, protectionist tendencies and market reforms.

But unregulated financial flows can constitute a threat to national sovereignty. And electronic banking and finance is one area where governments all over the world will have to take concerted action to combat fraud. As the world moves towards an intangible global monetary system using electronic means to move funds, more responsibilities will be placed on the law enforcement agents of all countries of the world to combat the ever-changing dimensions of fraudsters.

Fortunately, Nigeria currently has, by African standards, a relatively well-developed financial service sector. The proliferation of financial institutions in the late 1980s and 1990s and the lack of adequate supervision produced a crisis in the sector in 1996. The federal government responded forcefully by

- closing about thirty-one banks which were adjudged to be under-funded and/or poorly managed
- raising the minimum paid-up capital tenfold
- strengthening supervision

Nigeria, indeed, has one of the most open(and vulnerable) economies in the world. More open than the average Sub Sahara Africa country, East Asia and Pacific states and, of course, by far more open than Latin America.

A recent World Bank study of the sector expresses general satisfaction: the commercial bank sector is relatively healthy and the risk of a financial sector crisis is at present quite low. But from the view of Nigeria playing a proactive role in globalisation, there is need to develop the capital market, including particularly market for venture capital.

In order that Nigeria's banking and financial system can participate fully and positively in the globalisation process the erratic and abnormal nature of interest rates must be put in order. As already pointed out distortion in interest reduces the system's ability to compete. Secondly, macroeconomic instability also has to be corrected and avoided. Thirdly, the financial infrastructure must be adequate. The facilities for ensuring a free flow of information, an appropriate regulatory system and the availability of the relevant manpower and skills are especially vital. Any growth of the financial structure which is not adequately matched by a corresponding improvement in the financial infrastructure will be counterproductive. The persistence of informal parallel financial markets undermines the effectiveness of the formal sector. In spite of the significant progress which the latter has made during past decade, the informal markets have continued to grow in both size and sophistication.

The openness of the Nigerian economy

In concluding this chapter of the Report, the question as to how globalised Nigeria is nad how open are its economic veins and must be addressed. It is an incontrovertible fact that the Nigerian economy is well integrated with the global economic system. One measure of globalisation is the openness of an economy and this can be ascertained from the ratio of trade (export plus import) to GDP.

Table 3.4 situates the openness and globalisation of the Nigerian economy in the global context. It covers the past three decades, 1970-2000 and compares the Nigerian situation with those of Sub Sahara Africa, East Asia and the Pacific, Latin America and the Caribbean and the world average.

The picture which emerges is a country which is well and intimately integrated with and excessively dependent on the international economy and is exposed to external shocks and the boom-and-bust cycles of world macro-economic forces. This is also true — but to a less extent — of the rest of Sub-Sahara Africa and of East Asia and the Pacific as well as South Asia. Indeed, the growth in globalisation has generally been quite rapid in poor countries. Unfortunately, this is not the case with the benefits of globalisation.

Indeed, econometric studies have now shown that there is no robust relationship between growth and openness. Empirical evidence shows that inter-country income distribution has worsened as the extent of global openness has increased — the only exception is East Asia. Otherwise, it is only the high income countries that have gained relatively.

The inevitable overall conclusion that the different analyses lead to is that it requires more than openness and deregulation to make

a country become a net gainer in the globalisation process. The extra is improved competitiveness. It is for this reason that although the US is, through its TNCs, in the forefront of the globalisation process, its economy has remained basically insular — its openness being only 12.2 per cent in 1999.

Deepening Nigeria's capital market

Nigeria is one of the 15 African countries with Non-Bank Financial Institutions (NBFIs) particularly those in the securities segment. The most well known of these institutions is the Stock Market. The fourteen countries, where stock markets also exist are Bostwana, Cote d'Ivoire, Egypt, Ghana, Kenya, Malawi, Mauritus, Morocco, Namibia, South Africa, Swaziland, Tunisia, Zambia and Zimbabwe.

Except for Egypt and South Africa , the stock market in these countries are usually very small in size, with very few listed companies. In Egypt and South Africa there are 746 and 640 listed companies. These are comparable to what some developing countries in Asia have e.g. South Korea, 693 companies and Taiwan, 285 companies. In Botswana, Namibia and Swaziland, the number of listed companies are 12, 10, and 4 respectively. Nigeria has 181 listed companies in its stock market (Table3.5). By

The Nigerian experience shows that it requires more than openness and deregulation to make a country become a net gainer in the globalisation process.

Table 3.4

Situating the openness and globalisation of the Nigerian Economy in the Global Context 1970 - 2000

Nigeria and World's Regions	1970	1980	1990	2000
Nigeria	68	70	60	61
Sub-Sahara Africa	44.3	59.5	53.2	56.1
East Asia & Pacific	18.6	31.9	44.4	58.3
Latin America & the Caribbean	23.4	32.5	31.1	35.6
World	27.1	38.7	37.9	42.5

***Source**: World Bank, World Development Indicators, 1998*

Table3.5

The stock Markets in Africa - Basic Indicators, 1995

Countries	No of listed Companies	Market CapitalisationUS$ (millions)	Trading Value US$ (millions)	Turnover Ratio	P/E Ratio	DividendYield(%)
South Africa	640	280,526.	17,048	6.5	18.8	2.3
Egypt	746	8,088	677	10.9	-	-
Morocco	44	5,951.	2,426	45.9	21.5	2.5
Tunisia	26	4,006.	662.9	19.8	26.0	1.6
Zimbabwe	64	2,038.	150	7.6	7.3	5.2
Nigeria	181	2,033.	14	0.8	12.5	5.6
Kenya	56	1,889.	65	2.8	12.4	4.3
Ghana	19	1,680.	22.3	1.3	8.0	3.7
Mauritius	28	1,381.	69.8	4.6	11.1	5.1
Cote d'Ivoire	31	867	14.1	2.2	12.0	10.1
Botswana	12	397	38.4	10.0	9.9	6.5
Swaziland	4	339	0.4	0.1	7.4	5.7
Nambia	10	189	3	1.6	11.0	3.6

* Figures are end of period(Dec),1995
* Countries are arranged in descending order according to market capitalisation.
- P/E ratio = Price/earning ratio

***Source:** IFC(1996),Emerging Markets Fact Book, Washington,D.C*

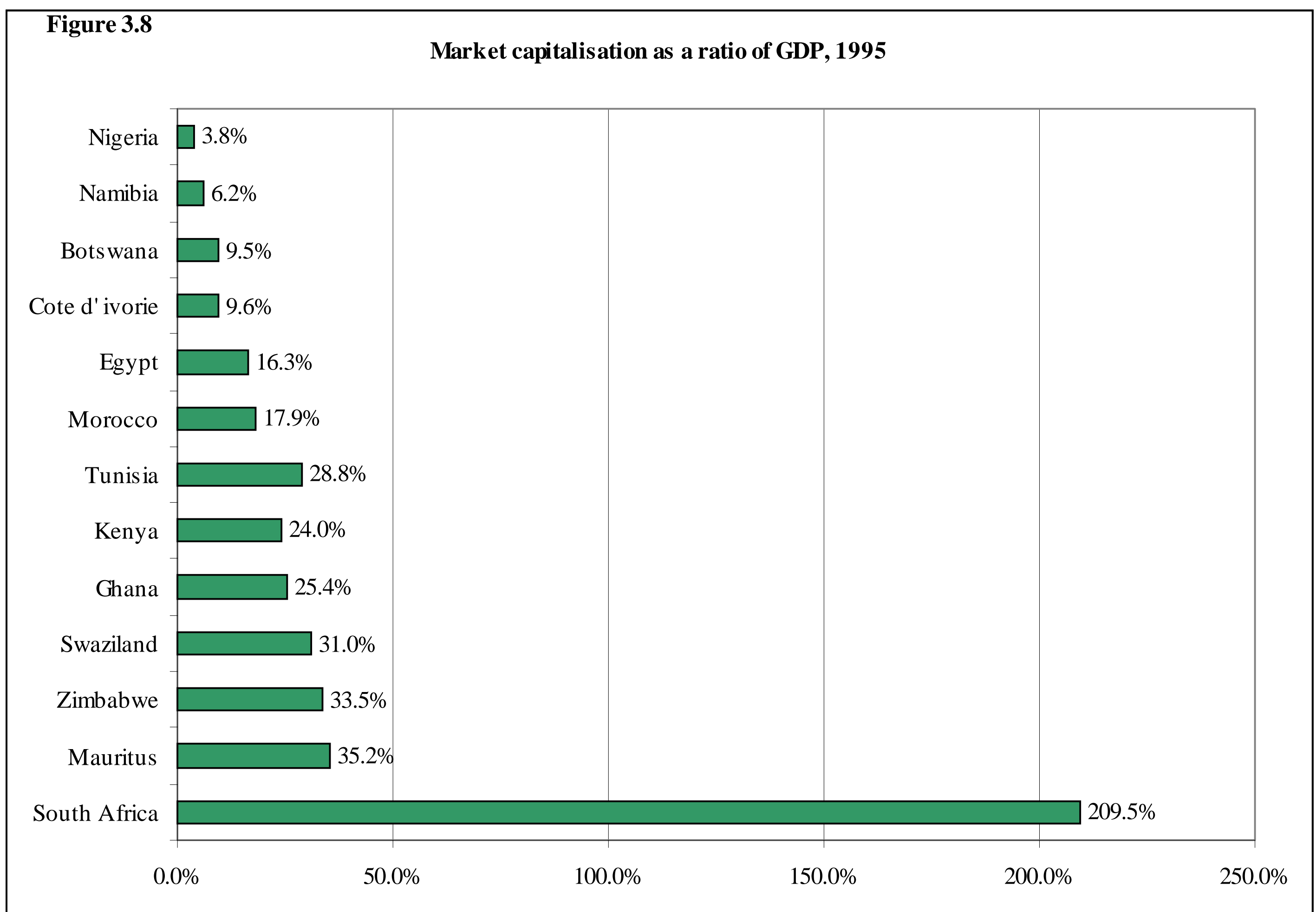
developing countries' standard the figures are on the low side.

The weaknesses in African capital market further manifest themselves by their lack of depth. In 1995, Africa's total market capitalisation was about US$310 billon and South Africa accounts for over 90 per cent Nigeria's share is only 0.65 per cent. Inevitably, the trading values turnover ratio and dividend yields are all very small. However it is from the market capitalisation indicator that it becomes crystal clear how under developed our NBFIs are. Apart from South Africa whose market capitalisation as a ratio of GDP was 209.5 per cent in 1995, all other countries are trailing far behind, with Nigeria at the bottom of the ladder with 3.8 per cent (figure 3.8)

While a strong private sector is necessary for promoting and expanding stock markets, an active private sector requires the existence of a vibrant capital market. The two reinforce each other. Both require the following minimum conditions:

- Stable exchange rate regimes
- Removal of the lega obstacles to capital movements, particularly repatriation of dividends and profits.
- Establishment of a regulatory and supervisory framework to protect the rights of investors
- Developing and strengthening the non-securities segement of the capital market which complements the activeities of the stock exchange e.g. finance companies and venture capital companies.

Figure 3.8



Source: ADB, African Development Report, 1997 (Abidjan, 1997) Page 136