

## Nigeria: Diversify or Drown

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Nigeria's monolithic economic structure which is precariously seated on crude oil is enough red flag for this country. Many other red flags exist though. However, at the other extreme is economic diversification which though its absence continues to be a red flag is not and can never be a solution to Nigeria's problem. Economic diversification can only be the natural consequence of a well-run Nigerian economy!! The failure to properly locate economic diversification as an effect rather than current and future cause of Nigeria's problems have led to many erroneously situated recommendations. At one end of the ideological premises are those who believe that the government should launch the needed diversification: invariably "the government should run the economy" while the rest of the stakeholders in the economic life of the country fold their hands. And as has always been the case, they bear the full consequence of mis-running the system. But this ideologue has prevailed in this country for many years.

The policy recommendations that inevitably flow out of such reasoning the include "quasi mercantilist" albeit anachronistic economic developmental strategy of import substitution, national development plans that focuses public resources on areas which the government considers most important in driving the diversification or at worst indicate the early signs of such diversification. At the other end of the divide are those who hold that once there is genuine and effectively working rule of law, sound monetary and fiscal policies, that other sectors of the economy beyond crude oil exports will naturally spring up and grow. The reason being that good fiscal stance should identify economically strategic areas in which government should concentrate its spending within the constraints imposed by its limited resources. For now, one would expect focus on strengthening the justice delivery system, basic social infrastructure top of which include electricity, education and health. With effective and genuine "rule of law" the fiscal promises will be realized as those who fail to implement the budget or cause leakages within the public sector earning/spending track will be brought to book. Every man will live under the wings of the law. Accordingly the necessary fiscal pressure and financial criminality that create monetary and financial system instability will be curtailed.

Oil is dominantly the largest sector of the economy in terms of its earnings from foreign exchange. Till date, crude oil availability continues to provide hideous nest and a concealment of the damage caused on this economy by the policies of those who ruled this country since its discovery and boom. Oil, has sustained un-needed size of large but grossly ineffective bureaucracy; provided needed resources in the hands of those in power to emasculate political oppositions; subsidized inefficient government-owned enterprises. What oil can potentially achieve has not finished because for those who believe that government should "create" the needed diversification, same oil will be used to finance its inefficiency and inevitable failure. A few examples of such attempts can be found under the current dispensation. The first is the agricultural programme in which government through the central bank would guarantee 80% of the N200billion loans that two commercial banks- UBA Plc and First bank Plc were required to make available to firms who meet their lending requirements. The second is the N500billion industrial stimulation fund apparently to halt the rapid demise and relocation to neighbouring countries of many manufacturing firms to neighbouring countries. The third government action in this regard is with the N100billion textile funds. These really constitute some government efforts at jumpstarting the process of diversifying an economy that has literally refused to economically diversify on its own. Some regimes in the past, did quite a lot with focusing similar policies on achieving massive cassava

production and export specifically, the Obasanjo regime emphasized “exported oriented” policies on cassava and as a result, many commonly-owned resources were poured into the project with the Food and Agricultural Organization thumbing its hands up for Nigeria as a leader in cassava production and export. Honestly, it is debatable whether Nigeria’s export of cassava pealets or flour is still relatively substantial when compared to the drums and fanfare with which it was launched. The cassava initiative was a good idea though but its future success lies on the backdrop of successes in eliminating the killers of similar initiatives in the course of Nigerian history. Just as the recent cassava initiative may eventually hit the road block; the green revolution failed; the operation feed the nation failed; so shall the current administration’s attempts at both the agricultural, industrial and textile industry stimulation fail unless certain necessities are apriori in place. But many of those who benefit from these avoidable failures and a lot of those who are ignorant of the connection between these serial failures and some nest of corrupt persons and inappropriate policy structure and their implementation sequences are undeterred and are even pushing for such extreme models as outright import substitution in the areas of agriculture and industry. The argument has always remained that the “eternally nascent” Nigerian agriculture, agro-based and basic industries need to be well protected in order to develop and compete in the global market.

But such suggested policies have with them a policy menu that in turn have consequences that ultimately destroy the prospects for the achievement of sustainable economic diversification. These include: subsidizations, numerous protective barriers to trade, possible and occasional discouragement of foreign investment in these target areas, possible state intervention in the prices of the target commodity, currency devaluation as a means of boosting exports and discouraging imports, possibilities of different exchange rates for importing capital goods needed for agricultural and industrial production etc. Any combination of these menu items can only give a solution set such as: enhancement of government policy inefficiency by opening up more windows for rent-seeking and corruption. Many of these have been tried variously at different times and the outcomes have remained the same: failure. Aside the fact that they are veritable mechanisms that help in creating opportunities for public sector resource-carions in collaboration with their money- laundering private sector felons to continuously rape the system and frustrate that primary motive of achieving independence and growth in those sectors. The model and their look – alike models present a menu of other economic initiatives that damage sustainable development by intermittently distorting the hitherto optimal structure of consumer and investment preferences in the economy. These inevitably create unsustainable growth. Consequently, what emerges most of the time is like momentary blitz sustained by subsidies from government that fade away as soon as such booms wane.

Sustainable economic diversification in Nigeria is attainable when the following forces are in place and fully at work in the order of priority stated below: (a) rule of law (b) macroeconomic stability and (c) effective knowledge economy. Phases (a) and (b) guarantees the right environment for sustainable economic development and prosperity while (c) is the engine that propels diversification. These three forces are dynamically reinforcing. Well functioning system of rules where everybody is equal before the law; and where the law is truly just while the system for justice dispensation is effective; not rotten, and not hijacked by a few “evil” network will always provide the right environment for enterprise; and ensure that macroeconomic policies yield efficient and desirable results. The absence of law aside the uncertainties it engenders in private business life by destroying the respect for private property and life and not supportive of the concerns for the stability of possessions, or the keeping of promises by various economic agents puts enormous pressure on the stability of fiscal decisions of government. By creating the room for corruption and lawlessness, bureaucrats are able to corruptly pad and over-invoice fiscal spending in order to accommodate their selfish

pecuniary objectives. And since these leakages from the income streams are usually at very large scale, the result is the mounting of enormous pressure on monetary policy to accommodate these fiscal excesses. For emphasis, fiscal accommodation here may not require the creation and printing of new monies. That may however be the inevitable end result.

For several decades, this economy has coasted on deficits which are primarily predicated on such padding. By the end of the day; nothing is shown for the budget deficits and extra budgetary activities of various governments. These monies just fizzle away into the pockets of few. And even when those who embezzled these are known, the law is incapable of either sanctioning them or recovering the looted funds. The pressure on money in turn creates its own instability as more and more stocks of money are pushed to support “supposed” transactions that are either did not take place at all or are already doomed to fail due to corruption-induced leakages. Funny enough, not much can be achieved in terms of monetary policy effectiveness until the issue of the rule of law in this country is addresses. The recent crisis in the banking industry is very much a pointer to the same fact. Violations of corporate governance which has been at the heart of the rape of the system are only sustained by a weak system for justice implementation.

However, with effective justice system and macroeconomic stability, the knowledge economy which is essentially the force that galvanizes sustainable diversification of the economy can then sprout. That way the massive brain drain that have plagued this country will be reversed while more persons will be willing to invest and work in the country. Globalization and Information technology - driven investments will become more apparent and massive. Generally, the impact of knowledge on economic progress are more effective when there exists (a) increased speed of scientific and technological progress which in turn is umbilically tied to the appropriateness of government's economic policies (b) progress in information and communications technology that facilitates cheap and speedy global transfer of information and knowledge (c) increased global competition which results in reduced costs (d) changing demand associated with changing consumer preferences.

But these drivers of knowledge economy cannot possibly be brought into action without stable and regular electric power supply, and other basic social infrastructure including roads, education and health. In turn, electric power, and other infrastructure are possible when (a) there is adequate budgetary provisions for them (fiscal adequacy criterion) as well as (b) the adequacy of legal and justice enforcement mechanisms that ensures that those to whom these monetary provisions are placed in their hands for the implementation of the appropriated infrastructure programme are adequately punished if they fail to do so. Not just doing so but at the desirable level of quality (rule adequacy criterion). By implication, the fiscal and rule adequacy criteria are necessary and sufficient conditions for creating the critical base upon which the knowledge economy sits.

The immediate impact of burgeoning knowledge economy is economic diversification. New knowledge always produces better things of value, either physical or intangible. It is the bedrock of new system, more efficient processes, new sources or better inputs etc. Enhanced knowledge of economic participants can only create better and more value – creating competition in many ramifications of economic life. Early signs of diversification usually manifest in enhanced quality of output and the capacity of entrepreneurs to be more competitive in the global market place. That means that economic diversification is not an agenda that irresponsible protectionism will help the country to achieve. But once the environment is ripe and the knowledge economy is released, one would expect that the immediate opportunities in a typical Nigerian context can be seen not only in the growth of the service sectors but in the growth of agro-driven and solid minerals based businesses. The list here will comprise such areas as non-oil private manufacturing, mining, construction sector, etc. For Nigeria, the opportunities in these sectors are immense and should be expected to readily represent the early signs and indeed real

sources of potential economic diversification. But one thing should be pointed out. That is: sustainable economic diversification is only achievable when we are able to resolve the primordial challenges that have led to our underdevelopment as a people primary of which is corruption.

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