THE NATURAL RESOURCE CURSE AND CHOICE OF GOVERNANCE

The African Experience

Professor John O. Ifediora
Department of Economics
University of Wisconsin-Platteville
USA

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If country-specific data, and the statistical analysis based on them are good surrogates of what they represent, then figures from The World Bank indicate, by any reasonable standard, that Nigeria’s economic performance since independence in 1960 has been abysmal. Using the most reliable survey of the country to date, the figures show that in 1970 the per capita GDP for the country was US$1,113, but by 2000 it had fallen to US$1,084. Between 1970 and 2000, the poverty and income distribution indices show similar deterioration. The poverty rate, measured as those living on less than US$1 per day, had risen from 36% to approximately 70%; this means, in raw numbers, that the number of people living in extreme poverty had risen from 19 million in 1970 to 90 million in 2000. The income distribution figures are no less discouraging; for they show that in 1970, the top 2% and the bottom 17% of the population had an equal percentage share of the national income; but in 2000, the top 2% and the bottom 55% had about the same share of the national income (World Bank, 2005). This, in spite of the fact that between 1965 and 2000, Nigeria had derived a total net revenue of US$350 billion from oil exports. Similar surveys of many sub-Saharan African countries reveal equally disquieting trends (World Bank, 2007); but why? Why has economic development proved so elusive in Nigeria? Is the absence of sustained economic growth, despite massive assistance from donor states and windfalls from oil revenues, a result of native factors that are inhospitable to economic development? World Bank staff economists took the lead in seeking answers to these questions, and as a result numerous economic studies have since been commissioned, and undertaken (Van de Walle, 2001). The results and policy recommendations vary.

The Dutch disease syndrome or the natural resources curse provides, amongst many, a plausible explanation; but the explanation it provides can only be profitably utilized when understood within the context of the political realities that inform the governance structure of Nigeria. And since state actions or policy initiatives put in place by the ruling elites have both social and economic consequences, the problem of economic
development cannot be entertained as a strictly economic phenomenon; the controlling regime type matters. Since poor economic performance and regime type are central to Nigeria’s underdevelopment, suggested remedies must be holistic. In this paper, I take the position that industrialization, regulated international trade, and targeted foreign direct investment are the appropriate path to economic growth, and enduring democracy.

**Introduction.**
The level of economic development and the path taken to sustain such development are invariably deterministic of chosen forms of governance, and the political realities that inform them. The literature on political economy is near unanimous on this claim, especially as it pertains the experiences of the developing world --- Africa, the Middle East, and parts of Asia. The relationship between economic development and choice of governance is indeed intricate, for it touches all mechanisms by which a society deploys its resources to meet defined goals and expectations, and how it defines and distinguishes itself from others. It is to this relationship that one must appeal in order to understand, not only why countries in sub-Saharan Africa remain economically underdeveloped, but also the forms of government that exist in the sub-continent.

With the sole exception of South Africa, all sub-Saharan African countries depend largely on extractive activities, and foreign aid to sustain their faltering economies. Some countries like Nigeria, Equatorial Guinea, and Gabon depend on oil revenues; most of the rest depends on revenues from other forms of mineral extracts, but all, in spite of derived revenues from natural resources depend, to varying degrees, on foreign aid. These two pre-dominant sources of sustenance for the sub-continent (natural resource and foreign aid) are powerful determinants of the path to economic development taken so far, and the choice of political governance that define constituent countries.

In African states, especially those endowed with abundant natural resources, there is strong evidence that ‘rents’ from these resources have shaped the allocation of political power within these states as political elites use derived economic benefits to sustain their
privileged positions in government. That authoritarianism, and one-party political
dominance were fashionable in most of these states in less than a decade ago is traceable
to natural resource rents; that modern African states today with multi-party political
structures are more often than not dominated by one political party is equally explainable,
with relative facility, by the same phenomenon. It is this link that I intend to explore in
this paper. Specifically, I intend to explore the link between the path taken to economic
development and the choice of government in sub-Saharan Africa in general, but with
specific emphasis on Nigeria. I also intend to use the explanatory properties of the Dutch
disease syndrome to explore this link, and then recommend solutions. The ensuing
analysis and solution are based on the understanding in the economics and political
science literatures that economic growth and rising personal income are generally
conducive to democracy, while slow growth rates and low income levels tend to
encourage authoritarianism.

1. The Dutch Disease or Natural Resource Curse Paradigm
In its popular apprehension, the Dutch Disease is the observed correlation of the
discovery of marketable natural resource within the territorial competence of a state and
the subsequent decline in the state’s rate of economic growth. While this observed
correlation had been the primary preserve of development economics, it has now been
profitably used by political scientists to seek explanations on how this observed economic
phenomenon defines, to a large extent, the political realities in a nation-state; both in
terms of political arrangements, and the relationship between the state and the governed.

The Dutch Disease syndrome or the natural resource curse has been serviceable in
attempts to explain why countries that unexpectedly discovered highly marketable natural
resources end up with a poorly performing economy or actually experience de-
industrialization. While this was the original comprehension of the concept, it has now
been used to explain similar experiences in aid-recipient countries. Typically, this
economic phenomenon manifests itself in one of two variants. In a fixed nominal
exchange rate regime, an influx of foreign exchange income from any source, i.e. income
from natural resource export, foreign aid, etc., would tend to impact domestic relative
prices. Since prices of internationally traded goods are set by world markets, prices of goods consumed domestically would be inflated, thus giving rise to resource reallocation towards domestically traded goods. This causes a reduction in investment in export goods, and a subsequent decline in the amount produced. Domestic production of all goods may actually fall if the inflow of foreign exchange income makes imported goods cheaper, and more attractive. This is one variant of the Dutch disease effect.

Another variant is when the influx of foreign exchange income occurs in a flexible or floating nominal exchange rate regime; in this instance, the influx induces an appreciation of the exchange rate of the domestic currency, thus making exports more expensive while cheapening imports. This has the unwanted effects of reducing domestic production in favor of imports. At the extreme, it discourages industrialization or induces de-industrialization as the country relies ever more heavily on imported goods at the expense of domestic production, experience, and technology that come with learning by doing. This is the classic sense of the Dutch Disease syndrome, and affords reasonable guidance to the Nigerian experience, and those of countries in central Africa. As an explanatory tool, it helps explain why resource-rich countries such as Nigeria, the Congo, and Libya have been outperformed economically by resource poor-countries such as South Korea. And why each of these resource-rich countries remains governed by authoritarian or quasi-democratic regimes, while their relatively resource-poor counterparts are either established democracies or seriously engaged in democratization.

2. The State of Economic Development in Africa

Despite the influx of development aid, both in-kind and financial, from donor nations and international financial institutions, Africa’s economy remains abysmally weak, and accounts for less than 1.2 percent of the World’s GDP (World bank, 2006), even though more than 10 percent of the world’s population calls it home (UNDP, 1996). The World Bank and the IMF, beginning in the early 1970s, used different combinations of monetary and fiscal policy instruments that included loans and technical assistance to help spur development in the region but to no avail. By the late 1990s, it became clear to all
concerned that reform efforts in Africa have failed (Meredith, 2005); a new approach was needed.

In the main, economists tended to equate development with economic growth, and these growth models essentially regressed a measure of Gross Domestic Product over a standard array of endogenous and exogenous variables believed to influence national income (Barro, 1991). The regression results invariably lend support to the usual expectations: the stock of physical capital, the level of human capital development, openness to international trade, political competition, level of inflation, and government expenditure, all presumed to have remarkable effects on economic growth (Klein and Luu, 2003). However, in most of these studies, the dummy variable that captures everything else outside the standard vectors were consistently found to be significant (Van de Walle, 2001), thus giving empirical sustenance to the suspicion that there are certain African characteristics that are, perhaps, not malleable to the Western notion of development.

What the ‘dummy variable’ captured has been given different interpretations. Hagen (2002) argued that geographical (landlocked or not) and geopolitical circumstances are to blame for Africa’s poor performance. Chen and Feng (1996) pointed to political and social instability as the main culprits, while Lal (1988) posits that harmful cultural norms are partly responsible for Africa’s underdevelopment. Landes (1998) concurred with the findings of Lal, and emphasized the importance of certain cultural features that ‘spring from a society’s most deeply held ethical principles’ in moving a country towards the path of sustainable development. The flaw in these suppositions is that they are presented as ‘reasons’ for why sustained development has failed to take hold in the sub-continent; but a cursory look at the history of economically developed nations in Western Europe, North America, and parts of Asia would reveal that these same ‘reasons’ and circumstances, except for climatic conditions, were very much present in these countries, but they managed, in spite of them, and with time and judicious use of their resources, to achieve economic development.

3. A Brief Literature Review on Development Efforts in Africa
Beginning in the early 1970s, African leaders and ‘well-meaning’ international agencies grappled with the forces that have, almost interminably, subdued socio-economic development in the continent despite generous foreign aid, progressive moves toward western-style democracy, and significant independence in resource management (UNDP REP., 2000). But in spite of these indicators that should, in the normal run of things, conduce to sustainable development, Africa remains economically backward, and boasts the highest incidence of poverty and illiteracy in the world while being ravaged by devastating civil wars, and intractable diseases (World Bank, 2001).

Up until the mid-1970s, development experts from the IMF and the World Bank advised African leaders that development was synonymous with economic productivity and growth (Killick, 1998). The leaders concurred, in part because they needed financial assistance to sustain the economies both past and present administrators had essentially bankrupted, and because these leaders had no pragmatic alternative description of what development in Africa entailed.

But this interpretation of the essence of development by foreign experts was not merely advisory; African leaders could not take it or leave it, for it formed the basis of aid or loan programs received from the IMF, the World Bank, and members of the Paris Club of international lenders (Klitgaard, 1990). Since the assumed goal was to help African countries develop economically, it was deemed essential that domestic productivity be modified to accommodate more export-oriented goods. However, for these goods to be competitive in the world market, domestic currencies had to be devalued; moreover, currency devaluation served the additional need to dampen the appetite for excessive imports, and to compel more internal consumption of domestically produced goods. Currency devaluation and ‘Structural Adjustment’ of domestic programs thus became the primary prerequisites for loans from both the IMF and the World Bank, and became part of the broader conditionality clause in subsequent loan agreements.

Evidence now shows that both programs failed miserably, and that their combined effects were devastating to African economies...currency devaluation meant that these
countries could not afford to import advanced technologies from developed countries, and the structural adjustment programs insisted on by the World Bank experts in the early 1970s discouraged investment in human capital, i.e. healthcare and educational systems (Klitgaard, 1990). The precipitous decline in both sectors in sub-Saharan African countries is a direct consequence of these policies; for they enabled venal African leaders to re-direct resources to ‘white elephant’ projects that were more conducive to misappropriation of financial resources than to production of goods and services needed to enhance industrial capacity, and infrastructure development (Jeffries, 1993).

This economistic view of development, which held sway from the early 1960s to the mid 1970s, is essentially one that requires a shift from an agrarian economy to one dominated by export-based manufacturing, and provision of modern services in secondary and tertiary sectors. The aim being to stimulate faster growth of the Gross Domestic Product (GDP), encourage more export of domestically produced goods, attract foreign investments, aid, and loans for infrastructure enhancement, and capacity-building (Emizet, 1998). Thus, to the economist, development in Africa is reducible to certain quantifiable indicators that indicate a trend ----the economy is either moving in the right direction or not; if the GDP is rising and sustainable over a certain period, then mission accomplished; the country is developing. Other social factors that should complement a developing society were essentially ignored, e.g. the level of literacy, availability of adequate healthcare services, the educational system, political stability, housing, and cultural observances.

The literature on development is immense, and continues to evolve to reflect the insights of specialized fields and disciplines that were once considered outside the scope of matters relevant to development studies. There is now near unanimity amongst academics and practitioners that development is driven by innovation (Knack and Keefer, 1995), good governance (Osborn, 2004), responsive institutions (North, 1990), and other yet unknown variables. These views are particularly relevant to the forty-eight countries that constitute sub-Saharan Africa, where all efforts in the last three decades to nudge them towards sustainable development have failed (Williamson, 1994).
The problems of underdevelopment in Africa continue to be severe, and unabating. A number of reasons have been cited for this conundrum, including in many instances, the persistent contradictions between private and public roles (North, 1990). In this regard, it is emphasized that most African nations are yet to fully emerge from the patrimonial mode of post-colonial era wherein transplanted ideas and domestically informed notions of integrity compete and clash with the goals of personal enrichment and group enhancement made possible by the state apparatus (Meredith, 2005). Thus, ‘the legacy of colonial legality, with its suppression of indigenous economic and political competition against the state’ has encouraged and enabled African elites to dominate and misappropriate resources by means of the state rather than allow transparency and accountability (Goldman, 1980). This outcome, argues Berg (1993), is the essence of bad governance which perverts the norms of legitimacy, laws, and conventions embodied in domestic institutions designed to administer the affairs of a society.

These institutions, in a very important sense, are rules; rules that dictate, regulate, and constrain civil activities and behavior, and consequently play critical roles in the economic development and the wellbeing of society. On this basis, Caiden (1992) theorized that the difference between developed Western countries and poor African nations has less to do with productive capacity than with prevailing domestic institutions that affect individual incentives for innovation, and the deployment of factors of production. Furthermore, because developed economies have institutions that support contracts and property rights that are essential for effective market transactions and complex commercial agreements, the system is able to enhance predictability of actions by restraining opportunism and arbitrary influences by the elites. To this effect Douglass North (1990) wrote, “The inability of societies to develop effective low cost enforcement of contracts is the most important source of both historical and contemporary underdevelopment in the Third World.”

To many disinterested observers, however, the principal cause of Africa’s vicious and debilitating cycle of underdevelopment is bureaucratic corruption (Klitgaard, 1990;
Mauro, 1995). While bureaucratic corruption can be found in both developed and developing nations, its consequences (its distortionary effects on resources allocation) are particularly baleful to nations in Africa with weak socio-political institutions, and inadequate economic infrastructures (Ifediora, 2005). For in these developing African countries, important policy decisions are often guided, not by sound public policy but by personal interests; the outcome is usually a thoroughly compromised and debased economy (Ifediora, 2005).

4. Application and Analysis of the Dutch Disease Model
There is strong empirical evidence that suggests a long and reasonably durable causal relationship between a natural resource-dependent state and authoritarianism. Studies by Wantchekon (1999) and Ross (2000), for example, provide substantive grounds for this observation. But less studied, however, is whether the same causal relationship exists between similarly situated states and democracy or any of its variants; or is it the case that states whose primary source of revenue derives from natural resources are, at least in the immediate future, condemned to autocratic regimes, dictatorships and failed attempts at democratization? Studies by Auty (1990), Gelb (1989) and more recently, Sachs and Warner (1997) seem to suggest the latter by linking natural resource dependence to slow economic growth, which, while not by itself definitive, conduces to non-democratic impulses and regimes. This outcome has also been traced by political scientists to the amenability of weak social institutions to natural resource dependence, in the sense that such dependence encourages states to rely on a system of patronage which invariably defeats the development, in the short-run, of democratic regimes underpinned by a competitive electoral system, transparency, and functional institutions.

The dependence on natural resources to spur economic growth is by itself not harmful, and most definitely not a curse. They are rather endowments from nature that should, when properly utilized, generate both domestic benefits and useful externalities to other states. The harm, however, stems from how states and their agents manage the rents derived from these resources. In the economics parlance, rents are returns to effort that
are in excess of incurred cost and normal returns to investment. This surplus over cost and normal profit are more remarkable in oil than in other mineral resources for the simple fact that the cost of extraction is lower in oil production. The abundance of such rents makes the extraction of tax revenues unnecessary, hence the absence of accountability and transparency on how derived revenues are spent by government officials.

It is the manner in which derived revenue or rent is spent that gives rise to the damaging effects of natural resource abundance; if rents are spent wisely, the natural resource curse or the Dutch disease effect would be kept at bay. But since rent does not expend itself, it follows that the choices made by people in government on how and where to allocate derived rent are defined by the nature of the governance system they operate in. Thus, the state, aptly referred to as a ‘rentier state’, becomes the focus of analysis in comparative and international politics in relation to the political economy of natural resources.

Okruhlik puts this perspective quite succinctly:

“Neither Weberian nor Marxist conceptions of statehood adequately account for development in oil states. The Weberian emphasis on extraction does not apply because oil states have been largely relieved of that function. Thus, a defining exchange between the state and society is absent. The Marxist emphasis on class does not apply because people do not identify themselves by their relation to the means of production. The more salient identities are based on family, tribe, religion and region. Since the rentier state depend on an enormous expatriate labor force, the primary class distinction is that between indigenous citizens and foreign resident workers.”(Orkruhlik, 1999).

More recent studies on the effects of natural resource on states and regimes have centered on political stability, domestic conflicts, and capacity (Collier and Hoeffler, 2005; Snyder and Bhavanani, 2005). The mechanisms or channels by which any of these effects may be realized typically involves any combination of these three explanatory models: a rentier state thesis, a repression approach, and the rent-seeking hypothesis. These models may also be profitably used to explain the link between natural resource driven growth and choice of governance.

The rentier state thesis presumes that as revenue from oil, for instance, becomes progressively dominant in a state’s revenue function, the state gradually moves from one
of extraction to a distributive state. Through this transformation, the state abandons its traditional means of raising revenue (taxation and fees), and relies almost exclusively on revenue derived from the export of oil. Once the state is relieved of its dependence on tax revenue, the crucial bond between the state and the governed is broken, hence there is no need for accountability on how derived revenue or rent is spent because the governed are no longer burdened by taxation, and by implication, the state sheds its obligation to represent the interests of the governed. But the loss is not one-sided, for by not having a robust taxing apparatus, the state loses a vital aspect of its capacity as a governing entity -- the ability to collect and document relevant information a modern state needs to govern effectively. The transformation into a distributive state now enables the governing elites to use derived rent to appease select social groups and buy political influence.

The rentier state model adequately explains the Nigerian political experience since the oil boom in the late 1970s. The military elites were able to buy off potential opposition to their various regimes with rent derived from oil; and for all practical purposes, the civilian regimes that succeeded the military dictators seem to have perfected this process in spite of all outward pretences to democratic principles and observances. The regimes in Libya, Egypt, and that of the Pahlavi in Iran are readily explainable by a variant of the rentier state thesis that predicts prolonged authoritarian regimes made possible by rents (Beblawi and Luciani, 1987). Despite the inherent weaknesses of a rentier state, Chaudhry (1997) argues that in periods of high rents, rulers are able to sustain their rule with larger payments to social groups essential for the survival of their regimes, and as such are able to retain power longer than they would have in the absence of rents.

The repression thesis, as recently studied by Bellin (2002), and Ross (2001), formalizes what is commonly observed in developing nations of Africa and Latin America, where oil revenue is used to finance the purchase of antiquated military hardware used by dictators to repress the governed. In the absence of functional and effective social institutions, oil wealth enables authoritarianism through investments in repressive instrumentalities designed to suppress opposition and preserve existing distribution of political and economic power. This was certainly the case in Nigeria under the military regimes that
lasted from 1983 to 1998, where a disproportionate percentage of the Gross Domestic Product was spent to equip and sustain military personnel in total disregard for the crumbling educational and essential social institutions. The ravages inflicted on the country in that era is still resonating in the country in the form of dysfunctional schools, decrepit road networks and transportation systems, and suffocating civil bureaucracy. The strategic value of oil to the developed world also makes states rich with oil resources immune to international pressure; thus, Western countries, in deciding how to deal with authoritarian regimes with oil reserves defer to market driven principles rather than the protection of human rights and good governance, and by so doing help prolong oppressive regimes. It is in this regard that oil wealth renders regimes less receptive to external pressure to reform or liberalize.

The rent-seeking model is closely tied to the ‘patron-client’ paradigm which focuses on how resource abundance generates rents that accrue to the ruling elites who then use it to generate political support from those who seek access to such rents. In oil rich countries such as Nigeria, the risk of distortionary activities is more remarkable than in other resource-led growth countries for the simple fact that oil has a high return to cost ratio than other primary commodities. This higher level of rent provides added incentives for the governing elites to loot the public treasury to preserve or enhance their economic and political interests. But this is not confined to the elites; with time, the non-privileged populace soon realize that rent-seeking rewards talents better than entrepreneurial efforts. In Nigeria, for instance, rent-seeking has led very talented young men to invest very little in formal education, and instead enlist in the military where access to government contracts is achieved with relative facility. The outcome of this is a debased and misdirected market economy with an army of unskilled and ill-educated labor force. It is for this reason that “resource-rich countries like Nigeria, Argentina and Venezuela have been outperformed by resource-poor countries such as Korea and Taiwan. In particular, despite huge oil windfall, Venezuela has suffered a decline in per capita output of 28% from 1970 to 1990, and Nigeria experienced an output contraction of 4.4% from 1980 to 1990.”(Lam and Wantchekon, 2003). With perverted incentives comes income inequality, which in turn creates the necessary conditions for patronage politics.
In Nigeria more than 55% of oil rent is retained by the federal government, which then distributes 34% of this sum to 36 state governments that must subsequently deal with ethnic and regional competition for oil revenue that have so far defined Nigeria’s institutionalized patronage system (Bienen, 1995). From this sum the governing elites in power benefit their ‘clients’ through the apparatus of federal and state government by way of contracts or direct disbursement of funds to political operatives and deputies. By these means, the ruling party guarantees its perennial dominance of all other political parties, and consequently imposes on the governed a defacto one-party government. In Libya, and Equatorial Guinea, the same phenomenon may be responsible for observed authoritarian regimes. The almost certain outcome of such rent-seeking behavior is the marginalization of a country’s electoral system by making fair and free political competition impossible, thus making quasi-democracy or authoritarianism the default political regime.

All three thesis stem from the Dutch disease syndrome, and collectively help explain why Nigeria remains economically underdeveloped, and governed, since her independence in 1960, by a variety of regimes, none of which may be reasonably defined by the tenets of democracy or its underlying principles. But these realities, I propose, would change if and when the ruling elites put in place sound industrial and trade policies. To these issues I now turn.

5. The need for Industrialization
Since the late 1970s, Nigeria’s industrial policy has been guided by policy recommendations from the Washington consensus (The IMF and The World bank), in the main because the country is heavily indebted to these institutions, and thus obliged to implement prescribed economic programs aimed at creating the ability to pay back borrowed funds. While these programs may be useful in meeting short-run goals of debt-reduction, they are, however, at odds with long-term objectives of sustained economic growth.
The current national industrial policy is one that advocates export-substitution in near total disregard for domestic-based manufacturing. The point being why expend borrowed and needed resources re-inventing the ‘wheel’ when all essential manufactured goods could easily be imported from industrialized countries? Thus, under this policy of export-substitution, no emphasis is placed on developing a domestic industrial base with manufacturing capabilities. The country thus went from an agrarian economy to a service and trade based one, and in the process by-passed the crucial stage of industrialization, a processes that no industrialized country has failed to undertake, and one that is crucial for sustained economic growth. This strategy of export-substitution as means to economic growth, is not confined to Nigeria; it is the controlling strategy in almost all sub-Saharan African countries indebted to the IMF and the World Bank as part of the conditionality requirements for loans.

I here contend that the absence of industrialization in Nigeria, occasioned by the strategy of export-substitution, is a major cause of underdevelopment in the country for the simple reason that its absence denies the country the ability to mechanize all relevant sectors of its economy. The ability to manufacture products domestically is essential to economic growth through the process of ‘learning by doing’, which in turn, enhances the opportunities for technological innovations necessary for sustained development. But how exactly does industrialization conduce to economic development, and by what channels is the domestic economy improved by the process of industrialization?

Economic development, in its popular apprehension, entails a continuous process by which a society is structurally transformed from one that is primarily agrarian to that which is predominantly industrial, and urban with the attendant characteristics of rising collective wealth, meaningful diversity of choices, and stability of social institutions (Mellor, 1998). This transformative process, by testimony of historical precedents, is achieved in four progressive stages (Bromley, 1995): First, a major institutional shift occurs requiring investment in modern technology, establishment of new industries, creation of new markets, and strengthening of existing infrastructure; second, derived technology from newly created industries is made readily available to the agricultural sector, thus mechanizing and engendering economies of scale in craft, farm, and animal
husbandry activities. Local and regional factor markets are energized by incentives made possible by developing product markets in the broader economy; third, the agricultural sector is now fully mechanized and is now part of the industrial economy. The growing industrial base invariably leads to urbanization, and with increased efficiency in the agricultural sector, urban dwellers now spend less of their income on food, and more on manufactures and services; in the fourth and final stage, agricultural activities become less significant in the overall economic productivity of the domestic economy as industrial productivity and tertiary services rise in importance. This has been the customary path taken by Western European economies to economic development, and for that matter, the rest of the industrialized world.

But as stressed by Bromely (1995), this received interpretation of economic development, and the process by which it is achieved, while admittedly teleological and descriptive of the path taken by countries in temperate climates (Western Europe/North America), maybe ill-suited for countries in sub-Saharan Africa. This view has gained remarkable currency in the literature, and will be addressed in due course; but for the matter under immediate consideration, the traditional interpretation of economic development, and the channels by which it is achieved are presumed serviceable, and remain largely relevant to Nigeria, albeit with significant modifications to account for lived experiences, cultural sensibilities and traditional observances. Given that all known industrialized countries are also economically developed, and that all underdeveloped countries are either agrarian or largely dependent on their extractive industries for sustenance, industrialization and the accompanying beneficial externalities are imperative to Nigeria’s economic development. It is in this sense that Nigeria must emulate the industrial strategies adopted by economically developed countries if the goal is sustained economic growth with less emphasis on its agricultural and extractive sectors.

**Creating an industrial base, and the attendant benefits**
Countries that have benefited from industrialization invariably have in place certain minimal prerequisites ----- a reasonably reliable supply of electricity, a functional educational system responsible, at the first instance, for training the work force, and the
acquisition of practical and idle knowledge, a dependable communication and transportation network, and responsive civil institutions that enforce rules and private contracts. Nigeria is severely deficient in these areas, and must have these minimal requirements in place in order to profitably implement any industrialization regime. Once these requirements are in place, the country should target specific sectors of the economy that, given the productive and technological stage, and needs of the country, would benefit most and relatively sooner than others from modern technologies acquired from industrialized countries. Firms in these sectors would typically be densely concentrated in particular geographic areas in order to take advantage of both direct benefits and relevant spillovers in the form of human capital, advanced knowledge, and institutional development (Greenwald and Stiglitz, 2006). It is also through these spillovers or externalities that the broader economy benefits from industrialization.

To David Hume, “the best way to improve agriculture is through the roundabout way of first improving the manufacturing industry ---and we now have a millennium of historical data to back up Hume”(Reinert, 2007). Unlike the agricultural sector where production units are usually dispersed, and small in size, industrial productivity usually requires large and stable firms that have the ability to absorb novel ideas, and thus serve as reliable sources of innovation. Innovative ideas, practical knowledge acquired through ‘learning by doing’, and accumulation of human capital, are some of the direct benefits a society derives from industrialization; these and accompanying spillover effects are transmitted to the domestic economy in the form of economic growth. The channels of transmission are relatively well established; for instance, a manufacturer of automotive equipments acquires modern technology from firms in industrialized countries, and subsequently makes the technology available to related domestic firms, and from these firms the technology trickles down to the agricultural sector and finally becomes part of the accumulated productive knowledge that stimulates further economic productivity and growth. Greenwald and Stiglitz put it quite succinctly, “For the developing country, there is further reason for promoting the industrial sector: it is the window to the world, the channel through which more advanced knowledge gets transmitted to the developing country for both industry and agriculture.”(2006). It is also a window through which the
world may, with time, derive other forms of useful knowledge from the developing country.

6. The harmful Effects of ‘Free’ International Trade to Nigeria’s Economy

A major contributing factor to underdevelopment in Nigeria is the belief that free international trade based on the concept of comparative advantage would lead to economic growth. In this regard, Nigeria was encouraged, again by the IMF and the World Bank, that it should devote its resources to export-based production of agricultural and extractive primary goods, with a view to attracting ‘hard currency’ into its economy. The outcome of this trade policy is that it encouraged Nigeria to specialize on productive activities subject to diminishing returns to effort, and ‘perfect competition’. The economic history of the World’s industrialized countries makes it abundantly clear that countries that remain largely at the extractive and agricultural stage of economic productivity remain poor for two reasons: first, these activities depend on a fixed input, land, and as such productivity is subject to diminishing returns; second, the products are universally ‘similar’ and thus operate in a world market where producers have no effective control of the prices for their products, and face intense competition from more efficient producers in industrialized countries. The combined effect is restraint on income for producers, and by extension, for the country. Thus, Nigeria, in order to generate higher aggregate income, must undergo a structural shift that favors manufacturing and industrial activity; for not only would this transformation enhance its agricultural capacity in the intervening period, it would also create an industrial base necessary for sustained economic growth. Only when such structural shift in the domestic economy is successful would free international trade be beneficial. The point to be emphasized here is that developing countries in sub-Africa are essentially poor because their productive activities are “either devoid of learning potential and/or the fruits of learning---rather than producing local wealth --are passed on to their customers in rich countries in the form of lower prices. From this perspective, what we call ‘development’ is essentially knowledge-and technology-based rent that often is reinforced, rather than reduced, by free trade between nations at very different levels of development.” (Reinert, 2007) The Nigerian experience is no different.
Experience has long shown that free international trade amongst countries that are far apart in their various stages of industrialization harms the least developed ones. It therefore follows that free trade on the basis of comparative advantage is most advantageous to countries near parity in industrial strength, and that countries like Nigeria without an established domestic industrial base are better-off economically protecting their agricultural sectors from the ravages of international competition until they first industrialize. But how should Nigeria engage the outside world in matters concerning trade, finance, and the acquisition of modern technologies? The concept of ‘managed’ international trade will suffice; by this I mean purposeful engagement that targets specific domestic sectors for development through judicious use of indigenous resources and imported technology. It also means restricting Foreign Direct Investment to select industries.

7. Should Foreign Direct Investment Be Part of Nigeria’s Development Strategy?
Capital, like all productive economic inputs, flows to where it can obtain the highest returns possible. It is in this context that one must understand what motivates foreign investors to put their financial resources at risk in a developing country. Countries that provide investors with the proper social infrastructure, a pool of relevant work force, a safe environment, and a potentially strong market for their products and services would attract foreign investment. This means that countries must either have the potential for, or have experienced sustainable economic growth before it gets the attention of foreign investors. It is in this sense that policy makers should not regard Foreign Direct Investment (FDI) as a cause of economic growth, but rather that FDI has the potential to contribute to economic expansion only after such expansion has begun. It is also for this reason that developed countries, as a collectivity, receive more than 85% of all FDI made and received annually (Chang, 2008).

Foreign Direct Investment is an important component of a county’s Capital Account, and consists primarily of investments made in the host country by foreign firms and other private investors. It is also a reasonably stable source of extra capital (in 1997 net FDI
inflows into developing countries was $169 billion, between 1998 and 2002 it averaged $172 billion per year; World Bank, 2004); and contributes immensely to a country’s external balance, while enhances domestic productivity through technology transfer and managerial expertise. This is because foreign investors generally seek to have direct influence or control of the firm or enterprise they are funding. But there is a catch; when the host country has an unregulated and open capital market, FDI can be monetized and sent out of the country in very short notice. Foreign firms can use their local assets in the developing country as security for internal loans and transfer the funds out of the country, thus creating a negative impact on the country’s foreign exchange position (Chang, 2008). Thus, while FDI continues to be serviceable and indispensable to economic growth and development, it can be problematic, and has the potential to retard long-term growth if left unregulated. This occurs through its ability to suppress current and potential domestic competitors in the developing country. With the ability to provide superior products and services at competitive prices, the level of productive capacity in the developing country is effectively compromised in the long-run if indigenous firms are killed-off through competitive pressure.

In order for a developing country, like Nigeria, to experience the maximum benefit of FDI, it must regulate its entry, and direct it to targeted industries where it is most beneficial. China, for example, severely restricts FDI but still manages to attract 10% of total FDI in the world (World bank, 2006). This is principally because it offers the potential for rapid growth, and the requisite social infrastructure that investors and transnational firms find attractive. The same holds true for South Korea, and India; they all restrict the level of FDI that flows into their economies, and only allow those that are needed in specific sectors. This strategic approach to development has served these countries well; china used a 30% tariff to protect its industrial base, and India used one that is above 30% to achieve the same objective while imposing severe restrictions on FDI (Chang, 2008).

It is on these grounds that I urge a managed international trade regime that includes a significantly limited import-substitution strategy in Nigeria, and to target and protect a
few relevant industries that are essential to the establishment of a domestic industrial base. This policy would afford import-protection to these industries for a fixed time period, and then gradually lifted to expose them to foreign competition once they are reasonably established. By systematically lifting initial protection mechanisms, firms in these industries would be compelled by competitive market forces to learn, innovate, and adopt efficient production practices.

Concluding Remarks
Any serious effort to engage development problems in Nigeria must begin by taking notice of the reality that socio-economic development in the country may be attained, and sustained only if the processes engaged toward these ends are properly mindful of the cultural and social experiences of Nigerians. This means looking at things from the point of view of those whose welfare one seeks to improve; for only when the life experiences of the indigenous people are clearly understood would it be possible to work within the context of their cultural and traditional observances to establish accommodative social, political, and economic institutions necessary for sustained development. This approach is what I have termed ‘contextual development’; a process that requires a balanced integration of indigenous cultures, religious beliefs, prevailing social arrangements, and new ideas from developed nations into a unique development strategy that suits a particular nation-state. Contextual development thus requires a good understanding of the needs of the people, how to design and implement programs that take advantage of the peculiarities of the society, collective expectations, and the form of political governance that is freely chosen by the governed. It also requires, as an imperative, that one who embarks on development programs in Nigeria be acquainted with the cultural belief system in the country, the role religion plays, the level of literacy, availability of skilled labor, traditional roles of the sexes, prevailing social arrangements, and most importantly, what development means to the people.

The novelty of this approach to development can be found, not so much in the idea, but in its implementation; for experts in development studies are now very much aware that the old policy of imposing change from without has not produced desired results, but has
instead made matters worse despite decades of development assistance to Africa (Easterly, 2001). This strategy necessarily rejects the old development model of one-size-fits-all that assumes social and political institutions as given, and then proceeds to impose pre-packaged solutions that lack relevance to local realities, practices, and climatic conditions. It is in this very important sense that Bromley (1995) is particularly relevant -- that there maybe more than one path to economic development; the path taken by Western countries was accommodative of the lived experiences and circumstances in the West, the African path would have to be accommodative of African realities.

References


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