

CHAPTER TWO

LITERATURE REVIEW OF ECONOMIC DEVELOPMENT: CONTEMPORARY ISSUES AND THEIR RELEVANCE TO NIGERIA'S ECONOMY.

2.1 Introduction

The origin of science of economics can arguably be located in the need to study the assessment and causal influences on the opportunities that people have for living well (Sen, 1999:24). Indeed, the ultimate objective of “economic development” and state action in all countries, more especially in developing countries, is the enhancement of human capabilities including the basic capacities of avoiding ignorance, under-nutrition, disease and early mortality, leading a fuller, longer life, and being able to participate in decision-making in the community (Sen, 1999; Dreze & Sen, 1989).

The purposes of this chapter are six-fold:

- a) To present an overview of the concept of economic development, and its relevance, in line with the emerging popular development with a human face;
- b) To analyse the state of the Nigerian economy so as to identify salient developmental features, trends and challenges that have arisen since the country became independent in 1960. To showcase and give insight into the current level of the country's economic development;
- c) To identify and analyse impediments to development in Nigeria, to further help to explain why Nigeria is at this low level of economic development;
- d) To review and explore the potential of Nigeria's growth sectors to help answer the question of where the country's economy should be given its resources endowments;
- e) To evaluate the development prospects of Nigeria, to help set an economic development agenda and answer the question of what should be done to get the country on the path of recovery and sustainable development; and
- f) To review and present the salient economic facts relevant to various development models of the newly industrialising Asian countries, so as to draw lessons for Nigeria and other developing countries in Africa.

2.2 An overview of economic development

Economic development encompasses progress in providing livelihood on a sustainable basis, access to education and basic healthcare for the majority of the population (Belshaw & Livingstone, 2002:3). The meaning of the term “development” becomes clearer with the understanding of the term “economic growth”. By economic growth, economists generally mean the increase over time in a country’s real output per capita. Though other measures can be used, output is most conveniently measured by the gross national product (GNP). This implies that economic growth is measured by the increase in a country’s per capita GNP. Economic growth is thus sustained expansion of production possibilities measured as an increase in the real GDP over a given period. Rapid economic growth maintained over a number of years can transform a poor nation into a rich one, as has been the experiences of Hong Kong, South Korea, Taiwan and other Asian economies (Bade & Parkin, 2002:222). According to Malizia and Feser (2000:20), growth and development is complementary, because one makes the other possible. They are also alternating processes that occur sequentially. Growth is an increase in output, development is a structural change, for example technological or legal. Growth expands the economy, while development must lead to more equal distribution of income and wealth. Overall, growth and development lead to a greater range of economic choices.

2.2.1 The concept and relevance of economic development

A common alternative for measuring economic development has been using the rate of growth of income per capita or per capita GNP, which expresses the ability of a country to expand its output at a rate faster than the growth rate of its population (monetary growth of GNP per capita minus the rate of inflation). The GNP per capita is used to measure the overall economic well-being of the population, expressing the amount of real goods and services that is available to the average citizen for consumption and investment (Todaro & Smith, 2003:15). Recently, however, economic development is defined in terms of the quality of life of the majority of the population. According to Todaro and Smith (2003:16), the experience of the 1950s and 1960s when many developing nations failed to realise their economic growth targets and the quality of life of the majority of their people remained for the most part unchanged, signalled that something was very wrong with this narrow definition of development.

Notwithstanding the debate for and against the efficacy of using economic growth, GNP per capita as an index for economic development, there is considerable evidence in developmental literature. It has shown that this index of economic growth is characterised by many deficiencies when related to welfare (see Allen & Thomas, 2000:23; Mohr & Fourie, 2004:576). Most specifically, the economic growth index fails to reflect the distribution of income or wealth between the rich and the poor, and can also not show what sections of the population are favoured by the growth; or the level of welfare derived from the consumption of goods and services involved. Using GNP per capita as an index, thus requires a range of problems to be resolved. Such as capturing unrecorded economic transactions from the informal sector, externalities (pollution, congestion and noise). In essence, it says nothing about the values or costs of these activities. Comparing the GNP per capita of different countries is also problematic considering the varying exchange rates of national currencies.

It could be in light of all these problems that Thomas (2000:23) says that over the long term, development could be seen in terms of increased living standards, improved health and well-being for all, and the achievement of whatever is regarded as a general good for the society as a whole. Hall (1983:6) says that belief in the trickle-down effect is one reason why the GNP per capita measure has become deeply entrenched. However, the fact that the benefits of growth have not always trickled down from all sectors as expected, is an argument neither for nor against growth as such, since a faster growth might after all be what is needed.

However, Belshaw and Livingstone (2002:10) argue that while GNP per capita figures are the traditional measurement of economic growth and development, a better indicator of well-being is now available, namely the Human Development Index (HDI). The HDI defines well-being in terms of combinations of a measure of income, a health indicator and an access to knowledge indicator. The process of development should at least create a conducive environment for people, individually and collectively, to develop their full potential and to have a reasonable chance of leading a productive and creative life according to their needs and interests (UNDP, 1992:1).

2.2.2 Economic development: the perspective of human development index (HDI)

According to the United Nations Development Programme (UNDP, 1992:1), development should focus on human development. The UNDP argument stresses that economic growth must

be managed and wealth distributed for the benefit of the majority of the country's people. Central to this process of human development is the enlargement of people's choices, most crucially in the areas of being able to live long and enjoy healthy lives to have access to education and to the varied resources needed for a decent standard of living.

Progress in human development can also be measured by the degree of political freedom, guaranteed human rights and personal self-respect the citizens of the country enjoy. On the basis of this reasoning, the UNDP (1992:1) evolved the HDI, including component variables such as the standard of living (purchasing power based on real GDP, knowledge (adult literacy and more years of schooling) and longevity (life expectancy). Essentially, development is the increasing ability of a given society to productively manipulate her environment. This entails a rising level of social and scientific consciousness, and advancement in science and technology for the society in question (Adenuga, 2003:46). Kayode and Odusola (2001:17) see development as a process that results in improved economic status for a country. They say it is often measured by increased real per capita income and if possible should be sustained over a long period of time. Moreover, they note that development is a process involving elements of modernisation such as enhanced productivity, social and economic equalisation; improved knowledge, attitudes and institutions; and rationally coordinated policy measures that are capable of reviewing all obstacles to social economic transformation.

Intuitively, economic development goes far beyond just real per capita GNP or national income. Its sustenance over time through the continuous increase in per capita and productivity. It is about who benefits from the fruits of economic growth, the vast majority of the populace or just a fraction of it (the high-middle-income population). Economic development could include changes in social, political and institutional structures in the economy, reflected in the character of the people and the attainment of better life for the majority of the population in a society. Economic development could also involve development in different sectors of the economy. It involves efficient economic management, good governance, sustainable development and poverty reduction; all of these are goals to which development stakeholders have to contribute (Sako, 2002:75). Ruttan (1997:225) explains that the basic needs approach represents a radical departure from conventional development strategy.

In the basic human needs approach, poverty is defined not in terms of income, but rather as a lack of good nutrition, good health, educational opportunities and similar dimensions of welfare (see Allen & Thomas, 2000:11; Lewis, 2003:252; Nielson, 2002:101; Wade, 2003:37-38). According to this view, usually referred to as the basic (human) need approach, economic development is defined in terms of progress towards reducing the incidence of poverty, unemployment and income inequalities. Beneria (2003:21) advocates a vision of development based on an intuitive idea of life that is worthy of the dignity of human beings for each and every person, a view that is in tune with the basic objectives of feminist economics. Meeting the basic needs of the vast majority of the population of a country is at the centre of this view. Ruttan (1997) further argues that growth objectives are replaced in this approach by consumption targets translated into specific programme goals, namely a life expectancy of 65 years, a literacy rate of at least 75 percent, an infant mortality rate of 50 or less per thousand births and a birth rate of 25 or less per thousand of the population. Sen (1999) asserts that “development has to be more concerned with enhancing the lives we lead and the freedom we enjoy,” rather than economic growth being treated as an end in itself. In the same vein, Blignaut (2004:41) explains that ignoring the impact of social capital or environmental preservation in the conventional growth models may be a problem when predicting the possibility of sustained growth. This suggests that the linkage and interactions between the economy and the environment are constrained, since growth does not automatically lead to increased welfare.

2.2.3 Economic development: lessons for the developing countries

Apparently, a crucial test for economic development and growth remains ensuring that the majority of the population of a developing country are manifestly better off and that their living conditions improved. Also, a distinct advantage of the human needs approach and model is that poverty reduction strategies are made top priority in the development agenda. It is persistently clear in recent developmental literature that the phenomenon of poverty eradication may not be easily analysed with orthodox economic models that originated from and are applied in the rich industrialised countries. Rajan (2004:56-57) argues why an orthodox economic model may not be the best guide for policy in developing countries. He pinpoints the absence of institutions, such as efficient and impartial judiciaries, legal systems to protect intellectual property, tax

administration and credible central banks; as one of the reasons why so many countries do not grow fast enough to vanquish poverty. In many situations, complete market models are too far distanced from reality to be useful and the model is in most cases an intellectual straitjacket when applied universally, because it ignores cost of contracting and enforcement.

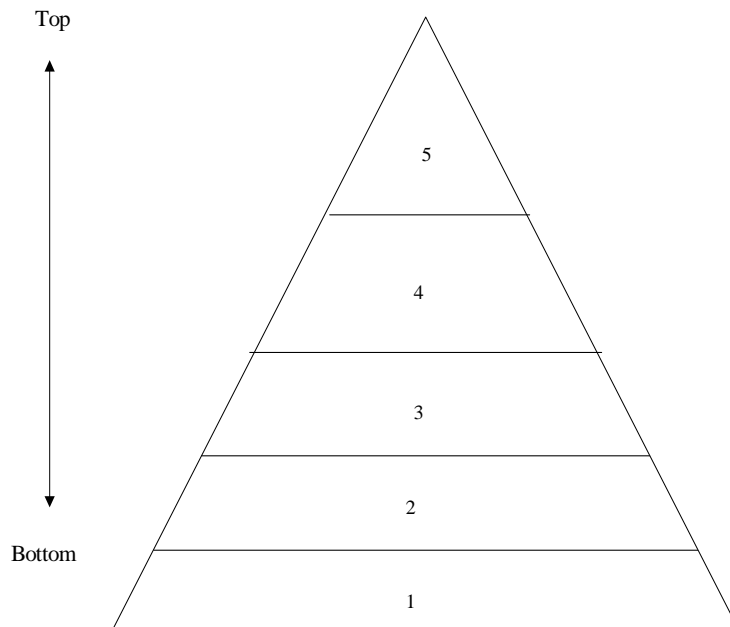
It is worth noting that the failure of the now orthodox development models to provide relevant solutions to these fundamental questions betrayed their usefulness in the context of development economies. More so, the United Nations (UNDP, 1992) HDI, which defines development in terms of human development, has further exposed the deficiencies of the orthodox development models. Overall, the developing countries are becoming conscious that orthodox economic models and hypotheses such as the export-led model, the vicious circle of poverty hypothesis, unbalanced growth model, the Harrod Domar, Rostow's stages, import substitution industrialisation, the big push strategy and surplus labour models have all failed to impact meaningfully on the economic development of developing countries.

The weakness of these strategies stems from the fact that they are developed and nurtured in an environment that is alien to developing countries. According to Adams (2001:334), top-down, technocratic blueprint approaches to development have come under increasing scrutiny as they fail to deliver the economic growth and social benefits that had been promised. It has been widely argued that development goals can only be achieved by "bottom-up planning", decentralisation and participation and community development (Agrawal & Gibson, 1999:629). This development from below demands a reversal of conventional development thinking, working from the bottom-up and periphery inwards; it suggests that, for success, development must be not only innovative and researched-based, but also locally conceived and initiated, flexible, participatory and based on understanding of local economies and politics (Adams, 2001:335).

In line with the human welfare approach, it has been argued in the literature that the behaviour of people at a particular moment is usually determined by their strongest needs. This will be significant to policy makers who have to understand the needs that are commonly important to people. A framework that helps to explain the strength of certain needs has developed by

Maslow. According to Maslow (1995:19), human needs arrange themselves into a hierarchy, as illustrated in a pyramid form, shown in Figure 1.

Figure 1.1 Conceptual Representation of Maslow's Hierarchy of Needs



Source: Maslow, A. H. 1943. A theory of human motivation, *Psychological Review*, 50, 370-396

5. The need for self-actualisation or fulfilment
4. Esteem needs: recognition, prestige
3. Social needs: acceptance, feeling of belonging.
2. Needs for safety: security, comfort, economic well-being
1. Physiological needs: food, clothing, shelter, clean water, air and health and education

The physiological needs are placed at the foundation of the hierarchy, because they most urgently need to be satisfied. These are the basic human needs to sustain life itself, needs for food, clothing, shelter, clean water, air, primary health care and education. Until these basic

needs are satisfied to a degree sufficient for the operation of the body, the majority of the person's activity will probably be at this level, and the other needs will provide little motivation.

Once the physiological needs have been satisfied, safety needs become predominant, as highlighted in figure 1. These needs are basically the need to be free from fear of physical danger and deprivation of basic physiological needs (see Sen, 1999). This need for self-preservation is concerned with the future of the people. It helps to answer the question of whether or not people are able to maintain their property or jobs so that they can provide food and shelter tomorrow, and the next day. In other words, if people's safety is not guaranteed, other things seem unimportant.

Once the physiological and safety needs and the need for family well-being are satisfied, social or affiliation needs emerge as dominant. This is not unexpected, because people are social beings; they need to belong to and be accepted by various groups. When the social needs become dominant, a person will strive for meaningful relations with others. After individuals begin to satisfy their needs, they generally want to be more than just members of a group. They feel the need for others, for both self-esteem and recognition from others. Brown & Harvey (2006: 77) related the Maslow's social needs: acceptance, feeling of belonging to the value system that underlying organisational development approach of increasing individual growth and effectiveness of creating the climate that develops human potentials while achieving organisational goals.

Most people need a positive evaluation of themselves that is based in reality on recognition and respect from others. The satisfaction of these needs produces feelings of self-confidence, prestige, power and control. At this level, people usually feel that they are useful and have some effect on their environment. Once esteem needs are adequately satisfied, self-actualisation needs become more important. Self-actualisation is the need to maximise one's potential, whatever this may be. According to Maslow (1943), what a man can be, he must be. Therefore, self-actualisation is the desire to become what one is capable of becoming. According to Greiner & Cummings (2005:89), the need for self-actualisation or fulfilment is an inherent potential of

individuals to pursue what he or she is likely to achieve under condition of openness and personal recognition.

While this framework may not apply universally, it may to an appreciable extent, reflect in reality the common welfare needs of people in most developing countries. In reality the suggestion that one level of need has to be completely satisfied before the next level emerges may not be applicable, because most people in a society tend to be partially satisfied at each level. However, in most developing countries, attention tends to be devoted to satisfying physiological and safety needs. Maslow's framework therefore plays a useful role in predicting where the majority of people in developing country will be likely to have unfilled needs. Maslow's hierarchy of human needs also contributes to the new ideas and concepts about a bottom-up development model.

The concept of bottom-up development could help to strengthen civil society and gain popularity among development practitioners. A strong civil society is an important foundation for democracy and even a necessity for effective and meaningful development in a developing economy. According to Prahalad (2005), the "bottom-up" system is a new concept of development, complete and coherent, designed to exploit every possible avenue of economic development. The "bottom-up" method of economic development is a new concept designed to benefit the poorest of a nation's people, particularly the landless poor. It is grassroots development on a large scale, growing rapidly from a few "entrepreneurs" to many hundreds of workers employed in "bottom-up" enterprises. Prahalad (2005) argues that the system builds upon existing local resources, improving, for instance, agricultural and small-scale manufacturing productivity and creating rural diversified non-farm employment for progressively larger numbers of people. The system is not merely self-sustaining, but self-evolving.

The "bottom-up" concept of development could offer Nigeria the opportunity to improve the well-being of its poor majority currently put at 70 percent of the population. This is because the system which focuses on encouraging (a) micro-entrepreneurs constrained by high-productivity competition and (b) the prevalence of large informal economic activities, may have encouraged "hidden entrepreneurs;". The only way to mobilise and integrate them in mainstream economic

activity is to try to improve their well-being and to harness their latent determination and attributes to succeed as business people (Pralhad (2005).

The most relevant lesson for Nigeria and indeed developing countries to learn from the new development strategy, is the understanding that development should start from below (from the majority). As stressed by Nwaobi (2004) resources should be channelled into those areas or those things that will benefit the majority; those areas that employ more of the majority, and those areas that have potentials of employing more majority without necessarily neglecting other important sectors.

The economy should be properly understood and factors that have contributed to the past economic waste well-articulated so they can be tackled. Development is for man and should start from man for the provision of his basic needs, food, shelter, clothing, health and education, first. Development should also include the promotion of gender equality and the empowerment of women, environmental sustainability and pursuing policy programmes that would reverse the loss of environmental resources. The ultimate purpose of the exercises is to treat men and women as ends, to improve the human condition, and to enlarge people's choices (Streeten, 1994:232).

A determined attack on poverty and hunger has led to the formulation of a new development paradigm that recognises the role of the state in protecting the rights of the weaker and poorer segments of the population and meeting their basic needs (Bukman, 2002:17). However, Todaro and Smith (2003:23) summarise the three basic objectives of development in all societies as: (a) to increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection; (b) to raise standards of living, including in addition to higher income, the provision of more jobs, better education and greater attention to cultural and human values. This serves not only to enhance material well-being but also to generate individual and national self-esteem; and (c) to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states, but also to the forces of ignorance and human misery.

Attempts have been made to identify the relevance of incorporating emerging contemporary issues in economic development into Nigeria's development model. This is imperative since the

World Bank (2003a:59) claims that over 70 percent of the country's population are basically poor. In the next section, an overview will be given of Nigeria's economic situation and the question explained of why the country is still classified as poor in spite of its large potential in terms of natural resources and capital. In essence, the state of Nigeria's economy is analysed with respect to salient trends, challenges and impediments to development. This gives insights into why the economy has stagnated.

2.3 Overview of the Nigerian economy

According to Simpson (1987:205), Nigeria ranked among the few countries in the world, with the potential to achieve the status of a stable and sustainable developing economy at the time of its independence in 1960. Simpson maintains that the impressive foreign exchange earned by Nigeria during the oil boom encouraged the country's various governments to embark on ambitious investment programmes, which can be seen in the various national development plans.

Ajakaiye (2004:54) has shown that between late 1950s and the early 1980s, most African governments drew up comprehensive development plans usually in consultation with the local and foreign experts, to help coordinate their decision making. These national development plans were used as deliberate efforts by the governments to speed up the process of social and economic development in Nigeria (see Tomori & Fajana 1987:131). Assessment of the objectives and performance of the various national development plans between 1945-1995, however, reveals that the pre-independence development plans of 1945-1954 and 1955-1960 were mere listings of projects to be executed at the Federal and Regional Government levels. The plans failed to take account of the social and cultural background of all Nigerians, and lacked a clear understanding of the people's needs, and therefore could not perform due to a lack of national cooperation and common interest.

The Second Development Plan of 1962-1968 represented the first conscious efforts by the Nigerian government to put in place a plan that reflected common national interests, aspirations and objectives. The plan was principally expected to facilitate the highest possible rates of increase in the standard of living of Nigerians, and in wealth creation in relation to public support for the newly gained independent country. According to Awoseyila (1996:23-31) the plan's actual allocations and targets, however, showed that it aimed at accelerating growth and

sustainable development. The plan in the end was not efficiently implemented, since it relied heavily on external sources of funds to execute most of the projects. Also, the implementation was constrained by the political crisis of early 1966.

The Third Development Plan 1970-1974 was formulated at the end of the Nigerian Civil War. It aimed to speed up post-independence development and to essentially provide a master plan for rebuilding the country after the civil war. The plan recorded some positive achievement especially in the areas of improving the performance of the manufacturing, transport, health, education, information and social welfare communications and mining sectors. These significant achievements can be attributed to increasing inflows of foreign exchange from crude oil exports. In essence, however, the major constraining factor to the plan's implementation was inadequate manpower and executive capacity (Awoseyila, 1996:23-31).

The 1981-1985 development plan was the fourth put in place by the country's civilian administration. It aimed to improve the standard of living of the people and diversify the economic base from a mono-cultural economy (dependence on oil as the only source of revenue) to an economy strong in other sectors like agriculture, manufacturing and science and technology (Central Bank of Nigeria, 2000:1). However, the achievement of the targets was dismally low. The unimpressive performance of the plan was attributed to international oil market glut, due to which the projected foreign earnings from oil exports crashed due to the near collapse of the international oil market. Further attempts to finance the revised plan through external borrowing also failed due to the country's high external debt burden. According to Aremu (1997:1), since the beginning of oil glut, earnings of Nigerian economy from exports had been fluctuated downward with the consequent debt crisis to the extent the international community are reluctant to grant credit facility.

In 1986, the Structural Adjustment Programme (SAP) was launched. Its cardinal objectives were: restructuring and diversifying of the productive base of the economy in order to reduce dependence on the oil sector and on imports; achieving in short-to-medium-term fiscal and balance of payments viability; laying the basis for sustainable non-inflationary growth; reducing the dominance of unproductive investment in the public sector's efficiency enhancing the potentials of the private sector (Central Bank of Nigeria, 2000:1). The SAP unleashed serious

hardship on the Nigerian populace and worsened poverty levels, the crisis of Nigeria education since 1980s, has been rooted in the SAP (Fashina, 2003:35-42). According to (Fashina, 2003:36), the withdrawal of subsidies from education and health, imposing an educational policy that generated crisis in the entire system. However, the SAP did establish some salient macroeconomic factors such as trade and payment liberalisation; adoption of appropriate pricing policies for public enterprises (essentially the beginning of commercialisation and privatisation of unprofitable and inefficient public enterprises), and reduction of government deficit financing, to mention a few (Central Bank of Nigeria, 2000:1). It is important to note that some of the SAP prescriptions still form the pillars of Nigeria's economic agenda to date.

Nigeria's three-year Rolling Plan (1990-1995), Awoseyila, (1996:30) said was planned with a shorter duration for three major reasons, namely:

- a) To avoid the risks of long-term planning in a mono-cultural economy based on projections of crude oil sales, given the volatility of international oil market;
- b) To suit the highly changing international environment, characterised by uncertainty and the dependence of developing countries on rich counties; and
- c) To make implementation and management of development easier than it had proved to be over a longer time frame of about five years. The country's long-term development plans had always failed to achieve their targets. Invariably, plans are better implemented if they are reviewed more frequently.

The Rolling Plan also provided the macroeconomic framework upon which projections for economic aggregates such as the GDP, population growth and investments are planned. However, after several years of economic planning, Ernest Shonekan, a former Nigerian head of state (2000:42), confessed that the country's economic progress over the years has neither matched its enormous resources endowment nor met the expectations of the citizenry, friends and well-wishers. In 2004 the country was still classified as a third-world country with a low income, Gross National Income, (GNI) of US\$38.7 billion and GNI per capita of US\$290 (World Bank, 2004b:253).

Indeed, Nigeria has lagged behind other oil producing countries in terms of development. Shamsuddeen (1998:29) stresses that efforts made in terms of the various development plans

which the country tried to implement, especially during the oil boom, have not been very successful, as discussed above.

The development impediments and challenges that have confronted Nigeria can be summarised as follows:

2.3.1 Undiversified economic base of Nigeria

Arnold (1997:126) says that the main problem facing development in Nigeria appears to be political rather than economic, particularly the habit developed since the oil boom of the mid 1970s of over-dependence upon oil to solve all the nation's problem. He stresses the urgent need to translate oil wealth into other forms of economic growth, because Nigeria's population is expected to double in years to come.

2.3.2 Weak manufacturing sector (industry)

A general belief is that, if a country is to develop rapidly, it must industrialise, since industrialised countries appear to be the most developed. However, to industrialise a country requires substantial capital investment, which is possible through either earnings from foreign exchange and exports; borrowing in the international financial markets; or allowing foreign businessmen to invest in the economy. Since the beginning of the oil glut, earnings in Nigeria from exports have fluctuated downward, with a consequent debt crisis pushing the economy into depression to the extent that the international community is reluctant to grant further credit facilities until the country shows a practical demonstration of improved ability to pay (Aremu, 1997:1-2).

The problem of a weak manufacturing sector is also linked to a hostile business environment, and to perceptions of risk and high costs of doing business. These factors have tended to cause some foreign companies in Nigeria to keep the bulk of their assets abroad. Analysis of panel data from 23 developing countries confirms that economic growth, predictable behaviour, trustworthiness and commitment from government institutions, infrastructurally developed cities and low tax rates are important factors in attracting foreign investment (Hsiao, 2003:893). Infrastructure is central to development and the state of infrastructural development in Nigeria is far from meeting the expectations of the average potential investor in the country.

2.3.3 The growing incidence of poverty in the Nigerian economy

The eradication of poverty is universally accepted as a primary developmental objective (World Bank, 1990:24). Nigeria is one of the poorest of the nations of the world, and is confronted with not just pockets of poor-disadvantaged or marginalised areas, groups and individuals, but with a situation of mass poverty. This is a situation in which most of the population exists at standards of living below those required for full development and the enjoyment of individual and societal well-being (Ukwu, 2002:44). The prevalent situation of mass poverty reflects the poor performance of the Nigerian economy. The level of economic performance in any country depends primarily on two factors: the level of resources relative to the population, and the level of productivity. According to Awoseyila (1999:31), the HDI of Nigeria was ranked 142nd among the 174 countries listed in 1997, and by 1998, the country had dropped to amongst the 40 poorest countries. The conviction, therefore, is that poverty has been on the increase, commensurately with the deterioration in the economy.

2.3.4 The impact of the external debt burden on the Nigerian economy

Bhattacharya and Clements (2004:48-49) argue that the high external debt service absorbs resources that could be used for essential spending on poverty reduction and diverts resources away from public investment. The large debt stock and crushing debt service burden have introduced a new vicious cycle to the development problem in Nigeria. Ogbu (2002:41) explains that, in many African countries, debt servicing in the face of inadequate foreign exchange earnings leads to severe import strangulation, and holds back export growth. This and other uncertainties created by debt further depress investment and output, escalating the current account deficit and leading to increasing debt and rising debt service obligations. External borrowing may have some desirable effects on the economy where such funds are properly invested into productive ventures or sectors. In Nigeria and other developing countries undesirable consequences of external debt constitute a serious constraint on economic development of the nation tend to outweigh these advantages most of the time.

2.3.5 Evidence of corruption in the Nigerian economy

Corruption is one of the major impediments to economic development in Nigeria. Transparency International, an independent organisation, consistently ranks the country as one of the most

corrupt in the world. Thomas (2000:144-145) identifies some of the many channels through which corruption can weaken economic growth:

- a. Misallocation of talent including underutilisation of key segments of the society, such as women;
- b. Lower levels of domestic and foreign investment;
- c. Distorted enterprise development and growth of the unofficial economy;
- d. Distorted public expenditure and investment and the deterioration of physical infrastructure;
- e. Lower public revenues and less provision of the rule of law as a public good; and
- f. State captured by the corporate elite of the “purchased” law and policy of the state, thereby undermining growth of output and investment in the enterprise sector.

Tanzi and Davoodi (1997) find in their studies that corruption increases public investment, because it creates opportunities for manipulation by dishonest high-level officials. It also skews the composition of public expenditure away from needed operations and maintenance spending and directs it towards new equipment purchases, thereby reducing the productivity of public investment, especially in infrastructure. According to these authors, under corruption, public officials shun health programmes, because they offer less scope for rent-seeking; this may reduce tax revenue, and compromise the government’s ability to collect taxes and tariffs. Ledermann, Norman and Soares (2005:1), in their recent study, show that indicators of corruption are negatively correlated with important economic outcomes. This implies that corruption is a serious obstacle to development. Similarly, Mauro (1995:681-712) and Burki and Perry (1998) stress that corruption reduces economic growth, via reduced private investment. Kaufmann and Zoido-Lobaton (1999) also find that corruption limits development, as measured by per capita income, child mortality and literacy; and Bai, Norman and Wei (2000) argue that corruption affects the making of economic policy. There is little doubt therefore that corruption could have constituted a strong impediment to economic development in Nigeria over the last two decades.

Abdullahi (2000:70) believes that the Nigerian economy has failed to achieve expected growth, because Nigeria’s people have failed to manage and husband it in such a way as to fully achieve

its potential. Sadly, people rather talk copiously about the potential than take concrete measures to exploit and harness this potential for the benefit and well-being of the Nigerian people. Abdullahi (2000), however, suggests that with political will and commitment to the national interest, the realisation of the large development potential especially in its agriculture is not impossible.

Having presented an overview of the major developmental features, trends and challenges in Nigeria, suffice it to respond to a pertinent question, namely, how Nigeria can accelerate the pace of economic progress. The next section, therefore attempts to identify and articulate policy-oriented development and growth prospects in the economy.

2.4 Development prospects of Nigeria

Nigeria is a developing country endowed with significant renewable and non-renewable resources (Oladunni, 2004:31). Since 1998, when a democratic government took over power, there have been a number of positive developments, which seem to suggest that the country is willing to transform and create an enabling environment for growth and development in the economy. The government has displayed measures of commitment to pursue some economic reforms, maintaining macroeconomic stability and growth, by enhancing policies that largely conform to global standards. Ogwuma (1996:6) says that the commitment of Nigeria to implement these economic reforms will among other things, qualify the country for debt relief. If all these reforms and policy are put in proper perspective, it can restore confidence in the Nigerian economy. More so, domestic and foreign investment will begin to proliferate and thrive. Employment opportunities and improved living conditions of Nigerians will begin to stimulate growth and development in the country (see Zarsky, 2005).

2.4.1 Liberalisation of the economy

The past two decades have seen a worldwide shift in markets with developing countries opening themselves to investment from overseas (Havrylyshyn, 2004:34). The guiding economic principles and philosophies of a liberalised market economy are being pursued vigorously by Nigeria. According to the World Bank (2004c:8), increased access to the markets of the developed countries is critical for the development of poor countries. However, many developing countries that have opened up their trade regimes are prevented from reaping the benefits,

because of market-access barriers imposed by developed countries, especially on agriculture, textiles and clothing. These are labour-intensive sectors where developing countries typically have a comparative advantage. Henry (2003:91-96) asserts that in countries that began to allow foreigners to hold shares in domestic firms, a diverse group including Brazil, Indonesia and Nigeria, investment growth averaged 1.1 per cent higher after liberalisation than before. The Nigerian government, therefore, needs to moderate its trade liberalisation policy as the economy seems too weak to absorb the negative shock from external trade (Olufemi, 2004:313).

2.4.2 Restructuring and privatisation programmes in Nigerian economy

The privatisation of moribund public enterprises that have contributed to mass corruption and economic waste in the country is a bid to encourage efficiency, speed up quality of service delivery, and generally stimulate a private sector-led economy. Tanzi and Schuknecht (2000:239) explain that the privatisation of public enterprises and a growing private sector participation in government-planned investment and public services seems widely accepted. The main vehicle for funding and managing investment and technological innovation efficiently, creating more jobs and labour income is by encouraging private sector-led growth and development. According to the World Bank (2003b:92), private sector investment, whether domestic or foreign, is crucial for the rejuvenation of the African economy.

A considerable literature about privatisation and experience with privatisation shows that it can reduce operating inefficiencies resulting from overstaffing or poor management of public enterprises (Tanzi & Schuknecht, 2000:175). The World Development Report (1994) says that privatisation is most meaningful, when there is potential for competition in a sector, regulatory requirements should then not be too strong, so that the public does not complain about abuse of monopoly power by the private sector. Butzen and Fuss (2003:1) further stress that private investment is a key variable in economies. It is therefore crucial for policy makers to understand the mechanisms that determine investment spending.

The Nigerian government has repeatedly stated that economic recovery and growth are high priorities on its policy agenda. This reflects recognition of the need to move the country from the current path of slow growth to a way of more robust and sustainable growth. Privatisation is therefore crucial to the government's economic reform agenda and essential to its objectives of

fostering economic competitiveness and strengthening a private sector-led economy (Otobo, 2002:159). There is increasing awareness of the strategic role of the private sector as the engine of economic growth and development, government predominance in economic activities is giving way to privatisation and commercialisation of public enterprise. The private sector is therefore expected to take the lead in promoting the growth of the manufacturing sector in Nigeria (Ogwuma, 1995:70).

However, Zinnes, Eilat and Sachs (2001:146-170) argue that the benefit of privatisation without a proper accompanying climate of open competition and rule of law may be very small or even zero. According to the World Bank (2000:545-576), privatisation can result in a strong concentration of ownership, and then a class of rent-seeking vested interests develops and captures the state to ensure that policies work in their favour and prevent competition this then slows further institutional and democratic development. Havrylyshyn (2004:40) believes that the state vested interest in privatised enterprises may not occur if the process is rapid.

2.4.3 Financial sector liberalisation and policy reforms

In 2004, the Nigerian government initiated a compulsory merger and acquisition programme of domestic banking institutions. The goal of this policy reform was to reduce the number of commercial banks from about 89 to a manageably small number with large capital base of about \$250 million. Through this programme it was hoped that the banking groups at the end of 2005 would be better able to meet the demands of the changing domestic economy. Moreover, future challenges from the globalisation and liberalisation process can contribute meaningfully towards achieving sustainable growth and development in Nigeria. Concerted efforts are being made to restore the productive base of the economy, and this overhaul of the banking and finance sector to enable it to play an active role in financing manufacturing, agricultural and the mining sectors of the economy is part of the process. According to Kochar (1997:339), the major obstacle to the expansion of firms and productivity distribution is the limited availability of credit.

According to Quinn (2002:160), all countries in Africa have had severe economic problems of one type or another, though those with most economic accountability, they have fared better than those without such an accountability have tended to keep the levels of their currency aligned with market prices. They have higher levels of investment; higher levels of both agriculture and

manufactured exports; invest in industries in which they have long-term comparative advantage; keep their debt-to-export ratio relatively low; and keep export-agriculture taxation to a moderate level. It is in an effort to emulate their success that Nigeria has embarked on these economic reforms. Most recently, the International Monetary Fund has extolled Nigeria's economic reforms. In 2003, the economy grew at nearly 11 percent, its fastest rate in many years (IMF, 2004:55). This is attributed to increased oil production.

2.4.4 Attraction of foreign private investment into the agricultural sector

Attempting to expand the country's agricultural productivity, the Nigerian government has packaged some policy incentives to attract foreign large-scale commercial farmers into the sector. The policy aims to increase productivity and adaptability of crops, diversify the variety of crops; and enhance the nutritional value of food. It is equally important to combat the perennial problems of poverty, malnutrition, starvation and disease. Furthermore, the Nigerian agricultural sector has the capacity to create more jobs, directly in the farms and indirectly in the industries where agricultural raw materials serve as basic inputs.

2.4.5 Industrialisation policy and incentives for small, medium and large-scale enterprises

The overriding objective of the industrial policy being pursued by the Nigerian government is to accelerate the pace of industrial development by radically increasing value-adding at every stage of the value-chain (National Planning Commission, 2004:78-80). Small and medium enterprises are acknowledged to have potential for employment generation and wealth creation in an economy. It is important to provide a platform for increasing productivity related to import replacement and exports expansion; enhancing foreign exchange earnings; generating employment; and raising per capita income, which increases per capita consumption. In addition, a dynamic manufacturing sector creates investment capital at a rapid rate while promoting wider and deeper linkages with other sectors of the economy.

Nigeria has large domestic and regional markets for its products, both manufactured and agricultural. The country also has the potential of becoming industrialised, given the discovery of iron ore and coal and the establishment and take-off of the steel industry. According to Olomola (2004:181), the Nigerian government is already benefiting from the inflow of foreign investment into the country, which enables the economy to achieve growth.

2.4.6 Social and environmental services reforms in the Nigerian economy

The present democratic government is committed to improving the living standards and well-being of Nigerians. Concerted efforts are being made to increase the proportion of the country's federal budgetary allocations to education and health facilities, environmental protection, rural development and infrastructure as well as poverty reduction. With over sixty higher institutions of learning in the country, and the numbers of highly educated Nigerians both inside and outside the country, sufficient manpower and workforce is available for developmental activities in the nation (National Planning Commission, 2004).

The development prospect for Nigeria depends on the government's commitment to growth-inducing policies that are consistent with international standards, as discussed above. Boughton and Qureshi (2004:43) stress that policies in developing countries have improved, enhancing the countries' ability to better direct resources towards development policies both domestic and external.

In terms of the environment, the World Bank (1994) reports that, like most of sub-Saharan Africa, Nigeria's key environmental problems are soil degradation, water contamination and deforestation. If this is left unaddressed, these problems could cost the country an estimated \$5 billion annually in the long term. Apparently alarmed by this report, the government has embarked on environmental renewal and development initiatives, the primary goals of which are: to take a full inventory of Nigeria's natural resources; to assess the level of environmental damage; and to design and implement restoration and rejuvenation measures to halt further degradation of the environment.

A primary difference between African countries with good economic performance records and those with poor records is the way these external factors are managed by domestic policies (Adenikinju, Soderling, Soludo & Varoudakis, 2002:645). This suggests the importance of adopting a proactive approach, showing commitment to sound macroeconomic management and instituting an unbiased legal framework to tackle the problems of development in Nigeria.

In the following section, a review of the development model adopted by the newly industrialised Asian countries (NICs), known as the Asian “Tigers” will be presented. Lessons for development that may be relevant to Nigeria will be drawn from this discussion.

2.5 Evidence from development models in Asian countries

New economic development and growth models have brought significant advances in the understanding of development and growth processes. They stress the importance of innovation, human capital accumulation, the development of new technologies and financial intermediation (Agenor & Montiel, 1999:703).

Empirical evidence reveals that countries that grow faster devote a larger share of their output to investment (in physical as well as in human capital) (Parente and Prescott, 2006:24). Lower inflation and a more stable macroeconomic environment often occur in more open than slow-growing countries. The experience of the selected East Asian countries provides important lessons about the policies that are compatible with rapid growth and development (Meyer & Grag, 2005:1). The rapid development of the NICs is sustained by private investment (induced by higher levels of domestic financial savings) and rapidly growing human capital (fostered by increased public spending on primary and secondary education and health services). In addition, a series of other factors have directly or indirectly played a significant role in what has become known as the “East Asian Miracle” (World Bank, 1993).

Modern literature on development seems to suggest that the implantation of the Asian model of development is crucial for most developing countries, especially in Africa. The reasons for this are discussed shortly. However, it is important to note that these Asian countries have all reached the status of “crossover” countries within reach of joining the ranks of developed nations.

Some development models to emerge from these countries include:

2.5 1 The adoption of special economic zones

These Asian countries opted for the establishment of Special Economic Zones such as Export Processing Zones, where manufactured exports were given adequate attention. In other words, this outward-oriented development model enables the countries to make successful inroads into the world’s manufactured exports market (Meyer & Grag, 2005:1).

Rising volumes of world trade in manufactured goods has also increased the importance of the industrial sector of these countries. The growth momentum of the East Asian countries has been dictated by growth of industrial output, rather than agricultural output as it was in the early 1960s, this changing pattern of output has become a stylised fact in the development process (Nidhiprabha, 2003:198). Nidhiprabha (2003) stresses further that the reason behind this rapid growth is the expansion in exports of manufacturing products, made possible by outward-oriented development policies that reduce the bias against external trade. Capital formation concentrate mainly in the manufacturing sector, thereby raising the productivity of industrial workers higher than workers in other sectors.

2.5.2 Encouragement of private entrepreneurs and institutions

Private entrepreneurs and institutions are motivated to grow and develop by government policies. There are platforms as well as deliberation councils through which government bureaus and business representatives exchange and share information about technological best practices, market opportunities and jointly find solutions to identifiable problems areas. Evans (1998a:75) also notes that the government-business relationship did not emerge spontaneously in either Korea or Taiwan, but was initially based on a deliberate “synthesis of scepticism and enlistment”. According to Aryeetey and Nissanke (2003:46), the East Asian governments are more accurately characterised as successful developmental authoritarian regimes, the economies are by no means homogenous in many aspects.

2.5.3 Adoption of sound macroeconomic policy management

The East Asian countries have achieved remarkable records of sustained rapid growth over the past three decades (Fishlow & Gwin, 1994:1). The economic development success factors of these countries could be attributed to improved and sound macroeconomic policy. Adopting the Asian model of good macroeconomic management has become an imperative for Nigeria and other developing countries. Venter & Neuland (2005:110) believe that improved macroeconomic fundamentals contributed to the stability and recovery in most African countries.

Therefore, sound macroeconomic policy, management and performance in the Asian countries has encouraged private sector-led economic growth by allowing private individuals to play a

positive role in industrial development. Fishlow & Gwin (1994) stress that these governments have triggered high rates of national savings, invested in universal education, and maintained a high calibre of professionalism in the civil service.

2.5.4 Adoption of a labour intensive manufacturing strategy

The promotion of a labour-intensive manufacturing strategy has induced productivity in the region and also attracted foreign investors from relatively costly industries in the advanced world, who have relocated their plants and production in South East Asian countries where wage rates are relatively cheap. The transfer of technologies and capital to the NICs has also resulted in the governments' rolling out extra incentives to export-oriented joint ventures and foreign investment (Meyer & Grag, 2005:32). According to Meyer & Grag (2005), virtually all Asian government have played and are still playing a strong role in the development of the local economy.

The inflow of FDI into the East Asian region has contributed to the changing structure of the economies by transforming predominantly agricultural countries into industrialising countries. The speed of this transformation depends partly on the flow of foreign direct investment (Nidhiprabha, 2003:202). The positive effect of FDI on the balance of payment leads to accumulated international reserves in host countries, which has a strong impact on the stability of their currencies.

2.5.5 Adoption of strategies to develop human capital

The East Asian countries under discussion have tended to introduce human capital development policies. Countries at higher development levels such as Malaysia and Singapore have put great emphasis on the role of government in providing education. The Malaysian government budget allocated to education is higher than that allocated to defence, reflecting a strong commitment to human capital development over the last decades. Malaysia and Singapore have achieved higher standards of education than other countries in the region, giving them a comparative advantage in producing higher value-added products and skilled labour-intensive products for export (Evans, 1998b).

2.5.6 Increased productivity and rise in real wages

The rise in real wages in urban sectors attracts unskilled labour from rural areas to the industrial sector. Consequently, the structure of employment also changes with a rising share of industrial workers in total employment at the expense of the share of labour in agriculture. High growth rates experienced by these countries are arguably the result of rapid expansion of output in the industrial sector, which can be explained by improvements in both the quality and quantity of the labour force employed in this sector. In other words, the East Asian economy has grown rapidly, because of the increased productivity of labour, rise in real wages, macroeconomic stability, infrastructural development, and a switch-over effect. The rural agricultural unskilled labour are absorbed into manufacturing enterprises (Nidhiprabha, 2003).

2.5.7 Mitigation of corruption in the economies

Although the East Asian economies are not insulated from corruption, it features in these economies more in the relationships between politicians and large private business concerns than in those between government officials and middle or lower class groups. In other words, the cases of corrupt practices among interest groupings commonly observed in other developing countries are not found in East Asian economies. According to Nidhiprabha (2003), in general, in the East Asian economies, strong control mechanisms are in place to check rent-seeking activities.

Having reviewed the East Asian economies and their development path and process, it is important to sketch the anatomy of a development model for one of these Asian countries that was at the same level of development as Nigeria in the 1950s and 1960s. It is likely that valuable development lessons can be drawn from such a model. In the next section, an overview and lessons from a Malaysian development model are presented.

2.6 Overview and lessons from a Malaysian development model

Malaysia operates in a mixed economy, and its public sector is efficiently managed. Malaysia as an upper middle-income economy and is already on the verge of becoming a newly industrialised country. The country is endowed with great natural and agricultural wealth. Its agricultural sector includes forestry, fisheries and rubber, which have long been key products for export. Its

second-tier export commodities include palm oil, cocoa, pineapple and coconuts, all the states produce rice, the main grain crop, but not for export. Malaysia is a major producer of tropical hardwoods. Overall, the main agricultural exports are palm oil, wood and wood products and rubber (Department of Information Services Malaysia, 2003:40-42)

The main mineral resources are tin, petroleum, copper, iron ore, natural gas and bauxite. Although Malaysia is only a small oil producer in terms of petroleum exports, revenue from petroleum exports contributes significantly in boosting the country's economic performance and growth (Department of Information Services Malaysia, 2003:41).

The Malaysian manufacturing sector records consistent growth since 1960 with vigorous encouragement from the government. Machinery and transport equipment constitute the majority of the country's export earnings. Other manufactured products include cement, refined sugar, wheat flour, other processed foods, fertiliser, plywood, radio receivers and automobile tyres. The country's major export and import destinations include Japan, Singapore and the U.S. A range of incentives, such as reduced duties applies to imported raw materials for the production of goods for export (Jan, 2003:42). Malaysia has a modern railway system and extensive waterways as well as a good road network, all of which are linked to eight seaports. The country has a total of 102 airports, of which 32 have permanent surface runways. The telecommunications system in the country is one of the best in Asia (Department of Information Services Malaysia, 2003).

According to Jan (2003), Malaysia's GDP grew by 5.4 percent in 2002, a figure expected to increase to 5.7 percent in 2003. The external reserve is put at USD34.2 billion, and the unemployment rate at 3.4 percent, which implies full employment. The growth rates for agricultural and manufacturing GDP in 2002 were 5.4 percent and 5.3 percent respectively. The exports and imports for the same year were RM39.7 billion or \$4.96billion and RM13.4 billion or \$1.68 billion respectively, showing a trade surplus of RM13.4 billion or about \$1.68 billion.

The Malaysian government ensures that the economy continues to achieve sustainable domestic business and industry to generate higher economic growth. The country's National Development Policy (NDP) contained a long-term vision working towards 2020. The broad

objective of the NDP is to attain balanced development in order to create a more united and just society. Jan (2003) further explains other objectives of the NDP, which include:

- a) Optimising growth by ensuring the goals of economic growth and equity;
- b) Reducing and ultimately eliminating social and economic inequities and imbalances to promote a fair and more equitable sharing of the benefits of growth by all citizens;
- c) Promoting and strengthening national integration by reducing the wide disparities in economic development between states, and between urban and rural areas in the country;
- d) Promoting human resource development, including creating a productive and disciplined work force. The government is developing the necessary skills to meet the challenges of an industrial society through a culture of positive values and attitudes;
- e) Making science and technology an integral components of socio-economic planning and development;
- f) Relying more on the private sector's involvement in restructuring processes and mobilising high domestic savings to support investment;
- g) Emphasising large-scale industrial production for exports for global markets in order to enjoy the advantages economies of scale and lower costs of production as well as restructuring strategic industries to nurture capital and technology-intensive and knowledge-based activities;
- h) Instituting measures to reduce the deficit in the current balance of payments by encouraging domestic industrial inputs to meet domestic demand as well as exports expanding potential activities in the services sector that can be exported to correct imbalances in the services account of the balance of payments;
- i) Establishing strategic alliance and niche markets overseas to encourage Malaysian investors to venture abroad source their capital from international markets in the era of increasing globalisation of business operations;
- j) Maintaining an efficient management of the macroeconomy of the country and ensuring a prudent financial and fiscal policies besides developing a knowledge-based economy;
- k) Increase national productivity by upgrading the knowledge, skills and specialisation of workers enhancing research and development (R&D) activities and achievement in science and technology; and

- 1) Extending the use of Information Technology (IT) to all economic sectors in order to accelerate the growth process.

In 1999, Malaysia undertook major banking reform that led to the merger of the domestic banking institutions into six large, strong domestic financial groups thus reducing the number of domestic commercial banks, finance companies and merchant banks (Department of Information Services Malaysia, 2003). The commercial banks located throughout the country are the largest and most significant providers of funds. They maintain trading and financial connections with the major financial centres of the world. The finance companies constitute the second most important source of private sector credit in Malaysia. Loans granted by finance companies are mainly loans for the purchase of motor vehicles, leasing finance, housing loans and other short-medium-terms business finance. Merchant banks complement the activities and services already offered by the commercial bank. They act as intermediaries in the short-term money market and the capital market. They provide corporate financial services and financial portfolio management.

The Government continues to give priority to education, with 27 percent of the total budget in 2003 being allocated to this sector. Greater emphasis is given to pre-school and primary levels. The government also runs integrated schools where students are offered a choice of subjects from three streams, focusing on the pure sciences and technology. To enhance computer learning and information communication technology, smart schools which are equipped with computer laboratories emphasise the use of software for the teaching of mathematics and sciences (Department of Information Services Malaysia, 2003).

Malaysia has proved to be one of the most politically stable economies in South East Asia and a strong member of the Association of South East Asian Nations (ASEAN). It has maintained a steady increase in living standard with a per capita income that places it in the upper-middle income group of countries. With an expanding economy, Malaysia is one of the cross-over countries that may be ranked as developed in the near future (Nidhiprabha, 2003).

The development models of the Asian Tigers have been reviewed and specific development experiences and strategies drawn from the Malaysian economy. In the subsequent section,

some valuable information from these development models will be presented as lessons for the Nigerian economy.

2.7 Development model applicable to Nigeria

There is no reason to believe that developing countries are in principle incapable of reaching higher levels of prosperity. However, it is rather unlikely that the path to a higher per capita income will be the same as the path rich countries have followed in the past (Szirmai, 1997:54). According to Szirmai (1997), initial conditions for development differ in each period and in every phase of development of international economic and political order. This involves demographic development of world trade; international competition; technological development; the international balancing of power; the nature of relationships with rich countries. (Szirmai, 1997) stresses that around 1700, developing countries were about as rich as the present affluent countries at that time. In essence, Nigeria and other developing countries aspiring for breakthroughs in economic development can be advised not necessarily to adopt the development models of rich countries, but rather to follow policy decisions made in developing countries.

According to the World Bank (2004d:4), the lessons of research and experience have produced a broad consensus on an effective strategy for development, one that is country-owned and country-led. This promotes growth, ensures that poor people participate in and benefit from it, and produces maximum progress towards achieving a sustainable development and growth. A development model for a developing country like Nigeria could therefore incorporate the following: efficient utilisation of agricultural potentials; adoption of attractive manufacturing (industrial) incentives; attraction of FDI; outward-oriented or export-led development strategies private-entrepreneur driven development process; a strong and civilised professional civil service; human resources development; and an information and technology-driven model. Each of these measures will now be briefly discussed.

2.7.1 Efficient utilisation of agricultural potentials in the development process

A problem with developing countries, of which Nigeria is one, is the neglect of agriculture. The drive to industrialisation by many developing countries has often been highly damaging to agriculture, especially with little or no rural infrastructure (Sloman, 2003:746). Nigeria's socio-

economic history and development have been very closely tied to its agricultural sector (Abdullahi, 2002:67).

The Nigerian agricultural sector, Abdullahi (2002:68) believes has the potential to drive the economic development process of the country, as the following facts suggest:

- a) Total land mass of about 923,771 sq km (92.4 million hectares),
- b) Estimated arable land are 68 million hectares,
- c) Natural forests and range land of about 37 million hectares,
- d) Large diversity of livestock and wild-life,
- e) Large rivers and lakes of about 120,000 sq km
- f) Coastal and marine resources of about 960 km of shore line,
- g) Variable suitable climates,
- h) Large population estimated at 120 million,
- i) Large consumers market,
- j) Relatively high-levels of available manpower,
- k) Large regional and continental African markets, and
- l) Large potential world market.

Agriculture is assigned the role of providing food, and raw materials for industries, creating employment, providing a market for industrial products such as chemicals, and generating foreign exchange. With recent developments and the wide consumption and use of cassava for food security among the poor nations by the Food and Agriculture Organisation (FAO), the Nigerian government has quickly put in place a Presidential Committee on cassava production. The mandate to ensure that the country becomes a world-acknowledged cassava export nation (Abubakar, 2003:6). Agriculture has the capacity to mitigate the rapid rural–urban migration. One major reason for an increasingly large population in the urban areas is that people are no longer dependent on farms or subsistence agriculture. This is as a result of urban-oriented development strategies.

However, considering the number of programmes that have been introduced by the Nigerian authorities to resolve the country’s food crises and the subsequent failures of these programmes, a radical departure from the old programme becomes necessary (Ilorah, 2002:81). It has been

suggested that agricultural biotechnology may contribute significantly in overcoming the perennial shortage of vitamins A and D, of iron, iodine and calories in the diets of people in developing countries including Nigeria. Therefore, the introduction of agricultural biotechnology will increase yields and the nutritional quality of crops (Johnson, 2002:1-2).

2.7.2 Adoption of attractive manufacturing (industrial) incentives

The manufacturing sector, including small-and-medium scale enterprises, has great potential for generating employment, foreign exchange and wealth in the economy. Nigeria's industrial policy should be made appealing to speed up the process of industrialisation by motivating and providing an attractive package of incentives for private entrepreneurs. The surest way to rapidly accelerate industrialisation in the economy is to put in place a conducive policy environment that will attract both local and foreign direct investment to the country. Walker (2006:27) stresses that the key to success of the industrialised countries was based on the platform for achieving diversification and economic growth. Nigeria with its large renewable and non-renewable resources should be able to articulate sound industrialisation policy.

2.7.3 Attraction of FDI into the economy

FDI brings great assets to a host economy if that country can induce investors to transfer their advantages in appropriate forms. Lall (2002:330) says the assets of FDI can include:

- a) Provision of adequate capital. FDI brings in investable financial resources to capital-scarce countries. The inflows of capital to the resident countries are more stable and easier to service than commercial debt or portfolio investment within the domestic economies.
- b) Provision of technology and experts to the resident countries. Developing countries tend to lag in the use of technology, and many of the technologies deployed even in mature industries may be outdated. The efficiency with which these countries use given technologies is often relatively low. FDI can drive development of modern technologies and raise the efficiency with which the technologies are used. Investors can adopt technologies to suit local conditions, drawing on their experience in other developing countries, may in some cases set up local Research and Development (R&D) facilities. They can upgrade the technologies as innovations emerge and consumption patterns

- change. They can stimulate technical efficiency in local firms, both suppliers and competitors, by providing assistance, acting as a role model and intensifying competition.
- c) Provision of skills and management expertise. FDI often possesses advanced skills and can transfer these to host countries by bringing in experts and by setting up training facilities. They also possess new management techniques, presumably among the best available whose transfer to host countries offers enormous competitive benefits.
 - d) Provision of market access to host countries exports. FDI can provide access to export markets, both for existing activities (that switch from domestic to international markets) and for new activities. More important is the fact that FDI is often by definition the only way to enter the international production systems that increasingly dominate trade in sophisticated and high-tech products. Export activity in turn offers many important benefits. These benefits include: technical information, realisation of scale economies, competitive stimulus and market intelligence.
 - e) Provision of environmental friendly technology: FDI often possess advanced environmental technologies and can use them in all the countries in which they operate

2.7.4 Outwardly-oriented or export-led development strategies through trade and regional integration

Nigeria should be committed to the full and complete implementation of the Economic Community of West African States (ECOWAS) and free-trade zone agreements, strive towards the creation of a single monetary zone and common custom territory. The relevance of trade, investment and regional integration is imperative. This is because developing countries that have attracted many of these foreign direct investment (namely Brazil, Chinese Coastal provinces, Colombia, Indonesia, Malaysia, Mexico, Taiwan, Thailand, and Turkey). These are countries with established records of foreign trade and with developed internal markets (Lieten, 2001:106).

This export model shows factors that enhance economic development. State and local policy makers need to support programmes that will expand the export sector. Export-based jobs can stimulate growth in other areas of the local economy (Mocombe, 2006). According to him, export-producing industries are believed to be critical to a region's growth for a variety of reasons. Firstly, export industries attract income from other countries, which income can be used to finance imports of goods and services. Secondly, export industries tend to be technologically

advanced and to operate at comparatively high levels of productivity. Thirdly, since export industries are often linked to other regions and industries, they encourage the integration of regions within the national economy; and fourthly, a strong export sector allows a region to shift part of its tax burden to residents of other countries. Mocombe, (2006) further links the export model with the innovation model, which he says is essential for maintaining economic prosperity; innovation and the creation of unique products.

2.7.5 Private-entrepreneur driven development process

Lessons drawn from the East Asian economic miracles reveal that the crucial success story behind their rapid development and growth is based on private-sector-motivated government policies. For Nigeria to increase the contribution of its manufacturing sector to the GDP and to increase its exports, a vibrant private sector that can respond positively to the rigors of market forces act as an engine of growth must be encouraged. According to Jenei (1999:60), the salient trend in modern public administration is the pursuit of greater operational efficiency and effectiveness. In the view of McDade & Spring (1998), a new generation of African entrepreneur is networking to change the climate for business and private-sector-led development. These thinkers say that this small but growing segment of African entrepreneurs may serve as a catalyst to improve economic conditions and stimulate private-sector-led development. These businesses span the extremes. The configuration includes informal and formal sector business, traditional and modern, indigenous and foreign-owned enterprises that are geographically dispersed in rural and urban areas.

2.7.6 A need for a professional civil service

There may be a strong need to put in place a highly civilised and professional civil service that can respond to the infrastructural, legal and market needs of private entrepreneurs. A responsive and efficient public sector should play the role of addressing the issue of market failure, and enforcing contractual rights, investment, property rights, and aspects of legal frameworks. The central role of markets is almost universally declared, but few government agencies in developed and developing countries would think of applying the concept of planning to their efforts to influence the directions of the economic and social progress driven by market forces (Baudot, 1999:28). According to Dickenson (1996:260), the role of government has changed from being the leading direct provider of economic and social investment to one of providing an enabling

economic and political infrastructure. The role of government is to ensure the rule of law and quality of governance and encouraging local and international companies to invest in production enterprises.

In addition, to complement the role of the market, a responsive and efficient public sector is required for formulating the development strategies and economic plans needed to use national resources in the best interests of the nation as a whole (Dickenson, 1996).

2.7.7 Human resources development

For meaningful economic growth and development to be achieved in Nigeria, the economic development model should help every citizen to realise his/her full potential for well-being, fulfilment and accomplishment of happiness, love and contentment. Nidhiprabha (2003:305) notes that countries like Malaysia and Singapore that have higher budget allocations to education than defence, achieve higher standards than other countries in the region. Since they enjoy a comparative advantage in producing value-added products and labour-intensive products for export. Past human resources development and anti-poverty strategies implemented in Nigeria were not sustainable. They appeared in the form of an ad-hoc, uncoordinated and more or less fire-fighting approach. Public projects such as the Directorate for Food Road, and Rural Infrastructure (DFRRI), the National Directorate for Employment (NDE), the Peoples Bank, the Community Bank, the Better Life for Rural Women, the Family Support Programmes and the Family Advancement and Economic Empowerment strategy could not add value nor produce any sustainable positive effect on the citizens. These public projects suffered severe problems such as poor coordination, the absence of a comprehensive policy framework, undue political interference, failure to target the poor, high levels of corruption and leakage in the economy (National Planning Commission, 2004:100).

Several recent empirical studies at the household level using panel data provide support for a strong interaction between human development and growth in income countries have put in place incentive structures and complementary investment to ensure that better health and education lead to higher income. The people have always benefited doubly; they are healthier and better educated, and they increase their consumption (Kanbur & Vines, 2000:93).

2.7.8 Information technology driven economy

The deregulation of the telecommunication sector in Nigeria has led to the arrival of more than three giant mobile telecommunication companies. The operation of these companies have caused much growth in the sales of mobile telephone lines and accessories. According to the World Bank (1996:28-29), high-quality communications are essential for countries that aim to participate in the global production structure established by multinational corporations, to respond promptly, to rapidly changing market conditions in industrial countries, or to participate in new export markets. Communication is vital for the functions such as long-distance service, including data processing, software programming back-office service and customer support.

For all these reasons, one would expect to find a positive correlation between telephone density and the degree to which developing countries are integrated into the global economy (James, 1999:22). James (1999) also believes that one of the most important mechanisms through which technology spurs globalisation is by making it more attractive for multinationals to engage in dispersion of their economic activities, in so far as this mechanism is driven by the desire to reduce costs, it is often developing rather than developed countries that will benefit from the globalisation this induces.

The era of globalisation is driven by computerisation, miniaturisation, digitalisation, satellite communications, fibre optics and the internet (Shamsuddeen, 1998:7). The global spread of production requires that, beyond the availability of new technology, two additional conditions be satisfied, namely, a liberal international trading system and a relatively well-educated labour force. When these are put in place, new systems of communication, and information processing and control can allow profitable production to be carried out virtually anywhere. Incidentally, no country is so remote that investors will be dissuaded by location alone, because modern production methods can be introduced into countries that previously were by-passed by economic development (Mandle, 2003:9 -10)

2.8 Summary of the review findings and conclusions

This chapter is devoted for an overview of the concept of economic development and the relevance to the Nigerian economy. The development impediments and challenges that have confronted Nigeria since it gained political independence. It also discusses the development

prospects of Nigeria. The analysis of the evidence from development models in Asian countries were reviewed. Specifically an overview and lessons from a Malaysian development model that could be applicable to Nigeria were expounded.

Literature suggests that Nigeria has not been able to make rapid economic development given its large potentials of renewable and non renewable resources. The development impediments of Nigeria were blamed on its undiversified economic base. The country was practically a mono-cultural economy with heavy reliance on crude oil exports to the utter neglect of other important real sectors such as agriculture, manufacturing, mining and quarrying. The external debt overhang and the debt service ratio over the exports rose to 23.9 percent in 1990, but had decreased to 7.2 percent in 2004 (CBN Annual Report and Statement of Accounts, 2005:76). Weak manufacturing and increasing rate of incidence of poverty further impeded economic progress in the country. Evidence of corruption in the economy dealt a major blow to economic development in Nigeria. Apart from corrupt leaders taking large sum of hard currency overseas, depleting resources to run the country, foreign investment into the country stagnated due to macroeconomic instability and the spite of corruption in the country.

The economic review also showed prospects of Nigeria's economic recovery especially with the enthronement of a democratic government in the country since 1998. Economic prospects were sited from economic reforms of liberalisation of the economy, restructuring and privatisation programmes to encourage organised private sector participation in the economy that was hitherto dominated by the public sector as at 1998. These reforms were aimed at attracting domestic and foreign investment into the economy. Financial sector liberalisation and policy reforms were pursued to reduce the fragmented banking institutions from a total number of about 89 to 25 in 2005 (CBN Annual Report and Statement of Accounts, 2005: 46). The banking consolidation was targeted at making the sector participate actively in financing the agricultural, manufacturing and mining and quarrying sectors production for economic development and growth. The review also revealed that industrialisation policy and incentives for small, medium and large-scale enterprises, social and environmental services were included in the reform policy package. The policy stances of these reforms are part and parcel of the National Economic Empowerment and Development Strategy (NEEDS) to grow the economy and attain the MDGs by 2015 (see the National Planning Commission, 2004:75-89).

A review of the development model adopted by the newly industrialised Asian countries (NICs), known as the Asian “Tigers” was done. Lessons for development that may be relevant to Nigeria are drawn, these include: the adoption of special economic zones, encouragement of private entrepreneurs and institutions and the adoption of sound macroeconomic policy management. Also drawn for the development model of the Asian countries include: the adoption of a labour intensive manufacturing strategy, adoption of strategies to develop human capital, increased productivity and rise in real wages and mitigation of corruption in the economies. The Asian model of economic development were focused on because Nigeria was at par with some of these countries in the 1960s in terms of aspiration to attain a high economic development and growth. Literature and evidence from these countries economic advancement have shown that they are regarded as “cross over” or newly industrialised countries.

Malaysia’s development experience and lessons are drawn for Nigeria. Malaysia is one of the cross-over countries that may be ranked as developed in the near future. It has proved to be one of the most politically stable economies in South East Asia and a strong member of the Association of South East Asian Nations (ASEAN). It has maintained a steady increase in living standard with a per capita income that places it in the upper-middle income group of countries. With an expanding economy, Malaysia virtually has some salient similarities with Nigeria in terms of renewable and non-renewable resources endowment, heterogeneous and diversified ethnic and tribal population. It stands to reason therefore, that Nigeria can benefit from the lessons of development model of Malaysia.

The literature review has shown the state (situation) and challenges that faced the Nigerian economy. It is imperative to suggest that the policy reforms embarked on by the present civilian government should be pursued to conclusive and robust end by the next government as from 2007. A pragmatic approach to diversify the Nigerian economy by giving priority attention to agricultural development to complement in foreign exchange generation, in the provision of productive employment and food security in the country. The output performance and employment creation of the manufacturing sector will be encouraged if the reform to upgrade the energy (power) sector is speedily concluded. However, the silent disposition shown by Nigerian governments over the development of the solid mineral sector should be discouraged. A pro-

active deregulation and repositioning measures should be taken by government to open up and privatise the mines so that it can complement in the employment and income generation in the country.

A sustained effort to channel resources and improve the output performance and growth of the agricultural, manufacturing and mining sectors will raise the tempo of economic activities of employment generation, income, food security and foreign exchange earning to the country. The reform to mitigate corruption should be reinforced given the positive impact on the recent exist from the Paris Club debt burden and debt relief granted to Nigeria. The resources freed from the debt relief should be channelled to the health and the education sectors. Concerted efforts to reinforce the implementation of the various economic recovery reforms in terms of the diversification of the productive base of the economy, upgrading the power sector, committing the banking institutions to finance the production of the agricultural, manufacturing and mining sectors will lead to rapid economic development and growth in Nigeria.

In the next chapter, the policy framework of the MDGs is discussed, and efforts, challenges, and the role of development partners are presented.