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Economic implosion of the 'giant of Africa'

By Steve Onyeiwu | 29 February 2016 | 6:00 am



NOBEL Laureate Professor Wole Soyinka's recent call for an emergency national confab on the Nigerian economy suggests that the economy is not only in dire straits, but headed toward a cataclysmic cliff. For an artistic and creative intellectual titan like Soyinka to dabble into the "dismal science" known as Economics, portrays an urgency that cannot be easily jettisoned.

How bad, really, is the Nigerian economy? We economists are used to boom-bust cycles in the economy. Economic downturns neither surprise, nor alarm us. We believe that every economy that reaches the peak of the business cycle (to use an economic jargon!) must eventually slow down, sometimes reaching what is referred to as a "trough," or the very bottom of the cycle. To expect an economy to be buoyant in perpetuity would be akin to expecting humans to be immortal. Some economies are more resilient than others, in the sense that they are able to minimize the impact of an inevitable downturn, as well as rebound very quickly, mainly through sound economic management.

Nigerian currency, the Naira, has depreciated by over 25 per cent within the past year. But what does the exchange rate have to do with millions of subsistence farmers across Nigerian villages? If anything, those amongst them that receive remittances from relatives abroad will find themselves unexpectedly awash with stacks of Naira. Subsistence farmers don't have to fret about the inflationary implications of a depreciating Naira, since by definition they produce nearly all of their daily needs. Farmers who sell exported products like cocoa, palm oil, palm kernel, and groundnuts might even see a spike in the demand for their products, following changes in relative prices induced by a depreciating Naira. For Nigerian manufacturers that obtain most of their production inputs locally, a weak Naira is good for them, good for jobs and good for government revenue. Don't forget that China boosted its exports of manufactured goods by deliberately undervaluing the Yuan. Analysts should, therefore, be circumspect when they generalize about the impact of Naira depreciation.

I'm also not perturbed by the inexorable decline in Nigeria's GDP growth rate, from an average of nine per cent during 2000 – 2010, to the current rate of about four per cent. Stellar economic growth in Nigeria occurred when a barrel of crude oil sold for over $100. Now that a barrel barely sells for $30, the country's growth rate is expected to shave another one per cent or so from the current level. In the mid-2000s, the Nigerian economy was universally hailed as the "miracle economy," surpassing the growth rates of many emerging markets and the developed industrial economies. But I'm not quipped by the country's current anaemic growth rate because Nigeria's economic growth has never been inclusive and equitable anyway. When the country's growth rate peaked in the 2000s, a 2014 report by the McKinsey Global Institute showed that only a quarter of Nigerians benefitted from that growth. The rest wallowed in abject poverty, which now stands at an alarming rate of 70 per cent of the country's population of almost 200 million.

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On the country's rapidly disappearing foreign reserves, reserves in Nigeria have often been used to supply cheap foreign currencies to the Nigerian elite, who in turn use those currencies for various unproductive activities and illicit financial transactions – money laundering, medical tourism, acquisition of choice real estate in Dubai and other expensive cities, and lavish vacations at exotic locations. So, why should ordinary Nigerians care about dwindling foreign reserves? Indeed, the depletion of Nigeria's oil-driven foreign reserves, from $54 billion in 2008 to the current level of roughly $28 billion, has the potential of incentivizing or forcing the country to explore broader sources of foreign exchange, including the much-neglected agricultural sector, agro-processing, and resource-based industrialization (RBI).

Nigeria's President Muhammad Buhari is worried that a depreciating Naira and a rapidly depleting foreign reserves would negatively impact unemployment in Nigeria. Many Nigerian youths have given up looking for jobs. Even if they are offered jobs now, many of these discouraged workers will turn them down, and instead prefer to operate as kidnappers, militants, terrorists, drug dealers and web-based criminals.
There is nothing wrong with discussing a nation's economic problems, as Professor Soyinka has suggested, but seeking solutions through a confab will be at best far-fetched, and at worst illusory. Countries solve their economic problems when citizens willingly elect leaders that credibly promise economic renaissance, and then hold them accountable for their promise.

When President Barack Obama assumed office in 2009, he inherited an economy that was more distressed than contemporary Nigerian economy. He was saddled with a whopping $10 trillion in debt (or 72 per cent of the GDP), and a high unemployment rate of 10 per cent. Nigeria's excruciating fiscal challenges pale those of the United States in 2009, with the latter's budget deficits totaling $1.4 trillion, or 9.8 per cent of the GDP. Iconic American corporations such as General Motors and Chrysler Motor Company were on the verge of collapse, with systemic implications for the entire economy. But Obama did not call for an emergency national confab. He assembled an economic team and proposed an economic blueprint for extricating the economy from the doldrums, and asked Americans not to re-elect him if that blueprint failed. His massive economic stimulus program, worth almost $1 trillion, not only worked, but also confounded his most strident political opponents. He subsequently cruised into re-election, easily defeating an indefatigable Republican presidential candidate Mitt Romney.

President Buhari and his administration have pledged to turn the Nigerian economy around, while at the same time provide economic succor to millions of Nigerians trapped in extreme poverty. Let us give them a chance to articulate and implement their economic policies. There will be plenty of time and talking heads eagerly ready to dissect the administration's economic performance, come 2019. Rather than call for an emergency confab on the economy, Professor Soyinka should do what he is best at doing: galvanise like-minded patriotic Nigerians and demand that all those who looted Nigeria's treasury (especially the over $2 billion designated for arms purchase to fight Boko Haram) return their ill-gotten wealth. Getting those stolen funds back and investing them productively in developing the agricultural sector, supporting small businesses, as well as providing microcredit to informal sector workers would help cushion the effects of the slowdown in the economy, and perhaps lay the foundation for a diversified economy.

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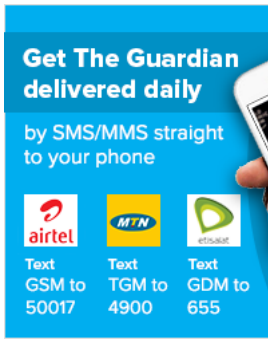

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