

IMPERATIVES OF INDUSTRIALIZATION IN NIGERIA

(The following summary was prepared from Dick Kramer's slides used for presentation of this topic at the MAN AGM lunch on April 20, 2000)

(Protocols)

Today, most of us are concerned with survival. We are firefighting due to infrastructure deficiencies, particularly power and telecommunications. We are confronting a negative economic outlook caused by continuation of recessionary policies and an unpromising investment outlook as we experience the teething problems connected with transition to democratic rule. It is difficult therefore to focus on the long term imperative of industrialization of the Nigeria economy.

Nevertheless, the return to democracy has created the opportunity for Nigeria to create an economic blueprint for achieving its long run potential. Industrialization must play a key role in any such blueprint. Hence, my task today is to get us beyond our survival mindset to deal with the big picture.

One of my schoolmates had a good way of focusing us on the big picture. He came from the Florida everglades area and would say – “When you’re fighting alligators, it is hard to remember you came to drain the swamps!”

Our task today is to drain the swamps so we can build a solid foundation for industrialization. Our focus is therefore on economic breakthrough driven by industrialization and the imperatives of long term success.

We face a difficult task due to past mismanagement of the economy. To win Olympic gold, we have to progress on four levels simultaneously –

- Get the national direction right,
- Create the enabling environment for industrialization,
- Foster private initiative, and
- Focus on the “new economy”.

In developing these four imperatives, my thoughts are organized under four headings –

- Global context
- National direction
- Industrialization imperatives
- Conclusion

Global Context

It is important to understand certain global realities in order to know where we stand. First and foremost, for more than half a century since World War II, the world has experienced massive wealth creation on an unprecedented scale, particularly in emerging markets. As we study these success stories, we find that the rules for success are very well known. But despite these global success stories, Nigeria has been a spectator – not playing the game by global rules – and our per capita economic position has declined over the past 30 years in absolute terms and relatively we are among the 15-20 poorest nations in the world!

Yet to look at our resources, people and potential, one can only agree with the Chairman of MAN, Chief Rufus Giwa, who said in a recent speech – “Nigeria has no business to be poor.”

To escape the poverty trap, we must get one fundamental decision right – the private sector (and not government) must drive the economy. Government’s role is to create an enabling environment, but it can *not* do the work itself. Hence, my message today is that private business must be empowered and proactive in taking on the challenge of industrialization.

We must face the fact that today the private sector is not prepared to drive the economy, but we must not use this as an excuse to delay since the gap between us and the world is steadily widening. We must build a strong private sector which is decisive and proactive. This task is urgent because time simply is *not* our Ally.

It is therefore urgent to reach a consensus on future economic blueprints and implement with vigour. This will require a public/private partnership that moves us from a vicious to a virtuous cycle in how we manage the economy. Four elements are imperative – a clear vision, workable blueprints, disciplined implementation and continuous measurement (with full transparency and accountability). This virtuous cycle is the only way that private sector will move with confidence and become proactive.

National Direction

The starting point is a clear national direction. This was the purpose of VISION 2010 where our methodology was to ask three simple questions as we examined every dimension of the Nigerian political, social and economic scene. The three questions were –

- Where are we now? and why?
- Where do we want to be?
- How do we get there?

When we ask “*where are we now?*” on the economic front, the answer is sobering. Nigeria today is in the bottom 10% in virtually all key economic and human development indicators. On the industrial scene, we have an environment which disables industrialization and makes our industrial sector highly import dependent, therefore contributing minimal value added to the economy.

Today, our industry is unable to compete globally as we lack productive capacity, technology and skills and management. This is largely caused by an inward looking, protectionist mindset and the unwillingness of government to empower private enterprise. Our problem is therefore largely self inflicted.

Why we are in today’s position is clear –

- *We* let oil cripple agriculture and industry
- *We* created a wasteful “commanding heights” economy
- *We* borrowed massively and spent the proceeds unwisely
- *We* over-taxed business and turned off savings/investment
- *We* chased away foreign investors
- *We* insulated ourselves from the dynamically changing global economy
- *We* used our oil revenues to –
 - Oversize government
 - Create privilege/rent system
 - Build non-competitive industry and infrastructure
- *We* let our institutions and human resources deteriorate
- *We* created a negative investment climate due to –
 - Policy inconsistency

- Fiscal/monetary indiscipline
- Excessive self interest
- Over-centralized power
- *We* looked to government to drive economic development.

In contrast, what did our “Olympic Competitors” do?

- *They* let economic freedom drive prosperity
- *They* built on comparative and competitive advantage
- *They* learned how to “leapfrog”
- *They* applied the mathematics of wealth creation
- *They* made private sector their engine for growth
- *They* gave us a success formula we can apply

The ten lessons we should learn from our Olympic competitors as to how they freed up their economies are as follows –

- Free trade
- Low tax burden
- Downsize government
- “Light” regulation
- Low inflation
- Competitive skills
- Free Flows – FX/capital
- Private property rights
- Free/competitive banking system
- Level playing field so formal/informal sectors synergize

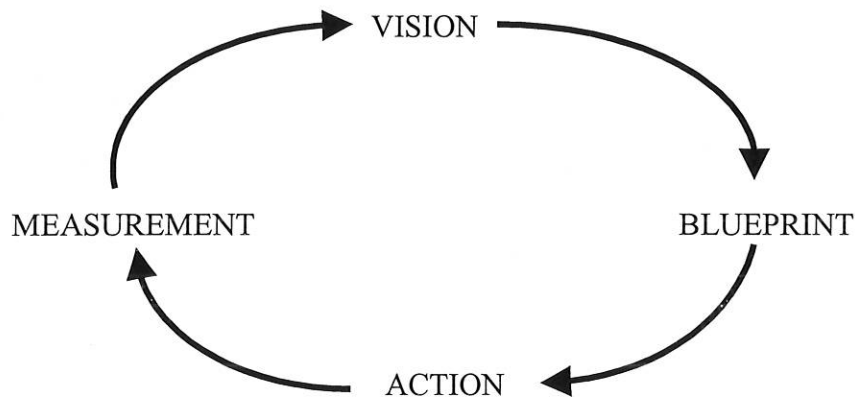
The major lessons we must accept are as follows –

- Our failures date back to the oil boom and are largely self inflicted
- Our oil and military “Cocoon” has blocked modernization and cut us off from global drivers of change – hence our economy has to be opened up.
- Our only way to catch up is to “leapfrog” our economy forward by-
 - Modernizing what we have,
 - Industrializing where we have competitive advantage, and
 - Focusing industry on the “*New Economy*”.

As we ask *“Where do we want to be?”* the following answers seem self evident –

- We need a clear vision and targets we are committed to aspire to meet. The VISION 2010 objective seems to be appropriate – Nigeria should be the #1 economy in Africa and gaining steadily on our “Olympic” competitors.
- Our action plans must be focused on realistic economic objectives, including –
 - The will to achieve a Nigerian economic success formula based on a virtuous circle of good management
 - The mindset change of an open economy that focuses on exports and moves beyond basic commodities and assembly operations to value added production
 - The further “leapfrog” beyond resource based industry to knowledge based industry – which recognizes the global reality of a “new economy” emerging based on Internet and e-Business
 - The commitment and discipline to grow the economy in real terms at 10+% per annum.
- Starting from a low base, we can grow the economy at an accelerated pace (say 10+%) for several generations to come. The following benefits will ensue –
 - Oxygen will be provided for a healthy democracy since growth enables democratic tradeoffs to be made and strengthens the resolve for good governance and unified national purpose.
 - Savings and investment will be stimulated, which in turn are the drivers of
 - Job creation
 - Skills upgrade
 - Improved quality of life
 - Rapid growth will foster modernization, industrialization and global competitiveness

How do we get there? becomes our last question and the fundamental answer is to create a virtuous circle of good management. This is a four step, disciplined process for creating our Nigerian success formula, as follows –



Step #1 – VISION – needs to be developed both at the national level and by the private sector. VISION 2010 was a good start for a national vision since it defined the fundamentals for building a strong economy, including industrialization. VISION 2010 is being used by government to structure policy and strategy but it is not *owned* nor has it been *sold* to the nation. Ownership is imperative and, in addition, VISION 2010 needs to be updated, pursued in more depth and converted into blueprints and action plans. Private sector support for the vision of accelerated economic development is essential and must be implemented with a proactive mindset and the entrepreneurial actions necessary to build a modern, industrial economy.

Step #2 – BLUEPRINT – has yet to be done. Government has announced its high level policy document – “Nigerian Economic Policy – 1999/2003”, which very helpfully sets our basic principles, targets and reform measures that are to be pursued. This document, however, is more an “architectural concept” of the house we want to build rather than a “blueprint” from which we can build a house (eg, a strong economy). Hence, the hard work of developing blueprints and action plans remains to be done. For today’s topic, these plans must focus on how to create the enabling environment to foster industrialization. Private sector must do its part and at two levels –

- What must be done to support government, and
- What must be done independently by private sector to create a modern, industrial economy.

Step #3 – ACTION – is the key step and the one (implementation) where we typically fall short. At the national level, we need effective and efficient implementation of policy reforms, budgets, programmes and projects – all of which need to be clear, timely and linked to visions/blueprints. Just as importantly, the private sector needs to get off its backside. My recent experience in private equity teaches that the opportunities are enormous but the truly proactive entrepreneurs are hard to find.

Step #4 – MEASUREMENT – is probably the key to success. There is a basic rule of life that we get what we measure. In our case, the reverse is true – we get nothing if we don't measure. At the national level, we must become true believers in transparency and accountability. They are drivers of all progress and, most importantly, they drive good governance and reduce corruption. But the private sector must do its part and clean up its own act. We must also create the information necessary for a modern economy and, as owners and managers, accept the discipline of transparency and accountability. Again, we must recognize we can't manage what we can't (and don't) measure.

It is a tall order to get this 4-step process in place and to create a virtuous circle of economic management. We must, however, do so before any serious effort to address the imperatives of industrialization can be successful.

Industrialization Imperatives

Many of the points that need to be emphasized here have been amply covered in VISION 2010 or past Nigerian Economic Summits and by institutions such as MAN. My comments will therefore be brief and focus on the enabling environment and key private initiatives.

Enabling Environment - There are seven policy issues we must get right, as follows –

- Privatization
- Infrastructure
- Fiscal/monetary discipline
- Naira convertibility
- Regional free trade
- Modern education system
- External debt management

If I were to be more specific it would be to focus on seven micro points which would trigger breakthrough growth. They are somewhat radical but they would signal to the private sector that we are serious and would trigger expansion and new investment. They are –

- Eliminate individual income taxes
- Wide open competition in telecomms, power, etc.

- Abolish trade barriers with neighbours
- Make Naira fully convertible
- Eliminate all possible “tollgates”
- Exit mature industries where we can not become competitive
- Foster high potential, growth industries

Equally important are the private initiatives that must be taken without waiting on government, such as –

1. Back private solutions to public problems:
 - Education
 - Healthcare
 - Transportation systems
 - Pension plans
 - Law and order
 - Industrial parks
2. Focus on enablers of industrialization
 - Vocational skills
 - Management skills
 - Research/information
 - Technology
 - Capital markets
3. Support the Internet and enablers of e-Business

Let me comment on point 3 because, it is somewhat new to Nigeria. My thoughts of how to create the “new economy” are in four parts –

- What is it?
- When will it reach Nigeria?
- What are the consequences for industry?
- What should management do?

What is it?

- The “new economy” refers to both old and new businesses which are taking advantage of technology, particularly the Internet, to radically reinvent the way they do business.
- The two major types of these businesses are –

- e-Commerce – transactions directly with individual customers through the Internet
- e-business – businesses linking their systems together through Internet/Telecomms.

When will it reach Nigeria?

- The US economy has practically been reinvented during the '90s with major wealth creation and destruction, depending on whether one leads or lags the competition.
- Europe, Asia, Latin America and South Africa are moving rapidly to catch-up.
- The “new economy” will reach Nigeria just as soon as technology permits and managements change their mindset. It will be sooner than we think.

What are the consequences for Nigeria?

- The “new economy” will bypass infrastructure constraints and “leapfrog” existing players to create a remarkably more efficient Nigeria in relatively short time.
- There will be many winners and losers, but the net benefits will be very positive
 - Consumer becomes king
 - Costs will go down
 - Corruption will go down
- Formal and informal sectors will synergize
- SME's will prosper and entrepreneurs will start creating the “new economy” from the bottom up
- Economic growth and investment will be the catalyst for industrialization

What should management do?

- Learn all they can about e-Business and globally successful business models in their “industry”.
- Be a first mover – reinvent how to do their own business radically better.
- Work with suppliers, customers, competitors, etc. to strengthen alliances and to use e-Business.
- Work with public sector to foster e-Business enabling environment and takeoff.

Conclusion

There are 5 key points I've tried to make today based on the theme "Nigeria has no business to be poor!" They are –

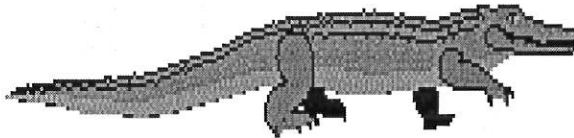
- The global lessons are clear
- We need to create our Nigerian success formula
- This requires public/private sector partnership and creating a virtuous circle of managing the economy
- Private sector leaders must then take the initiative
- Incrementalism will not solve our problem – we must leapfrog.

Industry is running two races on different tracks –

- We're running a *marathon* to move the entire economy through agricultural competitiveness and through industrialization to knowledge work.
- We're also running a dash in which we must move to the "New Economy" as rapidly as possible

My last slide says it all and deserves repeating –

**WE MUST DRAIN THE SWAMPS AND QUIT FIGHTING
ALLIGATORS!**



**OUR ONLY HOPE FOR OLYMPIC GOLD IS TO ACT WITH A
"LEAPFROG" MINDSET AND FOCUS ON A MODERN,
INDUSTRIALIZED ECONOMY**