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Part 4, Chapter 14

# LAUNCHING NIGERIA INTO A SELF-SUSTAINED ECONOMY: THE ROLE OF FOREIGN INVESTORS

Mr. Chairman
Distinguished Guests
Fellow Chamber Members
Ladies and Gentlemen

Today's seminar celebrates the first century of Lagos Chamber and marks a notable step towards preparing Nigeria for the twenty first century. We are honoured to share our thoughts with you and to contribute to such a memorable event.

Our topic today is "Launching Nigeria into a Self-Sustained Economy: The Role of Foreign Investors." Before considering the role of foreign investors, it is necessary to focus on the vision of Nigeria in the year 2000 and beyond.

The role of foreign investors must be tailored to the Nigerian vision of itself in the year 2000 and beyond. Such vision must in turn be reflected in defined objectives, policies and practical plans which first establish the respective roles for government and the Nigerian private sector and secondly create the investment climate necessary to attract the type of foreign investors with which Nigeria seeks to share the future. Foreign investment can only be attracted, it cannot be forced to come. Hence, the choice of ends and means will also determine our choice of foreign teammates in the building process which lies ahead.

Today's topic must therefore first explore Nigeria's vision of itself, then visualize roles for government and Nigerian entrepreneurs, before finally focusing on the chosen role for foreign investment. Once the foreign investor role is focused, we can then turn to how to attract the right type of foreign investment and how to use it as a catalyst in the process of launching self sustained economic development.

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A paper delivered at the seminar to celebrate the first century of the Lagos Chamber of Commerce and Industry on 6th December, 1988.

This paper is, accordingly in five parts:

1) defining the Nigerian vision,
2) governing in the public interest,
3) fostering Nigerian entrepreneurs,
4. attracting the right foreign investors, and
5) launching foreign investment as a catalyst for sustained economic growth.

## THE NIGERIAN VISION

We want to concentrate particularly on the Nigerian vision because it provides the focus for all that follows. Our essential message is that no significant forward advance is possible by continuing to look backwards and to correct yesterday's problems. Nigeria needs to be outward and forward looking in its planning and vision of the future.

In this increasingly competitive world, our successful competitors have clearly demonstrated that outward and future oriented policies and planning coupled wth disciplined and consistent implementation over a period of one or two decades can create sustained growth and provide developing countries with considerable control over their own destinies. Performing in the <u>same</u> world environment, far superior economic growth has been demonstrated by such disparate countries as China, India, Indonesia, Korea, Turkey, Brazil and Malaysia - as well as the two most successful OECD economies - Japan and Germany. The major reasons for superior performance were recently pointed out by the Resident Representative of the World Bank, Mr. Tariq Husain (1), as follows -

> "There are no simple explanations - but some variables stand out: high domestic savings rate; higher levels of investments in educating the society; focus on research and development as the source of productivity; competition among domestic producers or with foreign producers through emphasis on exports as an engine of growth; and consistent cum stable policies. The successful countries did not blame adverse terms of trade movements or third countries fiscal or trade problems for domestic stagnation. They attacked terms of trade through planned diversification of the economy and exports. They countered third countries policies or actions by improving their resource use efficiencies and/or through market diversification. They increased domestic savings rate to improve economic independence and to reduce the potential burden of debt. They have, therefore, borrowed prudently in order to supplement on-going adjustment efforts and not to postpone them."

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(1) Structural Adjustment and Stabilization: Lessons of Experience, by Tariq Husain, Resident Representative, World Bank, Nigeria. November 15, 1988.

Nigeria cannot, of course, simply copy another country's success formula. But, we can draw from the "lessons of experience" and pick and choose what fits in Nigeria and will be sustained by our unique political, social, cultural and economic processes. The process of finding our way is therefore intimately linked with the definition of Nigeria's vision for itself in the next century.

The Babangida government is making major strides in this direction. The Budget Message spelt out Nigeria's vision as follows: (2)

> "This administration has embarked on a journey. The route is long and tortuous but the destination is well worth our effort. We have vision of a great and dynamic society; a society which is united at home and respected abroad."

Vision, therefore, implies the development of an enduring ideology which drives economic policy and is supported by the Nigerian public. It also implies a choice of Nigeria's role in the world economy and coming to terms with the degree of competitiveness and interdependence that such role requires. We therefore use the term ideology in the sense of pervading attitudes or systems of ideas and beliefs. Our viewpoint is that sustainable economic development can only occur in parallel with the creation of an enduring national ideology.

From an economic standpoint, today's seminar focuses on one key element of ideology - that of a self sustaining economy. Sustainability implies the ability to constantly renew and develop resources, thereby leaving each generation better off than in the past. The concept therefore requires diversification away from dependence on oil; wise and conservative use of land, water, plant and mineral resources; and, above all, the building of human resources. Sustainability is clearly an element in Nigeria's vision and central to any enduring economic policy.

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(2) 1987 Budget Message - President Ibrahim B. Babangida's address on 31st December, 1986.

From a political and social standpoint, Nigeria is also searching for a sustainable democratic process. History teaches this can only be built on a strong economic base which in turn provides reasonable income distribution and accomplishes basic social ends such as education and governance in the public interest. Business itself must respond to a reasonably enlightened code of ethics. These points simply illustrate that our search for a viable economic system must harmonize with political, social, and cultural aspirations of the Nigerian people.

Nigeria is early in the experimental stages of finding a sustainable economic system. We are all familiar with SAP and even tired to the point of wishing to see the end, or at least the light at the end of the tunnel. The truth is that there is no end - but only a continuing struggle ahead to cope with change and to become increasingly competitive in global markets. The oil boom let Nigeria live momentarily in a false world and now we are confronting reality. Perhaps we gain some insight into what lies ahead by a proverb from the world's most effective economy - Japan, which states - "to endure what is unendurable is true endurance."

It is such determination that lies at the base of the Japanese culture - and economy. Japanese growth is sustainable because it rests on a bedrock of community willingness to do whatever is called for to survive, to compete, and to adapt to change.

Nigeria can only control and shape its own destiny with similar convictions and ideologies. Our situation recalls the words of the German philosopher, Goethe (3) - "You must either conquer and rule or serve and lose, suffer or triumph, be the anvil or the hammer."

In our search for economic sustainability, we are therefore choosing to be either an anvil or the hammer. Assuming our choice is the latter - we can usefully look outward at the success stories mentioned earlier.

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(3) GOETHE, Der Gross Cophta (1792), 2

In our view, Nigeria's search is well started because the first experimental phase - SAP - is working and needs to be both sustained and broadened. A necessary second phase is commencing which is consolidation - the process of efficiently utilizing existing resources. This second phase is typified by commercialization and privatization - very bold and fundamental restructuring which is being paralleled, at even faster pace, throughout the private sector.

But there is still a third phase to come - which as of now lies uncharted - and this is the stage of sustainable growth. This phase is today's theme and can only be accomplished through continuous investment.

Whatever ideology emerges from Nigeria's current search, our economic growth can only be successful if based on continuous and sound investments by all three participants - government, Nigerian private sector and the foreign private sector.

We are reminded of the three legged stool - which cannot support itself if any leg is weak or missing. In today's seminar, the three legs are - government, Nigerian entrepreneurs and the foreign investor.

## GOVERNING IN THE PUBLIC INTEREST

Lets now visit the first leg of our stool - government, because it plays such a determinative role in creating the conditions for sustainable growth.

Since government's role is being addressed in another paper, we limit ourselves to questions which need to be raised in our search for the Nigerian vision. For today's topic, there are three relevant questions to raise -

(1) Will government continue to be the prime mover of the economy - or is this role destined for the private sector ?

(2) In view of limited resources, where and how should government invest its capital funds ?

(3) If foreign investment is desired, what type of foreign investor should government try to attract ?

Our first question is partly rhetorical because it is largely a matter of resources and ability to satisfy public needs. The present lack of growth, the unfavourable outlook for oil revenues, the intensifying pressures to reduce public deficits, the continuing population growth, and the increasing expectations of an increasingly informed public - all combine to point towards the need for a dynamic private sector which increasingly shoulders the load jointly with government.

The question remains pertinent because the private sector is yet to see either a blueprint or specific actions designed to chart the role of the private sector. There are no revenue and spending measures which indicate a decided shift towards an increased private sector role in the economy. Yet such a shift is indispensable if the aim is to foster significantly increased private sector investment.

Our second question relates to where and how government should invest its capital funds. It links to the first question because one alternative is to make a massive transfer of oil revenues to private hands - preferably through major reductions in individual and corporate income taxes. It queries whether Nigeria should continue to borrow or not, and, if so, for what purpose. It presupposes conservative revenue forecasting so that highly volatile crude oil prices do not continue to wreck government capital spending programmes.

In our view, the current outlook calls for conservative revenue planning with available capital funds destined only for economically viable projects and for infrastructure which primarily supports improved economic efficiency and healthy, better educated people. This approach would focus investments by government corporations on projects that can be self funded or financed from commercial sources and without government guarantees. Such measures would greatly encourage private sector investment as would successful implementation of commercialization/ privatization programmes.

Our third question goes to the heart of the foreign investment issue - what type foreign investment does Nigeria want? Past history does not reveal a disciplined attempt at selectivity. Yet all empirical evidence about multinational companies indicate that sovereign governments must have a clear answer in mind and then implement foreign investment controls with firm, but even handed, systems.

Our experience with foreign investors indicates they are either lukewarm or turned off about Nigeria. Also, recent experience shows that foreign investment is less inclined to invest in developing countries generally except for newly industrialized countries or those tending towards similar outward oriented economies.

We also believe Nigeria has a much better story to tell than it is currently telling. Hence, a clear definition of the type investor wanted <u>plus</u> incentives <u>plus</u> more efficient and honest bureaucratic controls <u>plus</u> better marketing are needed to attract foreign investment.

The fundamental choice needs to be made between multinationals which serve narrow interests vs. those that conduct their affairs in the public interest. The choice also needs to be made as to which sectors should be left primarily to Nigerian entrepreneurs and those where efforts should be made to attract foreign investors.

This leads us to an examination of the second leg of the stool - the Nigerian private sector.

## FOSTERING NIGERIAN ENTREPRENEURS

Nigeria's private sector deserves pride of place - standing first in line within any long term plans for sustainable economic development.

Our Firm has a team which deals specifically with the Nigerian entrepreneur. We call it the Enterprise Group. Its purpose is to serve emerging and owner-managed businesses. We have great confidence in the ambition, drive, initiative, push and get up and go of Nigerian businessmen and women. We see Nigeria as a highly motivated and capitalistic society which will respond to the right conditions and incentives. While it will not be a short nor easy path, we believe Nigerian enterprise can, and indeed must, be the backbone of sustainable economic development.

The economic signals given to the Nigerian entrepreneur during the 1970's and early 1980's were that it paid to become a commission agent, trader, importer, and go between. The signals are now reversing but the Nigerian vision should clearly signal the need for producers, exporters, farmers, manufacturers, and entrepreneurs. Our vision should articulate that the backbone of our economy will be built on the small and medium size Nigerian business.

Again three key questions test such commitment to create the conditions necessary for such Nigerian private sector development.

First, is our aim to foster Nigerian trade or production? In other words, do we continue to subsidize imports and consumption or do we provide incentives for hard work, domestic savings and the use of local raw materials for local manufacturing and for exports?

Nigeria has accepted the need to become self sufficient and self reliant but not the consequence that Naira foreign exchange rates must therefore be kept undervalued. There is also not yet acceptance that Nigerian capital should flow abroad to develop our own multinationals and export opportunities.

In our view, the central decisions which will favour Nigerian entrepreneurs are to maintain a completely free foreign exchange market and to systematically abolish all controls over exports of Nigerian capital. No other measures provide more powerful incentives for Nigerian entrepreneurs to invest for the long term good of the nation.

Secondly, is our intention to promote domestic savings and equity investments or not ?

From review of major success stories, we find the winners have been countries with domestic savings rates of up to 30% or more of GNP. In these countries, successful and sustained development was accomplished without excessive reliance on debt.

Provided our Nigerian vision is to build on local savings and equity investment, there are two major policy measures to pursue, namely -

(1) the complete freeing up of interest rates (both for lending and saving) so that savings are encouraged and debt financing is discouraged.

(2) the maximum reduction in income taxes - both corporate and individual - particularly to create incentives for small/medium size business and savings opportunities for PAYE individuals, the lower levels of which should be eliminated totally from the tax net.

Lastly, we should ask which industrial sectors should be given specific incentives to encourage Nigerian investment.

In this regard, let us first make clear the indigenization rules should not be the primary vehicle for deciding who can invest where in the Nigerian economy. The Nigerian Enterprises Promotion Decree has largely served its purpose and what is increasingly called for is a level playing field for all private investors.

We believe Nigerian investors should be focused on those sectors where they will have a natural competitive advantage vis a vis foreign investors. Attractive tax incentives and investment incentives should be devised to favour the Nigerian (not the foreign) investor.

In summary, all private sector investors should be encouraged by creating a favourable savings and investment climate. Specific incentives aimed at Nigerian savings and investors should be focused on areas of natural advantage and should include the right to export goods and capital offshore. To do otherwise is to put the Nigerian entrepreneur in a position permanently inferior to his foreign competitor. Market determined interest and exchange rates plus free capital movement should be the end result if the Nigerian entrepreneur is to play the leading role in sustaining Nigerian economic growth.

## ATTRACTING THE RIGHT FOREIGN INVESTORS

Once the roles of government and Nigerian entrepreneurs are defined, it becomes far easier to define and then attract the right foreign investors.

We have visualized a public sector which creates the proper climate generally for private sector investment, invests its scarce capital resources effectively in economic and infrastructure projects, and governs in the public interest. We also favour measures that provide a clear incentive and level playing field yet specifically pinpoint incentives to foster the Nigerian entrepreneur in preference to the foreign investor. We now address the role of foreign investor based on experience here and abroad.

In the first place, let us first clarify that Nigeria does not primarily need foreign investment because of its capital shortfall. In the long run, domestic resources must pay for the cost of external debt and equity capital if there is to be sustainable development. Otherwise, foreign investors will not be attracted long term, sustainable investments. While foreign equity capital clearly provides breathing room (just as debt rescheduling does), the real reason we need foreign investment is to provide access to technology, management skills and overseas markets.

Definition of the right type of foreign investor should therefore go beyond capital imports (even to the point of discouraging local borrowing by foreigners) and instead concentrate on those investors willing to bring needed technology, managerial expertise, and export potential.

There is one further ingredient needed - we need to attract those foreign companies who come into our country and conduct business as exemplary citizens. We should encourage those foreign businesses which obey our laws (both the spirit and the letter), pay their taxes, remit reasonable returns and reinvest the rest, train and develop Nigerian talent, and help build our communities and educational/social institutions. In short, we need partners in progress rather than those who come to take out more than they put back. Above all, this new breed of foreign investor must be able to help Nigeria compete on equal terms in increasingly competitive global markets.

There may be some in the audience thinking that such new breed of foreign investor does not exist. We understand your doubt and have a logical answer. Much of Nigeria's private sector was built by foreign interests - who generally are of the right type but have been conditioned by indigenization and its aftermath to be less forthcoming with new investment and technology transfer that is their natural bent. The subsequent layer of foreign investors was basically attracted during a period of overvalued Naira and superficial Nigerian participation, with the net result of attracting foreign investors to the very sectors of the economy which generally are not productive nor able to contribute to long term, sustainable growth. While there are many exceptions to this rule, Nigeria's exposure has recently been to the wrong type of foreign investment.

Our question therefore becomes how to define the right type of foreign investor and where to focus such investment for maximum sustainable development ?

Our view of the right type includes the above attributes (bringing technology, management, market access, good business ethics, etc) but also those who focus on investment in those sectors where Nigeria has, or can have, a competitive advantage vis a vis world markets. In other words, those foreign investors who would be able to compete effectively against imported products or services and to export competitively into world markets.

Quite obviously these areas of competitive advantage will be based,in the short term, on petroleum and other mineral resources, low cost and reliable energy sources, tropical agricultural products, and low cost labour. In the long term, like the NIC's, we can progressively move towards industrialized products based on Nigeria's mass market, an increasingly educated and technically trained labour force, and natural locational advantage, particularly to serve other African markets.

Sustainable growth will require a quantum leap forward in Nigeria's productivity, mastery of new technology, and emphasis on job creation. Foreign investors of the right type can be attracted by the investment climate, as long as they can manage their businesses without undue government interference or ownership requirements. At the same time, Nigeria should not logically subsidize foreign investors in preference to its own citizens. The secret to foreign investment is to select the right type and to focus it, without subsidies, on those areas which provide sustainable competitive advantage which cannot (or even will not) be provided from national resources.

The third leg of our stool is now in place, so lets turn to how to launch foreign investment as a catalyst for Nigeria's sustainable economic development.

## LAUNCHING THE FOREIGN INVESTMENT CATALYST

The roles set out above for government, Nigerian entrepreneurs, and the right type of foreign investor are intended to create the investment climate conducive to attracting significant investment which provides a catalyst for future growth. What must be clearly understood, however, is that, once the required policies are adopted, there should be no turning back. All capital runs scared and Nigeria must demonstrate consistency if it wants to win credibility with foreign investors.(4)

In our view, the systematic progression towards favourable investment climate and even handed, honest administration of realistic rules of the game for the foreign investor is the sine qua non (e.g. prerequisite) for launching their catalytic role within the economy. We must fundamentally recognize that foreign capital will no longer go just anywhere to set up industries; it must be attracted to viable opportunities.

Nigeria must create the right climate to attract such capital. It is sufficient today to emphasize the main points -

(1) dismantle all but the essential bureaucratic controls. For example, PPIB no longer serves a useful purpose; the SEC approval of foreign investor share sales is counter productive; and such bureaucratic impediments as lengthy visa and customs formalities plus alien cards could be readily removed. Careful review and streamlining can help create a conducive climate for foreign investors.

(2) tell the increasingly positive Nigerian story in the right government and business circles abroad. Countries throughout the world compete for capital and technology, so Nigeria must learn to market and attract the foreign investor.

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(4) This recalls Disraeli's words - "The secret to success is constancy to purpose", Benjamin Disraeli speech, June 24, 1870.

(3) <u>retain the indigenization structure but open it up systematically</u> for those industries or projects specifically identified for foreign investment based on strict criteria which stress competitive advantage, exports, technology transfer, business ethics, etc. Those sectors in Schedule II which are not being adequately developed should be candidates to move to Schedule III. Exceptions could even permit 100% foreign ownership provided the criteria demonstrate clear reasons to do so. Similarly, the anomalous requirement to have the equivalent of 10% of foreign shares owned by Nigerian employees should be removed.

(4) <u>make it easy but costly to employ expatriates</u>, then let the free foreign exchange market do the rest. A $5,000 annual fee plus the working of FEM (which itself has created a brain drain) will be all it takes to ensure the systematic development of Nigerian talent.

(5) <u>make incentive schemes work effectively and without preference given to foreign investors</u>. For example, by extending pioneer industry incentives to all investors (including private businesses), past inertia can be converted into active interest. Also, the elimination of potential "dash points" can speed the process and create geniune interest.

(6) <u>assure timely and free transfer of the rewards for capital and technology transfer</u> - dividends, intercompany interest, royalties, technical fees, etc. The present 100% dividend policy (less withholding tax) should be continued and similar liberalization of technology transfer payments should be implemented. Nigeria must get value for technology but not choke off such transfer by unrealistically rigid rules imposing rates which discourage technology transfer.

(7) <u>tighten compliance on remaining rules applicable to the foreign investor and implement penalties that hurt enough to ensure compliance</u>. With simpler rules, honest and efficient administration can become the norm. With selection of new investors aimed at better

business ethics, a systematic upgrade of compliance becomes clearly possible. Possibility can be converted to reality when government takes the enabling steps to clean its own house, including government corporations and investments. Whilst a troublesome area, market solutions, tighter criteria, and improved compliance are all steps in the right direction.

We have listed these seven points primarily to underline the need to choose the right foreign investors and then to create the right environment for them to work in the national interest. We believe it can, and must, be done if Nigeria is to realize its vision.

## CONCLUSION

We must end on an optimistic note although we detect a pervasive cynicism around us. Perhaps we are optimists because we recall the definition of a cynic as - "A cynic is not merely one who reads bitter lessons from the past; he is one who is prematurely disappointed in the future." (5)

Our view of a broad cross section of industries and businesses, foreign and Nigerian managers, foreign investors and Nigerian entrepreneurs, gives cause for hope. We see numerous examples of businesses becoming lean and trim, resources shifting to more economic endeavours, Nigerian talent developing into world class performers, and the beginnings of the future Nigerian entrepreneurial movement. We also see a steady stream of foreign investors willing to participate in positive development with Nigeria. We fully recognize the difficulty to compete in an increasingly competitive world but we also see the increasing readiness for Nigeria to begin the long march towards its vision of being a world class player.

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(5) Sidney J. Harris, On the Contrary (1962), 7.

We prefer to plan beyond what many consider today as SAP - induced crises. Looking east again to China, we find that the ideogram "ji" which represents crisis has two meanings - crossroads and opportunity. Nigeria is indeed at a crossroads. It must choose between retrogression on the one hand and the continued evolution of structural adjustment programmes. Only continuity and "constancy to purpose" can unlock the opportunity of reaching Nigeria's vision in the twenty-first century. The right choices and the right environment can, and will, attract the right foreign investors to share with government and Nigerian entrepreneurs in our self-sustaining development. The initiative rests with Nigeria to define its vision and to create the necessary conditions for success.

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