Market Reforms For Shared Prosperity In Nigeria: Lesson From China Growth Miracle [11]

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[11] For an expanded discussion, refer to the NESG mini-report series, retrievable via: https://nesgroup.org/download_resource_documents/Mini%20Report%20-%20Market%20Reform_Final%20(2)_1684241715.pdf

Abstract

Nigeria's economy is characterised by elevated uncertainty which partly explains the reluctance of private investors (domestic and foreign) to commit their wealth to the Nigerian economy over the long term. This is manifested in the subdued performance of Foreign Direct Investment (FDI) inflows, which stood at US$468.1 million in 2022, down from US$4.7 billion in 2008. Moreover, Nigeria's investment as a share of nominal Gross Domestic Product (GDP) has experienced a consistent decline since 1999, from 38.3 percent to 14.7 percent in 2017. Despite the recent increase, it still falls below the 1999 performance. Nigeria's path to achieving shared prosperity requires an efficient and functional market system. This paper leans on the Chinese experience to suggest relevant market reforms that could be pursued in Nigeria.

Introduction

Economic evolution has shown that a successful market arrangement exists, with the private sector being the foundation of economic progress and shared wealth. Nigeria's economic growth has been precarious due to macroeconomic instability, including exchange rate volatility, inflationary pressures, fiscal imbalances, and financial volatility. This has led to a rising unemployment rate and many people living in poverty. A functional market system is essential for high and sustainable inclusive economic growth, as it ensures the free flow of economic activity in the supply chain for firms to prosper. However, lacking a functional market system hinders shared prosperity, leading to limited employment opportunities, high prices, a low standard of living, and poverty. The inadequate economic policy framework and diversity have contributed to policy inconsistencies and regulatory bottlenecks.

Nigeria's market system has not improved significantly over the years, with privatised public enterprises struggling to survive. The Structural Adjustment Programme (SAP) in 1986 marked a shift from a directly controlled economy to a market-driven one, with the private sector being used as a catalyst for economic growth. Other policies, such as the National Economic Empowerment and Development Strategy (NEEDS), the seven (7) Point Agenda, Vision 20-20-20, Transformation Agenda, Economic Recovery and Growth Plan (ERGP), and the National Development Plan (NDP) 2021-2025 and Agenda 2050, have limited government participation in business activities across sectors.

Moreover, Nigerian firms face low competitiveness in a globalised market due to reliance on imports, infrastructure deficits, and regulatory institutions which had led to increased fixed costs, insolvency rates. Furthermore, macroeconomic instability such as inflationary pressures, exchange rate volatility, and rising borrowing costs has exacerbated these issues, making Nigeria's economic activities uncompetitive and unprofitable for businesses.

In addition, the Nigerian economy faces challenges that hinder the business environment, erode private investor incentives, and result in subdued foreign direct investment inflows. In a bid to attract investors, the government established the Presidential Enabling Business Environment Council (PEBEC) to improve the business environment by revising the Corporate Affairs Commission (CAC) guidelines and enacting the Companies and Allied Matters Act (CAMA), 2020, repealing the CAMA 2004. However, more reform is needed to alleviate impediments to an efficient market in Nigeria.

FUNCTIONAL MARKET FOR SHARED PROSPERITY

A functional market system promotes economic growth and cost-effective production across sectors, fostering private sector development, productivity, and wealth distribution. It ensures a seamless flow of economic activities and business operations across value chains, enabling shared prosperity. For the economy to achieve shared prosperity, the market system needs to guarantee the following interrelated but distinct factors:

- **Business Opportunity:** An efficient market system brings about competition among players, drives innovation, incentivises productive efforts, and opens sectors of the economy for new opportunities.

- **Enabling Environment:** A functional market system promotes ease of doing business. It removes all market and regulatory encumbrance, promotes easy market access, ensures the availability of supporting infrastructure, guarantees security and provides regulatory clarity, among others.

- **Business Competitiveness:** An efficient market guarantees a series of comparative advantages (in terms of inputs, raw materials, capital, production, technology, distribution, market access and so on) that enhance local and international competitiveness, keep operating costs low and guarantees profitability.

- **Private Investment:** The market system needs to be attractive to investors (domestic and foreign investors, which brings about both physical and portfolio investments).

MARKET REFORM LESSONS FROM THE CHINESE ECONOMIC MIRACLE

The economic reform embarked upon by the Chinese government since 1978 chaperoned market reforms that have led to what is called the Chinese Economic Miracle. China operates a "dual-track" economy, so economic activities are still largely centrally planned. Still, it has been able to institute a market system that aids businesses (both publicly and privately), drives investments and develops a private sector that propels economic growth. Consequently, China experienced decades of double-digit growth.

As of 2010, China had become the second-largest economy in the world by nominal GDP and the largest economy by GDP Purchasing Power Parity (PPP) as of 2013. The following are key features of the market reforms implemented in China:

- **Understanding the peculiarity of the Chinese supply chain:** Market reforms are made based on a meticulous understanding of the people and how they run their supply chain, contrary to many consensus reforms of the Washington Institutions.

- **Agricultural revolution through the de-collectivisation of agricultural activities:** While still state-controlled, the government gradually liberalised the Agricultural sector with a stage-by-stage reduction in price control and still buys a significant share of agriculture output based on regulatory quota and at near market price. Meanwhile, farmers can sell the excess in the market at competitive prices.

- **Opening up to Foreign Investment with Clarity on Capital Mobility Control:** The government, however, is currently using Free Trade Zones (FTZ) as pilots for full currency convertibility and liberalisation of capital flows. Successful implementation at the FTZ level will motivate the consideration of liberalisation nationally.

- **Gradualist Approach:** The transition of economic activities from full state control to the private sector has been gradual. The government makes changes as the market evolves and is not in a hurry to make changes in the market.

- **Decentralisation of state authority:** The government allows local leaders to experiment with ways to strengthen the market in their locality, to be responsive to business needs, and to promote investments and business growth.

- **Symbiotic partnership between the public and private sector:** Because the government had historically owned and controlled businesses in the economy, there is a close partnership between the public and private sectors as economic liberalisation evolves in China.

- **Export-led growth strategy:** The government invested, established institutions and made reforms to strengthen and encourage exports. The government consistently reduced tariffs and other trade barriers to achieve this feat.

- **Price reform:** Due to the hardship of inflation on the people, the government is approaching full liberalisation and subsidy removal in phases.

- **Tax unification:** The Chinese government introduced a tax system reform in 1994 that helped unify all inventory taxes into a single Value Added Tax (VAT) of 17 percent.

CONCLUSION

Nigeria's economic trajectory needs comprehensive and system-driven market reforms to transform it from a weak, non-inclusive, and vulnerable state to one that creates economic value and benefits for all. China's market reforms serve as a lesson for developing countries, ensuring a smooth policy transition, avoiding market distortion, and delivering growth. Nigeria's market reforms are not organic, often spontaneous and erratic, with the federal government handling many reforms and state and local governments being handicapped. A comprehensive market reform with the features of Chinese market reforms is urgently needed to salvage Nigeria's crumbling socioeconomic situation.

References

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