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Nigeria and Indonesia Economies: Catching up and Falling behind, a Tale of Economic Performances

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Abstract

Nigeria and Indonesia are emerging economies and both share a lot of similar economic, political and demographic characteristics. However, Nigeria's economy slid into recession in the second quarter of 2016 characterized by a GDP decline of 2.06% while that of Indonesia has been on a relative increase. Against this backdrop, this study undertook a comparative analysis of these two countries in terms of their socio-economic parameters. The results revealed that the oil price crash was the potent factor that caused Nigeria's economic recession. However, Nigeria has the potential to become a major player in the global economy by virtue of its human and natural resource endowments but these potentials have remained relatively untapped over the years as result of oil resource dependence. Hence, Nigeria's growth has continued to be dictated by the dynamics oil prices. Unfortunately, previous economic policies left the country ill-prepared for the recent collapse of crude oil prices.

Keywords: Economic recession, Oil price, GDP growth, Nigeria, Indonesia

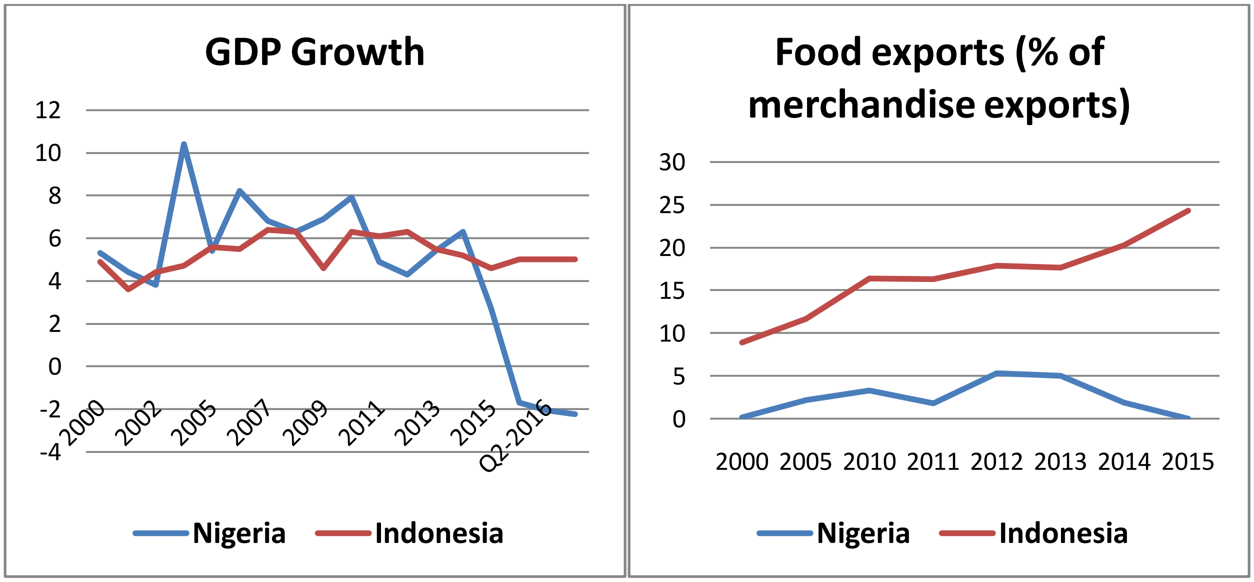
INTRODUCTION

Indonesia and Nigeria share a number of characteristics, ranging from ethnic diversity, demographics and agricultural features to social and political challenges. Economic developments in Nigeria and Indonesia from 1965-2016 constitute a dynamic process that reflects major structural and institutional adjustment between the economies of both countries. However, despite the relatively similar economic conditions between these two countries in the late sixties, their economic performances took a different path after two decades. These divergences in economic performances are attributed to many factors such as: the spending effect of the oil revenue and its impact on resource allocation in the non-oil sectors of the economy, fiscal and exchange rate policies, foreign borrowing strategies, agricultural policy and spending framework during and after the oil-boom period. Specifically, after 1972 both countries received enormous revenue from oil but while Indonesia turned oil wealth into productive investment, Nigerian oil revenue was mismanaged. The key success for Indonesia was its capability to establish an environment conducive to growth in the non-oil economy, while Nigeria could not. However, the rapid economic development and poverty alleviation in Indonesia in the 1970s and 1980s has been convincingly attributed to a pronounced rural-agricultural bias in development spending. Meanwhile, the poor economic results in Nigeria can be shown to have resulted from neglect of the rural-agricultural sector and an over-emphasis on industrialization (Iyoha, 2008). In this regard, this article seeks to evaluate the economic performances of Nigeria and Indonesia by focusing on the dynamics of macroeconomics variables and development outcomes, specifically, the extent to which productive investments have been achieved through government fiscal space. Essentially, is a discussion of how the balancing of development and investments has been achieved through the spending effects of the oil wealth. Contributing elements to success are also identified as the building blocks for more sustainable economic growth.

GDP Growth and Food Export

Indonesia's economy has expanded strongly over recent decades, notwithstanding the sharp economic contraction that

Figure 1. GDP growth and Food export



Source: (WDI, 2016)

occurred during the 1997–1998 Asian financial crises. Indonesia embarked on a period of seemingly miraculous economic growth, in the period 1970 to 1990, Indonesia's gross domestic product (GDP) grew robustly at 7% on average. In contrast, Nigerian GDP in that period grew at only about 3% (World Bank, 2007). This strong pace of growth has seen Indonesia become an increasingly important part of the global economy. Figure 1 shows the divergence of Nigeria and Indonesia GDP growth rate**s** and food export.

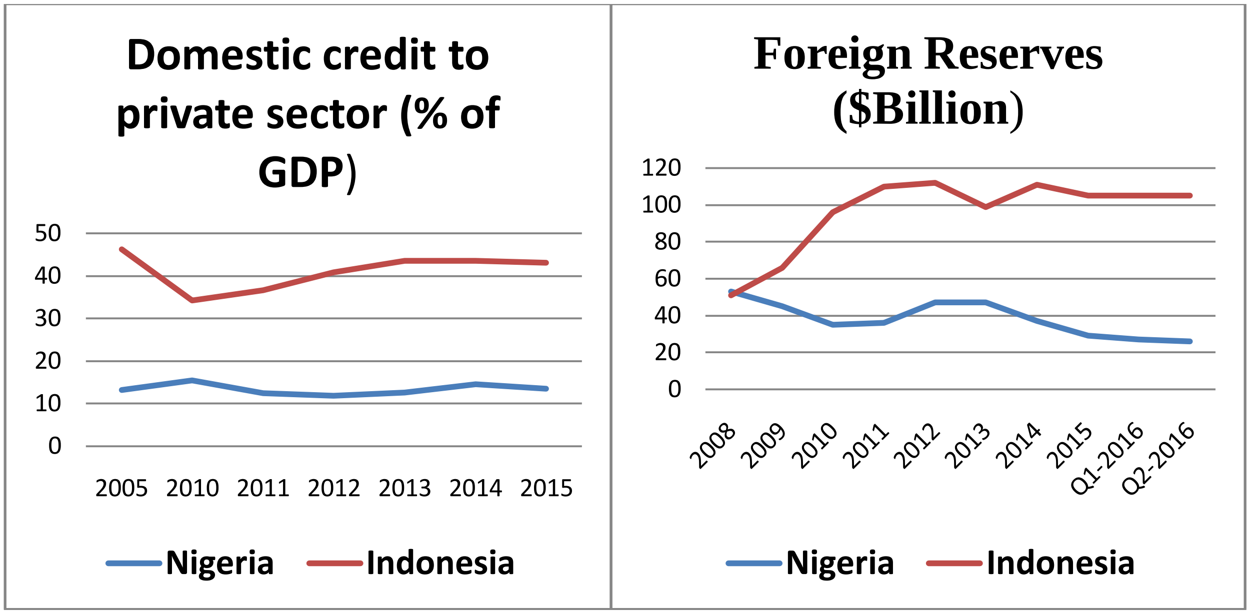
Dynamics of Foreign Exchange Balance and Domestic Credit to Private Sector

Nigeria and Indonesia have equal amount of Foreign Exchange Reserves of $51 billion in 2008. However, from 2009 to second quarter of 2016, the foreign reserve between Nigeria and Indonesia continue to diverge. While Indonesia foreign reserve grew from $51 billion to $105 billion in second quarter of 2016, the Nigeria foreign reserve continue to deplete markedly from $47 billion in 2013 reaching all-time low of $26 billion in first quarter of 2016 (CBN, 2017). The increase in Indonesia foreign reserve was attributable to foreign exchange receipts, primarily from the issuance of government bonds, tax revenues and oil & gas export proceeds, which has strengthened the resilience of the external sector and maintain the sustainability of Indonesian economic growth. More so, in terms of the domestic credit to private sectors, some empirical studies (Anthony, 2012; Emecheta et. al, 2014) have shown that the efficient provision of credit to the private sectors has a positive and significant effect on output and employment opportunities while a low level of financial development and its attendant inefficient private sector credit system distorts economic growth. A strong and inclusive financial system; and availability of investable funds play vital roles in financing economic project and activities that would promote economic development. This is because access to credit enhances the productive capacity of firms and their potential to grow. However, studies such as (Loening, et. al 2008; Oluitan, 2012) showed that a number of small and medium manufacturing firms in Africa are credit constrained due to the underdeveloped nature of the continent's financial system, relative to those of more advanced nations. Indeed, it is well established that a vibrant, dynamic, and well-functioning financial sector leads to a host of improved economic outcomes (Levine, 2008). Figure 2 presents foreign exchange balance and domestic credit to private sector between Indonesia and Nigeria

Inflation and Unemployment trade-off between Indonesia and Nigeria

Nigeria's consumer prices increased by 18.3 percent year-on-year in October 2016, following a 17.9 percent growth in the previous month and above market expectations of 18.2 percent. It was the highest inflation rate since October 2005, as prices for food continued to rise. In Indonesia, inflation has been on a steady decrease especially from the fourth quarter of 2015, falling from 6.33% to 3.8% (WDI, 2017). The fall in the inflation rate is as a result of the bank of Indonesia potent monetary and fiscal policy of price adjustment. One of the reasons is that energy prices (fuel and electricity) are set by the government and therefore do not float according to market conditions, meaning that the

Figure 2. Foreign Exchange Balance and Domestic Credit to Private Sectors



Source: (WDI, 2016)

resulting deficit has to be absorbed by the government or by state-owned companies. Besides, this is also attributable to Indonesia domestic policy of boosting aggregate demand by making fund available to the private sector. However, regarding the unemployment rate, the economic policy and the continued credit provision to the private sector in Indonesia has added many new jobs to Indonesia's economy, thus pushing down the nation's unemployment rate. Especially the industry and services sectors experienced major increases in its employment shares towards national employment as well as in the agriculture sector. From 2015, while unemployment continues to increase in Nigeria, the reverse is the case in Indonesia. Beginning from 2015 unemployment rate in Indonesia fall from 6.18% in 2015 to 5.4% in second quarter in 2016, in Nigeria, the case was different as unemployment was 8% in 2015 rising to 12% and 13% in the first and second quarter of 2016 respectively (WDI, 2017). However, the continued increase in unemployment and inflation rate in Nigeria as well the declining growth rate has brought the economy to the point of stagflation. Figure 3 presents the inflation and unemployment rate between Indonesia and Nigeria.

Materials and Methods

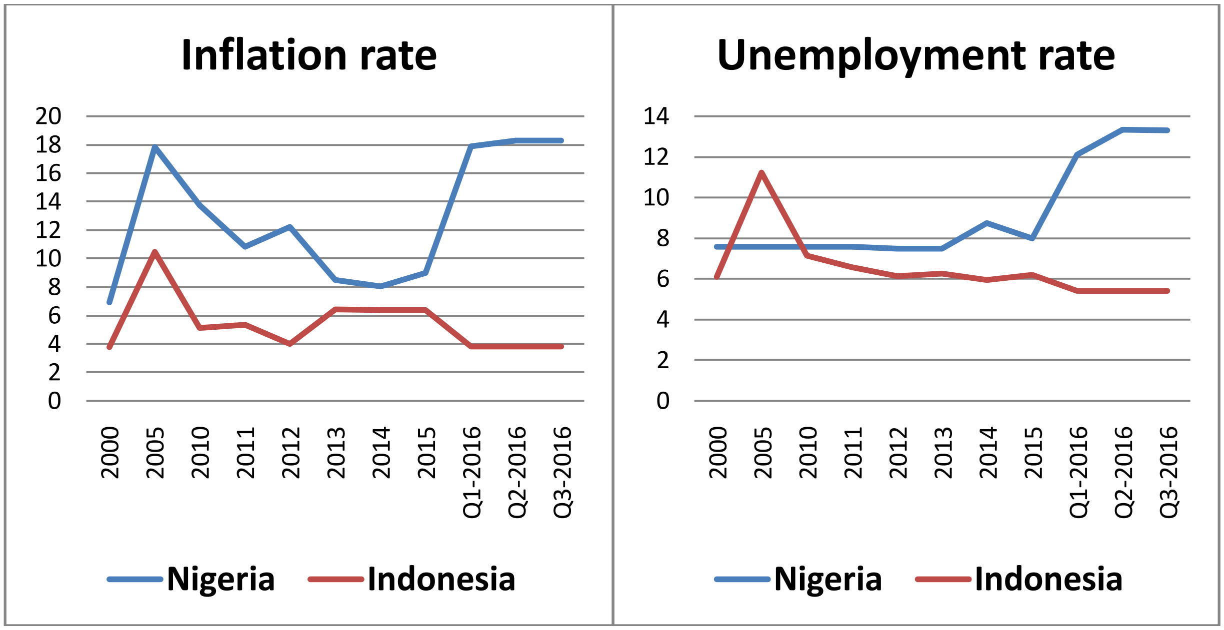
This paper adopted the approach of descriptive statistics premised on interpretive perspective and quantitative procedures. The choice of this method is borne out of the desire to present the results in a way that highlights the importance of the findings for researchers, as well as projecting their implications for policy relevance. Its purpose is to get a descriptive view of the data and the distributions of the variables by diagrams, charts, tables and basic statistics

Results and Discussions

The dynamics of economic growth between Indonesia and Nigeria is demonstrated in Figure 1. In the year 2000, Nigeria GDP growth was 5.2% while that of Indonesia was 4.2 percent. But in 2015, following the fall in the price of crude oil,

while Indonesia GDP growth still revolves around 4.6%, Nigeria GDP growth dropped to 2.7%. Moreover, while the Indonesia GDP regained growth at 5% in the first and second quarter of 2016, the Nigeria economy slipped into recession with a negative GDP growth of -1.7% and -2.02% respectively. Convincingly, the continued GDP growth of Indonesia can be attributed to the rural-agricultural bias in development spending. Meanwhile, the poor economic results in Nigeria can be shown to have resulted from neglect of the rural-agricultural sector and an over reliance on the revenue from oil. The agriculture oriented policy of Indonesia has helped in reducing pressure from the importation of

Figure 3. Inflation and Unemployment Rate



Source: (WDI, 2016)

food product and thus become a net exporter of food. From the graph, Indonesia's food and agricultural exports has been on a steady increase, rising from 8.9% in 2000 to 24.3% of merchandise exports. Indonesia's major agricultural exports consist of products of tree crops, including palm and coconut products, rubber, coffee, tea and spices. Together, these four product categories accounted for 84.0 percent of all agricultural exports in 2000-2015. In stark contrast, Nigeria food export has been significantly low moving from 0.1% to 5% in 2012 and 2013, then dropping to 0.87 in 2015 (NBS, 2017). However, data released by the CBN in 2014, showed Nigeria as the world's largest importer of United States hard red and white winter wheat with an annual food import of N635 billion, second largest importer of rice (N700 billion naira in 2014) and sugar at N217 billion and fish at N97 billion (CBN, 2014). This has put serious pressure on the Nigeria foreign exchange balance and also rising inflation.

This economic situation raises a dilemma for economic policy, since actions designed to lower inflation may exacerbate unemployment and vice versa. As demonstrated above, Nigeria's economy depicts a procyclical behavior between inflation growth, GDP growth and oil price with heavy dependence on oil revenue. However, considering the speed of development world over, it is obvious that oil is gradually losing its importance and may become less relevant in the future. This is a bitter lesson for Nigeria overdependence on oil.

Conclusion and Recommendations

Given the fact that the oil sector revenue has significantly reduced, there is the need for an appropriate and potent policy to diversify the Nigerian economy. Agriculture, manufacturing, small scale enterprises, retail, and ICT are priority sectors with the most dominant transmission links to the overall economy. These sectors, in the medium-to-long term, are key to boosting other sectors. Also, forward linkages to agro-processing and other services such as logistics as well as backward integration to input supply sectors could improve farm incomes, increase employment and improve domestic food security. Potentially, Nigeria's global agriculture exports could take-off at a rate similar to Indonesia and Brazil. Similarly, there is need to urgently improve the value addition of oil and gas to GDP by expanding its productive capacity. This requires investments across the downstream sector to develop petrochemicals, fertilizers, methanol and refining, industries relevant in both industrial and consumer products which Nigeria currently imports. However, the transition to a non-oil economy will not be an easy task given the challenges of corruption, inadequate infrastructure, low skill levels, and macroeconomic uncertainty. In the 2016 Ease of Doing Business (EDB) ranking, Nigeria ranks 169thout of 189 in 2015.Interestingly,Ease of Doing Business in Indonesia improved to 91 in 2016 from 106 in 2015.Although various factors have been adduced to Nigeria's poor economic performance but the major problem has been the economy's continued excessive reliance on the fortunes of the oil market and the failed attempts to achieve any meaningful economic diversification, reflecting the effect of "Dutch Disease". The need to correct the existing structural distortions and put the economy on the path of sustainable growth is therefore compelling. This calls for new thoughts and initiatives, which is the essence of this comparative study between the economies of Indonesia and Nigeria. In summary, Nigeria needs to:

- Ensure sustainable fiscal management that is resilient to global oil price cycles. Improving tax collection and administration have become imperative for achieving national growth objectives. Nigeria is a low-taxed economy compared to its peers; in addition, challenges with arbitrary exemptions and enforcement have further constrained tax receipts. The framework for tax exemptions should be reviewed and approvals targeted at growth inducing sectors as the government improves collection. Efficiency in government spending has to improve; there is room for substantial savings in capital outlays and operating expenditure across the three tiers of government.
- The continued unimpressive performance of the non-oil sector and the vulnerability of the external sector thus dictate the urgent need for a reappraisal of the thrust and contents of Nigeria's development policies and commitments. The experiences of the South-East Asian countries are instructive in this regard.
- Finally, the role of Government in raising the contribution of the non-oil sector cannot be overemphasized. Sustained effort must be made to substantially improve power and water supply, and the provision of other infrastructure including the building of industrial estates, the positive externalities that would give incentives to prospective investors and enhance their competitiveness.

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