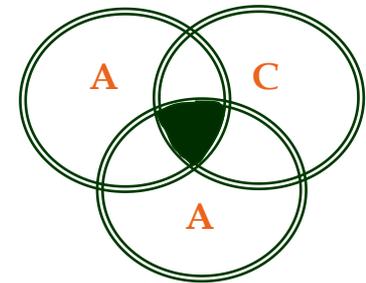


# MAKING NIGERIA A MAJOR DESTINATION FOR FOREIGN DIRECT INVESTMENT

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October 18, 2014

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# Outline

- A. Nigeria's Future Challenge
- B. Global Context
- C. Three Questions
- D. The Way Forward
- E. Summary



# A. Nigeria's Future Challenge

- ▶ Rebasing of GDP statistics places Nigeria at 26<sup>th</sup> position in global rankings
- ▶ We rightfully should aspire to be in the global top 12 to 15 and plan accordingly
- ▶ Recent World Bank statistics show we are 7<sup>th</sup> in population size closely behind Brazil with 200 million population
- ▶ Shouldn't we compete with Brazil for global ranking?



## A. Nigeria's Future Challenge

- ▶ Comparison based on 2013

	<u>GDP</u>	<u>GDP (PPP)</u>
Nigeria	\$ 521bn	\$ 973bn
Brazil	\$2,254bn	\$3,013bn
B/N ratio	4.3	3.1

- ▶ Suppose we decided to beat Brazil, what role must FDI play?
- ▶ FDIs vary but MNCs have consistent characteristics



## B. Global Context

1. MNCs play major role in global economy
  - ▶ They are rational investors
  - ▶ They seek alignment, avoid conflict
  - ▶ They make host countries competitive globally
2. Nigerian historical experience
3. Our image vs. reality



## B. Global Context

### 1. MNCs are Major Players

- Fortune 500 Survey is illustrative
  - Revenues, profit, assets, employees, etc.
  - Shows companies by country
  - No African MNC on list
  - 7 Brazilian MNCs on list



## B. Global Context

### 500 Leading Companies (2013)

- Revenues           \$31 trillion
  - Profits             \$ 2 trillion
  - Assets             \$124 trillion
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- Employees        65+ million



## B. Global Context

### MNCs are Rational and Seek Alignment

- First priority is Market Potential
- But also Enabling Environment
  - Evaluation of governance
  - Rule of law
  - Rules of the game
  - Education, skills, labor force
  - Infrastructure
  - Etc.
- Long term players avoid uncertain rules of the game and potential conflict



## B. Global Context

### 2. Nigerian Historical Experience

- Each successful country finds its own success formula
- Nigeria has encountered multiple hurdles with more to come
  - Colony → Independence
  - Civil war → Military rule
  - Military rule → Democratic System
  - Commanding Heights → Private Economy
- FDI primarily looks for success stories and finds the way to align interests for joint success. But FDI also adapt to different rules so nations must select how they partner and with whom.



## B. Global Context

### Our Image vs. Reality

- My experience is that Nigeria's image is consistently worse than reality
- Image problems vary from the specific (Boko Haram and Ebola currently) to the more fundamental (undue self interest, infrastructure, education system, excessive government involvement in business, etc.)
- We need to address both types and realize our success will attract increased FDI



# C. Three Questions

1. Where are We Now, and Why?
2. Where do We Want to Be?
3. How do we Get There?



## C. Three Questions

### 1. Where are We Now, and Why?

- ▶ Our #1 GDP position in Africa shows we can aspire to be in the top 15 global economies.
- ▶ We have all the vital ingredients – land, water, natural resources, location and, most importantly, people
- ▶ However, global ratings on all dimensions (360°) indicates that the gaps we must close are large
- ▶ The major way to attract FDI is to close all the gaps and earn the right to be in the top 15. As we do, they will come



## C. Three Questions

### 1. Where? and Why? (contd)

1. Today, we are regarded as a high potential market in very early stages of development and increasingly attractive to FDI.
  - ▶ But – the largest and most serious FDI investors raise several concerns, including:
    - ▶ Government role and involvement
    - ▶ Merit based competition
    - ▶ Free market economy policy
    - ▶ Infrastructure, education and related support/enablers
    - ▶ Etc.



## C. Three Questions

### 1. Where? and Why? (contd)

- ▶ Examples speak louder than words. Telecoms get high ratings, power similarly but less so. etc. Many recent initiatives elicit distinctly negative reactions.



## C. Three Questions

### 1. Where? and Why? (contd)

- ▶ **There are three major risks we must face**
  1. Oil revenue collapsing before we can fully diversify the economy
    - Production levels in severe decline due to postponed investment
    - Prices in severe decline due to global supply increases exceeding demand which is growing slowly.
  2. High unemployment rate (<20%) with education system producing insufficient skills for a modern economy



## C. Three Questions

### 1. Where? and Why? (contd)

3. Excessive wealth in relatively few hands rather than widespread
- ▶ We need both incremental improvements and a leap forward if we are to move up in global rankings.



## C. Three Questions

1. Where? and Why?

### Time for a Rethink?

- ▶ What impact would oil prices at \$80 to \$90 for 1 or 2 years have on the Nigerian economy
- ▶ Would we face:
  - ▶ Capital flight?
  - ▶ Devaluation?
  - ▶ Severe Federal/State deficits?
  - ▶ Lowered credit rating?
  - ▶ Deferred FDI?



## C. Three Questions

1. Where? and Why?

### Time for a Rethink? (contd)

- Long term policies can become critical to get right:
  - PIB
  - Economic diversification
  - Attracting FDI
- Best approach
  - Don't count on higher prices
  - Prices could go further SOUTH



## C. Three Questions

### 2. Where Do We Want To Be?

- ▶ There is no national plan in place and so any prospective FDI has to research and conclude as to direction and fit
  - ▶ Results vary by Ministry, Sector, specific business, etc.
- ▶ The needs and opportunities are great and FDI players make their own assessments



## C. Three Questions

### 2. Where Do We Want To Be? (contd)

- ▶ Obviously, there needs to be more work done on Where We Want to Be. My concluding remarks on The Way Forward will suggest two tracks – both government plans that are followed and rules of the game attractive to private investors
- ▶ Competing with Brazil makes long term sense. This focuses our minds on leapfrog strategies and long term actions.



## C. Three Questions

### 3. How Do We Get There?

- ▶ Two tracks seem feasible:
  - 1) All levels of government should develop proactive 3-5 year plans which are followed in practice.
  - 2) Government should get out of business and incentivize the private sector by implementing rules of the game that attract both FDI and local players.



# D. The Way Forward

- ▶ We need to develop dynamic, breakthrough plans
- ▶ Let me illustrate with three examples, attractive to FDI, which would move the economy significantly forward
  1. Privatize downstream petroleum
  2. Unlock natural gas potential
  3. Unlock agriculture and related business potential



## D. The Way Forward

### 1. Privatize Downstream Petroleum

- Oil prices are in decline and there is no larger drain on finances than petrol subsidy (including kerosene). The benefits of subsidies to the overall economy are minimal
- Privatization carried out like telecoms and power would be highly attractive to the private sector generally and FDIs specifically
- Both FDI and Nigerian private capital would come available and the drain on public finance would be stopped



## D. The Way Forward

### 2. Unlock Natural Gas Potential

- It is well known that Nigeria is a major natural gas province which happens to have good oil prospects as well
- If natural gas was privatized and prices made attractive to private investment, there would be a double benefit
  - 1) Power privatization would be enhanced significantly
  - 2) Both local gas based production and exports (including diesel fuel) would be stimulated significantly



## D. The Way Forward

### 3. Unlock Agribusiness Potential

- Nigeria is blessed with land and water that can be better utilized at a time in history when global food demand is steadily increasing
- Moreover, our large net food imports are an unneeded drain on the economy
- Current progress should be continued and enhanced but a major public/private partnership should be fostered to develop a much more ambitious plan



## E. Summary

- Nigeria's long term success formula can be revised to attract FDI
- The quantity and quality of FDI will be largely determined by the way we plan and implement for the long term
- Specific rules of the game which we follow in practice can attract all the FDI we need



## E. Summary

- Three breakthrough priorities could let us develop the right way forward for us
  - Privatize downstream petroleum
  - Unlock natural gas potential
  - Unlock agribusiness potential
- If we also steadily improve on all other economic freedom scores, we can beat Brazil for a future World Cup!

