Africa’s Progress in Regional and Global Economic Integration - Towards New Trade and Investment Policies

In Volume 19 of the African Development Perspectives Yearbook with the title “Africa’s Progress in Regional and Global Economic Integration – Towards New Trade and Investment Policies,” major strategic and policy issues are analysed. The guiding issue is how to make trade and investment policies in Africa relevant for structural change. It is asked how these policies can support structural transformation through more policy coherence, strict implementation of programmes and a future-oriented development management approach. So far these policies are not fully coordinated with other key policy areas, like sector policies, competition and technology policies, private sector policies, regional and spatial policies, labour and equity policies, and policies to strengthen global value chains. Also severe implementation problems have affected the impact of trade and investment policies. The lack of future-oriented trade and investment policies has led to a number of missed opportunities.

The focus is, first, on new trade policies in Africa for structural change. The framework of coherent and comprehensive trade policies is presented; the role of international organisations in promoting agricultural export trade is analysed; and the divergence between planned and actual export diversification strategies is discussed. Second, another focus is on new investment policies in Africa for structural change. It is investigated how investment policies could be redirected towards major economic sectors, like agriculture and manufacturing. It is also asked how oil-exporting countries can strengthen their industrial policy towards export diversification. It is also analysed how global value chains can be strengthened by appropriate policies. Third, there is a section with book reviews and book notes being related to the themes of volumes 18 and 19.

Complementary to Volume 19 is Volume 18 with the title “Africa’s Progress in Regional and Global Economic Integration – Towards Transformative Regional Integration.” Based on Africa’s deep rooted structural problems the key aspect of a more transformative regional integration process is how to promote structural transformation by adapted strategies and policies for the whole region.
Reuben A. Alabi, Achim Gutowski, Tobias Knedlik, Oyebanke Oyelaran-Oyeyinka, Karl Wohlmuth (Eds.)

Africa’s Progress in Regional and Global Economic Integration – Towards New Trade and Investment Policies
African Development Perspectives Yearbook

Edited by the
Research Group on African Development Perspectives Bremen: Reuben A. Alabi, Achim Gutowski, Tobias Knedlik, Oyebanke Oyelaran-Oyeyinka, Karl Wohlmuth

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AFRICA’S PROGRESS IN REGIONAL AND
GLOBAL ECONOMIC INTEGRATION –
TOWARDS NEW TRADE AND INVESTMENT
POLICIES

The Research Group on African Development Perspectives Bremen

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modities sectors, the importance of participating in RVCs and in GVCs is increasing, especially so in manufacturing and services sectors. But as we have discussed above, the governance structures of GVCs differ considerably and some forms overlap with classical direct investment transactions (see above). The four chapters cover countries such as Nigeria and Uganda on direct investment and Tunisia and The Gambia on global value chains. These four country cases are therefore reviewing the drivers of structural change for countries at different levels of development and with different structural characteristics. The chapters on Nigeria and Uganda have a lot to do with oil sectors (a current sector which is still dominating the economic structures and industrial policies in Nigeria, and a future sector which is already transforming the political scene and the industrial policies in Uganda since the oil explorations took place). The cases on Tunisia and The Gambia show the limits of exploiting the advantages of GVCs, but also show the potential in case of successfully creating capabilities and preconditions for participation in GVCs. While three countries have access to the sea, Uganda relies as a landlocked country on port systems in other countries. While Nigeria and The Gambia are members of ECOWAS and Uganda is a member of EAC, Tunisia is only loosely connected to RECs but strongly linked via a neighbourhood agreement and preferential trade to EU.

In the first chapter to the Unit 2 with the title “Structural Transformation in Nigeria: Steering Foreign Direct Investment towards Inclusive Growth” the two authors Oyebanke Oyelaran-Oyeyinka and Oluyomi Ola-David discuss the role of foreign investment in Nigeria as a driver of structural transformation and as well the potential impact on inclusive growth. Nigeria has experienced notable growth rates in recent years, and the 2014 rebasing of its Gross Domestic Product (GDP) has made it the largest economy in Sub-Saharan Africa. In light of this significant growth, the question are is raised what the respective changes in sectoral contribution to GDP and in sectoral employment shares reveal, and which type of structural transformation has then occurred in Nigeria. So, first of all, the changes are analysed which the economy has undergone over time. The several sources and key drivers of structural change, such as changes in domestic consumption and investment, public sector involvement, export trade, and Foreign Direct Investment (FDI) are discussed step by step. But the relation of the oil sector to the non-oil sectors is still decisive for the economic prospects of Nigeria. It is also obvious that political regime changes and economic reforms have influenced the various drivers and sources of growth and structural change. The paper looks at the specific role of foreign investment as a source of Nigeria’s structural change. In this context the role of FDI for overcoming the problems of growing poverty and inequality amidst relatively high GDP growth is discussed. The main question is how FDI can exert a double developmental
role of accelerating structural change and of alleviating poverty. So in the chapter the authors look at the conditions under which FDI can be steered to encourage inclusive growth in Nigeria. These are pertinent questions as foreign direct investment could contribute to poverty alleviation and to more equal participation in growth if FDI goes to sectors which employ many of the poor and the informal sector workers and those who are entering newly the labour force. FDI can however be of limited effect if FDI is directed mainly to sectors such as oil exploration and production as the backward and forward linkages are limited.

The authors use descriptive methods and shift share analysis, and the data used span the thirty years from 1980 to 2010. The chapter notes that the Nigerian economy is undergoing structural change, and of a unique sort. In particular, it was found out that the contribution of industry to GDP has declined between 1980 and 2010, while the contributions of agriculture and services have increased over the same time period. However, while the percentages of those employed in the industrial and agricultural sectors were declining in more recent years, the services sector has been employing more people. Important are the repercussions on labour productivity growth. In order to identify sources of labour productivity growth, estimated are the Between Sectors Effect (structural transformation occurs in the form of Structural Change through transfers of labour from lower to higher productivity sectors) and the Within Sectors Effect (structural transformation occurs through capital accumulation, technological change, and internal labour reallocations). The results show important differences between industry and agriculture sectors on the one side (with a dominating Within Effect) and the services sector on the other side (with a high and increasing Between Sectors Effect). In the services sector, labour productivity growth is attributable to the structural change effect which has increased especially since the year 2000, and which has surpassed that due to within sector changes from 2005 to 2009. So the services sector plays a leading role in structural change in Nigeria. By the way, this sector has also been the one being responsible for the result of a rebasing of the GDP accounting, making Nigeria the number one economy in SSA.

What is then the role of FDI in Nigeria? The industrial sector received the greatest percentage of FDI over the years (mainly the oil sector), but the share has been declining in the past ten years while the share of the services sector was increasing. FDI to the agricultural sector has been minute, what is part of the poverty problem of Nigeria. So, FDI has been contributing to a service-sector led structural transformation. The neglect of agriculture and of modern manufacturing by government and also by investors (foreign and domestic) has severe consequences as investment into agriculture (the commercial and the smallholder segments) is vital for employment creation and
poverty alleviation. Successful participation in regional and global value chains is also dependent on developing agriculture and modern manufacturing. Thereby employment creation and poverty alleviation can be enhanced.

In the chapter the two authors make strong recommendations on policies, by proposing a strategic infrastructure development programme (SIDP), which will create an environment being conducive for large-scale domestic and foreign agricultural and manufacturing investments, and an inclusive policy support programme (IPSP) to protect and to promote smallholder agriculture and small-scale industry engagements. The Agricultural Transformation Agenda (ATA) of Nigeria can help to accelerate industrialisation, inclusive growth, and the integration into regional and global value chains. Integration of the poor into value chains can be important for poverty reduction, and agriculture is the key sector in this regard as it employs around of 70% of the labour force, mostly being in informal jobs and mostly being poor. As structural transformation has so far bypassed largely agriculture, also backward and forward linkages were foregone which are important for employment creation (see AfDB 2014, pp. 237-238). As it looks, in all six regions of Nigeria it is necessary to support more balanced development to overcome the rural-urban divide through job creation and social transformation, as uneven development is strong within and between the six regions of Nigeria (AfDB 2015, p. 273).

In the second chapter with the title “Oil exploration and production in Uganda: Managing Foreign Investment and Public Revenues” the author Anne Mette Kjaer analyses the prospects of future oil revenues for direct investment, local economic development, and also for economic policies, especially so the industrial policies to be pursued for prosperity and diversification of the economy. Major questions are: Are Uganda’s policymakers in the position to prevent the fate of many African oil producers which are suffering from resource curse, from Dutch disease, from increasing corruption, and from mismanagement? Will Uganda be able to design political strategies and economic policies to allocate in a transparent way the future oil revenues, by providing for current expenditures for priority sectors and productive investments, for steady fiscal expenditures in times of fluctuating oil prices and revenues, and for savings from the oil revenues for using the funds in the future – for the coming generations. Can Uganda learn the lessons from the other African oil producing countries how to balance the public investment expenditures - which are financed from oil revenues - between short-term, medium-term and long-term needs? Will Uganda be able to democratically control the revenues and the expenditures, by parliamentary committees, by audit authorities, by rule of law, and by effective evaluation and monitoring agencies? Will Uganda be able to develop environmental frameworks and policies so as to avoid damages to nature, as oil exploration will take place in
1 Introduction

Over the past thirty years, African economies have undergone a process of structural transformation (UNCTAD, 2012). That is, a change that involves large-scale economic shifts, accompanied by significant reallocations in the relative contribution of different sectors – agriculture, manufacturing, and services –, as evidenced by production levels and factor use (Herrendorf, Rogerson & Valentinyi, 2013). From the academic literature there are known several sources and key drivers of structural change such as changes in domestic polices and trade policies, including policies on Foreign Direct Investment (FDI) among others. FDI can be a significant source of developmental revenue, generate employment, foster technology transfer, knowledge spillovers, labour and capital mobility, and as well raise the productivity of a particular sector, thus serving as a stimulant for structural transformation (de Freitas & Mamede, no date). Notably, Africa’s laudable economic growth performance has been largely driven and characterized by a heavy dependence on the production and export of commodities, few backward and forward linkages, local industries that add little value, not much economic diversification (UNECA & AU, 2013); and doing so without generating the much-needed jobs or curbing poverty (UNECA & AU, 2012).

Several analysts have suggested that patterns of trade and FDI flows could help propel growth and it is in an attempt to contribute to this on-going debate that this paper takes a close look at the role of trade and FDI in Africa’s structural transformation, using the particular case study of Nigeria. Nigeria ranks low in its ability to attract FDI in the manufacturing sector in contrast to a comparator country like South Africa, although it attracts a high

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level of FDI in oil and gas. Total investment as a percentage of GDP averaged 23.8 per cent between 2004 and 2013, and 22.1 per cent and 22.6 per cent in 2012 and 2013 in particular (IMF, 2012, p. 94). The recent rebasing of the country’s GDP to US$522.6 billion as at 2013 (World Bank, 2014a) has made Nigeria the 26th largest economy in the world and the biggest in Africa (Faul, 2014). Yet, despite high economic growth rates, significant investment inflows, and burgeoning service industries, the economy still faces structural, policy and institutional weaknesses that have made it impossible for Nigerian workers to benefit from the continuous growth in GDP. Nigeria ranks low on social and human development indicators while poverty incidence is high; the latter rising from 27.2 per cent in 1980 to 69.0 per cent in 2010. Subjective poverty measures show that 93.9 per cent of the populace perceived themselves to be poor in 2010 (NBS, 2012).

From the foregoing, we consider the following questions: what are the sources, nature and characteristics of the structural changes that have occurred in Nigeria’s economic sectors over the past three decades? What sort of domestic and export policy changes are required to speed up the process of structural change? What is the role of the Nigerian State and its policies in this transformation process? What institutional mechanisms exist or need to be put in place to ensure that FDI leads to equitable outcomes in Nigeria? We argue that real structural transformation should be broad-based across sectors, and should proceed in ways that would improve the social conditions of citizens especially in job creation, economic inclusion and poverty reduction.

Using descriptive and shift-share analysis, we note that the Nigerian economy is undergoing a structural change, of a unique sort. In particular, we find that the contribution of industry to GDP has declined between 1980 and 2010, while that of agriculture and services increased over the same time period. However, while the percentage of those employed in the industrial and agricultural sectors have been reducing in more recent years, the service sector has been employing more people. In addition, labour productivity growth attributable to a structural change has increased over the past few years in the service sector, and surpassed that due to within-sector changes from 2005 to 2009.

Furthermore, the industrial sector, which received the greatest percentage of FDI over the years, has seen a decline in FDI inflows in the past ten years while that to the services sector has been increasing. FDI to the agricultural sector has been minute. We can therefore infer that FDI has been contributing to a services-sector led structural transformation.

The section 2 considers theoretical rationale behind the impact of FDI on structural transformation, while section 3 provides information on Nigeria and analyses the nature of the structural change that the country has undergone. Section 4 probes the impact of FDI on this change, while the Section 5
concludes the paper, provides policy recommendations and addresses how FDI can be steered towards inclusive growth in Nigeria.

2 Foreign Direct Investment (FDI) and Structural Transformation

An analysis of the historical pathways of successful developing economies indicates that structural transformation manifests itself distinctively in a decline of the agricultural sector’s share in economic output and employment, increments in the share of urban economic activities in industry and services, rural-urban labour migration, as well as a demographic transition in birth and death rates (Timmer, 2007, 2012; Rodrik, 2013a). The process of structural transformation, which involves diversification of production, upgrading of production, and increasing labour productivity, is a progressive one and entails transference of resources from less productive activities to more productive ones (Usui, 2011). However, the mismatch between the rapid rates of economic growth in developing countries (especially in Africa) and the level of wellbeing has increased concerns for ascertaining determinants and measures of inclusive growth. An attempt at measuring inclusive growth reveals: structural transformation, modernization of manufacturing, globalization of services, engagement of information and communication technology, computing networks and diversified movements up the value chain are notable drivers of inclusive growth in emerging markets (Anand, Mishra & Peiris, 2013). These aforementioned factors drive inclusive growth by influencing macroeconomic stability, increasing connectivity and factor productivity, creating employment, stimulating domestic competitiveness, and fostering investments in infrastructure development (Timmer, 2012, p. 1).

2.1 On Theoretical Aspects of Structural Transformation

The underlying principles of the investment development path (IDP) hypothesis situate development outcomes as based on the interaction between the structure of an economy, foreign investment, and the role of the multinational enterprise (UNCTAD, 2006). Succinctly, the investment development path (IDP) framework specifies interaction among MNE-specific assets, domestic firm’s specific assets, and host country specific assets. Theoretical and empirical studies, which have examined investment development path models for various contexts,1 indicate that countries tend to follow an idiosyncratic pro-

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1 Examples include studies that examined the investment development path (IDP) in African countries (Bonaglia & Goldstein, 2006; Abdul-Malik, 2012), Brazil (Ellström & Engblad, 2009), China (Marton & McCarthy, 2007), India (Sathye, 2008), OECD
cess of structural changes which are a reflection of their specific resources, institutions, economic structure, political ideologies as well as socio-cultural frameworks (Mold, 2014, p. 27). The foregoing implies that FDI may not automatically deliver desirable structural changes, except when a set of appropriate FDI meets with requisite institutional mechanisms being necessary to generate required changes to the structure of an economy. Thus, for a country integrated in the international capital markets, the IDP hypothesis posits that the composition of its inward and outward investment changes in consonance with its economic development.

As countries move along the development path, from least developed to developed, they transit from being net recipients of FDI to being net sources of FDI. In the five-staged IDP framework, the outward and inward FDI position of a country relates systematically with its level and structure of economic development (UNCTAD, 2006). In the first stage, countries have few location-specific advantages (even though natural resource abundance may create exceptions)\(^2\) that may be an attraction to FDI and there are minimal domestic firm advantages that could propel outward-looking investments. Inward FDI begins to rise in the second stage as a result of increases in per capita income and other location-specific assets, with minimal domestic firm assets and offshore investments. However, as local firms become more competitive at the third stage, a decline in the rate of growth of inward FDI and faster pace of growth in outward FDI is expected. By the fourth stage, with considerable improvements in the local and international competitiveness of domestic firms, outward FDI stock is expected to have surpassed inward FDI stock. At the fifth stage, the net investment position of a country varies about zero, showing similar scales of inward and outward investment.\(^3\) The IDP also provides insight on the structural composition of a country’s inward and outward FDI over its development trajectory. At earlier stages, which characterise most low income and middle income developing countries,\(^4\) inward and outward

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\(^3\) See more on the contribution of John H. Dunning and Rajneesh Narula to the Investment Development Path Hypothesis in UNCTAD, 2006.

\(^4\) UNCTAD, 2006, p. 144, tested the IDP by plotting the net outward investment and GDP per capita for a sample of developed and developing countries (including Nigeria).
FDI is directed at low/medium knowledge-intensive or resource-based industries. Whereas at later stages of the IDP, inward and outward FDI are more efficiency-seeking and are directed towards high technology-intensive industries and high value-added activities (UNCTAD, 2006, p. 143-144).

**Figure 1: Net Outward Investment and GDP Per Capita ($) - Nigeria (1970-2010)**

![Graph](image)

*Source: Authors’ computation from UNCTAD statistics*

While there are studies on other countries and regions on the IDP, there is a dearth of empirical analysis on the case of Nigeria. Nigeria clearly, like most of its African counterparts, is still in the early stages of the investment development path, characterized by little outward investment (UNCTAD, 2006). As shown in Figure 1, its net outward investment (NOI) is in the negative, indicating an excess of inward investment over outward investment. However, it is noteworthy that Nigeria is one of the few African countries (including South Africa, Morocco, Liberia, and Egypt) contributing to the bulk of intra-African FDI. Even though the inflow of FDI to Nigeria has been meandering over time, there are evident leaps in inflows with increases in GDP per capita. There is a noticeable similar pattern in the flows of inward and outward investment from the late 1980s to the year 2010. Recent surveys on the sectoral composition of outward FDI show a preference for African destinations and a

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5 See footnote 1
sectoral concentration in the finance, insurance, real estate and business services sectors (see: Tumala, Ajibola, Omotosho, & Baruwa, 2013; Doguwa, Tumala, & Ajibola, 2014) in support of a services-led structural change.

It is necessary to look carefully at the dynamics of the net outward investment (NOI) position of Nigeria.

2.2 Empirics of FDI and Structural Transformation

FDI has been attributed of having contributed to the structural transformation of South East Asian economies (Thomsen, 1999), transition economies in the region of Central and Eastern Europe/CEE (Svetličič & Rojec, 1994; Inzelt, 2000; Pavlínek, 2004; de Freitas & Mamede, 2008; Ptáček, 2009; Kornecki, 2010; Conlon, 2013), China (Kueh, 1992; Lardy, 1995), Bangladesh (Khatun, 2013), Mauritius (Zafar, 2011; Sooreea-Bheemul & Sooreea, 2012), and of emerging economies. In the seminal study based on a Latin American economy, Blomström (1986) found that the entry of FDI impacts on technological structure and structural efficiency of host country industries. The increased competitive pressure as a result of the presence of foreign firms in the country was found to be the major source of spillover efficiency in the modern sectors. While changes in foreign participation in the country were measured against the structural changes within the studied periods, the findings give an indication that MNE operations could deepen the dualism of production structure in developing countries (Blomström, 1986). Blomström’s study boosted further interests in examining the impact of MNE operations on investment, trade and the structure of economic growth in Organisation for Economic Cooperation and Development (OECD), European as well as developing countries. For instance, Barell and Pain found evidence that FDI plays a role in the diffusion of ideas and technologies (Barell & Pain, 1997). Owing to its increased global trade integration and an economic, political and regulatory environment favourable to the attraction of FDI, Bangladesh has been transformed from an aid-dependent country to a trade-dependent country (Khatun, 2013). Even though it is only a small share of total investment and employment in each economy of Southeast Asia, FDI has been a key driver of the region’s export-led growth, transforming each of the economies from focusing on agriculture and exploitation of raw materials into being foremost producers and exporters of manufactured goods (Thomsen, 1999; Chow, 2008).

Besides the impressive growth rates across Africa, with about sixty per cent of African countries topping the charts of the fastest growing countries of the world (The Economist, 2013), questions still surround how competitive, diversified, stable, integrated and inclusive the continent and its growth rates have been. For instance, even though in the last two decades Africa has
witnessed the expansion of a services sector, countries such as Nigeria, which are oil-producing and oil exporters, are among the least diversified economies, with a very insignificant manufacturing sector contribution to the total output in the economy (AfDB, undated; The Economist, 2014). As a potential emerging market and global growth pole (Ogunleye, 2011), Africa’s participation in global investment and trade is considered pivotal to its sustainable development (AfDB, undated). Thus, against the backdrop of its relative economic and technological backwardness, Africa’s imperative of structural transformation entails industrialization, diversification and competitiveness (Badiane, Ulimwengu & Badibanga, 2012; Rodrik, 2013b; ACET, 2014). This is pertinent as most sectors accounting for its GDP growth are less employment-generating and value-adding, hence contributing to non-inclusive growth.

There is therefore a growing body of empirical research that studies the separate and combined phenomena of globalization, structural change and productivity growth in Africa, Asia and Latin America. Notably, McMillan & Rodrik have identified determinants of the occurrence of and the extent to which structural change contributes to total productivity growth – determinants such as export composition, competitive versus undervalued exchange rates, and labour market flexibility. The findings of the study show that, whereas large shares of natural resource exports resulted in growth-reducing structural change, competitive exchange rate regimes and labour market flexibility contributed to growth-enhancing structural change (McMillan & Rodrik, 2011). In a recent extension to the study by McMillan & Rodrik, the Africa Sector Database (ASD) has been used to examine the structural transformation implications for productivity growth in eleven Sub-Saharan countries over a period of fifty years, 1960-2010 (de Vries, Timmer & de Vries, 2013). Similar to the finding by McMillan and Rodrik, the study noted that patterns of static productivity gains in Africa are similar to those of Latin America, however different from the Asian experience. While Asian countries transformed through low-wage manufacturing, dependent on resource endowments and labour skills among other factors, Sub-Saharan African countries may transform through low-wage manufacturing, services or the agricultural sector (IMF, 2012).

In Africa, the Mauritian case presents a successful model of the crucial role that FDI plays in structural transformation. By creating a platform, propelled by its policies on export processing zones (EPZs), FDI in labour-

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6 As well as Latin American countries, see McMillan & Rodrik, 2011.
intensive manufacturing was stimulated. In other contexts, like Ghana, Kenya, Lesotho and Madagascar, FDI in special economic zones (SEZs) have aided structural transformation. Complementary to development aid, FDI is also much sought after in post-conflict societies for the purpose of new capital injection and new business development towards promoting economic reconstruction, competitiveness and linkages to global markets (Mold, 2014). In this manner, the Rwandan economy (by providing a framework for the safety of investments and ease of doing business) is gradually being transformed into a regional hub for foreign investment (Dawson, 2010). In consonance, using the Tanzanian case, Ngowi accentuates the theoretical role of FDI in structural transformation, domestic capacity building and the implications for poverty reduction (Ngowi, 2012).

Even though there are studies on other countries and regions on the IDP, there is a dearth of empirical analysis on the case of Nigeria. We hope to add to the existing body of literature in this regard. In the next section we probe whether Nigeria has undergone a structural transformation, and if it has, what has been the nature of this transformation? In particular, what are the sectoral contributions of the agricultural, industrial and service sectors to GDP and employment? Furthermore, how has structural transformation influenced living standards measured in terms of human development indicators, given global concern about growing inequalities amidst increasing wealth accumulation in countries?

3 Structural Transformation in Nigeria

3.1 Socio-Economic Conditions

As at 2013, Nigeria, the “Giant of Africa“ was both Africa’s most populous country with an estimated population of 173.6 million (World Bank, 2014a), as well as its largest economy. In the past decade, the country has experienced relatively rapid economic growth, with an average growth in GDP from 2005 to 2010 of 6.59 per cent and 5.6 per cent from 2010 to 2013. While economic growth indicators have been good, those reflecting human development show that a large percentage of the population still live in poverty. In 2010, an estimated 112.47 million (69 per cent) of the population

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8 World Bank 2014a: GDP growth rates from 2005 to 2013 were 3.44, 8.21, 6.82, 6.27, 6.93, 7.84, 4.89, 4.28 and 5.39 respectively.
lived in relative poverty (NBS, 2012). Furthermore, the country’s GDP per capita in 2013 was 3005.5 while South Africa’s almost doubled it at 6617.9 (World Bank, 2014a).

In 2012, the country’s Human Development Index (HDI), which measures development in terms of health, education and living standard indicators, was 0.471, with a position of 153 out of 187 countries, placing it in the low human development category. The inequality-adjusted human development index (IHDI) was even lower at 0.276 (UNDP, 2013). However, between 2005 and 2012 the HDI increased from 0.434 to 0.471, making the country’s 2012 HDI lower than the average for SSA (0.475), but higher than countries in the low human development category (0.466). Three HDI components within the country – life expectancy at birth (45.5 to 52.3 years), expected years of schooling (6.6 to 9.0 years), and GNI per capita ($1,571 to $2,102) – also show improvements of 6.8 years, 2.4 years and 34 per cent respectively between 1980 and 2012, while mean years of schooling improved by 0.2 years from 5 to 5.2 years from 2005 to 2012.

When considering the multidimensional poverty index (MPI), a relatively expanded and new data set (Alkire & Foster, 2009), which comprises ten indicators that correspond to the three dimensions\textsuperscript{9} of the HDI, though wider in scope, Nigeria’s MPI as at 2008 was 0.31. This gives the country a ranking of 85 out of 104 countries (UNDP, 2013).\textsuperscript{10} The MPI uses household level data that “captures a set of direct deprivations that batter a person at the same time” (Alkire & Santos, 2010, p. 1), and therefore gives a more holistic view of poverty than income poverty measures. For example, eight of its ten indicators relate to the Millennium Development Goals (MDGs), while the remaining two – electricity and flooring – are conceivably related (ibid.).

Unemployment and inequality figures are also dismal. Unemployment rates have been on the rise, with national unemployment rates - between the period 2006 to 2010 - reaching 12.3, 12.7, 14.9, 19.7, and 21.4 per cent. Unemployment is also highest at 41.6 per cent among those aged 15 to 24 (NBS, 2010). Between 1986 and 1996, the Gini Index\textsuperscript{11} rose from 38.68 to 44.95 and 46.5 in 1992 and 1996 respectively. It dropped by 7.68 per cent in 2004.

\textsuperscript{9} MPI Indicators: Health – child mortality and nutrition. Education: years of schooling and child enrolment. Standard of living: Electricity, drinking water, sanitation, flooring, cooking fuel, and assets.

\textsuperscript{10} MPI is measured on a scale of 0 (low) to 1 (high). Among 104 countries reported by Alkire and Santos, 2010 the country that was most MPI-poor had an index of 0.642.

\textsuperscript{11} The “Gini Index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution… [A] Gini Index of 0 represents perfect equality, while an index of 100 implies perfect inequality.” (World Bank, 2014b, para. 1)
to 42.93, but then rose again by 13.74 per cent to 48.83 in 2010 (World Bank, 2014b); reflecting one of the highest levels in the world (UNDP, 2008-2009), and that with the exception of the slight drop in the Gini Index between 1996 and 2004, income distribution in the country has been growing more unequal over the years.

Like many developing countries, we also find increasing urbanization in Nigeria, with an annual urban population growth of approximately 4.8 per cent from 2001 to 2010. In particular, the percentage of the total population considered urban in 1960, 1970, 1980, 1990, 2000 and in 2010 were 15.41, 17.76, 21.97, 29.68, 34.84 and 43.48 respectively (World Bank, 2014a).

In light of these statistics, it becomes crucial to examine what is responsible for Nigeria’s rising poverty rates and inequality and to probe how to make Nigeria’s growth more inclusive. In particular, the question is what sectors are contributing to the economy’s GDP and employment, if there have been changes over time, and if FDI has contributed to this change.

3.2 Methodology and Data

Data for this analysis is drawn from the ASD, which gives data looking at the ten main sectors of the economy and includes the contribution to gross value added and the percentage of people engaged in each sector. The sectors are divided into the three overarching categories - Agriculture, Industry (mining, manufacturing, construction, and public utilities) and Services (transport services, business services, financial services, government services, and personal services). We were also guided by a paper (de Vries, Timmer & de Vries, 2013) based on this dataset, which was part of the ‘Structural Change and Productivity Growth in Africa’ project. Similar to the paper, we also used a “shift share analysis” to decompose labour productivity growth, accounting for the changes that have occurred within each sector and that which was due to structural change. The Bai-Perron break point test (not used in this study) is one which is used to check structural breaks in an economy and it can be used to complement the Shift-Share analysis (Naiya & Manap, 2013). The ASD enables the analysis of labour productivity as it contains value added

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12 Africa Sector Database (ASD), access: http://www.rug.nl/research/ggdc/data/africa-sector-database (highlighted above)

13 Shift share analysis (ShShA) enables the calculation of changes that occur to an economic variable, such as employment, demography, and firm growth, within a statistical region. In this paper, this analysis is used to check the change in labour productivity within each sector of the Nigerian economy.

14 The analysis shows structural breaks in 1974, 1984 and 1995 in Nigeria; see also Table 2.
per worker for the aforementioned sectors; this employment data set was previously limited for many Sub-Saharan African countries.\textsuperscript{15} Sectoral composition of FDI and GDP were retrieved from the 2011 (CBN, 2011) and 2010 (CBN, 2010) Statistical Bulletin of the Central Bank of Nigeria (CBN) respectively. Basic descriptive analysis was used to understand the structural trends in the economy from 1980 to 2010, as well as the impact on FDI on the country’s structural transformation.

3.3 Structural Change

Over the past years, there has been evidence showing a diversification of the country’s economy. Though agriculture has remained the top contributor to GDP, much growth has been attributed to the non-oil sector of the economy (Guièze, 2012). In particular there has been a significant emergence and contribution of industries within the services sector, including information technology, telecommunications, airlines, music, the film industry (“Nollywood”), online retail outlets (Faul, 2014), and finance and banking to the economy.

As Hansen (2013, para. 3) puts it: “Nigeria’s economy has achieved consistently high growth of about 6 per cent a year over the last decade, largely driven by a fast-growing non-oil sector. In fact, non-oil sector has quietly grown at a rate of up to 8 per cent a year in spite of the much-publicized woes of the oil industry and a myriad of political, operational and infrastructural challenges. Paradoxically, slow oil sector growth has entailed a gradual diversification of the economy, albeit one that is consumer-based and remains vulnerable to volatility in global oil prices.” However, there are those who question if Nigeria has really undergone structural transformation. Ariyo (2014), for example, places Nigeria in a comparative light with Malaysia and Indonesia, and also sets it against the various initiatives and policies that the government has initiated, and concludes that there has not been a structural transformation in the country. On the other hand, Naiya and Manap (2013) considering approximately four decades till 2009 use an autoregressive distributed lag technique to examine the interrelationship between structural transformation, inequality and poverty in Nigeria. Using GDP as a proxy for structural change on output, they find that structural transformation in Nigeria has been very slow and progressing at a very low rate, albeit there existed long-run relationships among the study’s variables, including poverty incidence, GDP per capita, structural change index, and the Gini Coefficient Index (GCI). However, employment was not used as a measure for structural

\textsuperscript{15} See de Vries, K., de Vries, G., Gouma, R. & Timmer, M. (2013) for more details on how ASD compares to extant international datasets.
transformation.

A recent study nonetheless identified the occurrence of structural changes in Nigeria over the period 1996 to 2009, with labour shifts from low productivity agriculture and low value-added trade activities into manufacturing, transportation, and services (Adeyinka, Salau & Vollrath, 2013). The study drew more attention to the implications for agricultural labour productivity. While the work featured an explicit analysis of factors driving structural change in the Nigerian economy, it failed to tease out FDI’s role in the structural change. This present study, using the ASD, extends the analysis carried out by Adeyinka, Salau & Vollrath, and examines the role of FDI in the structural transformation of Nigeria over three decades. The time period of analysis provides an overview of the investment and economic development path for Nigeria. Also, in light of previous studies, which only amplify specific components of structural transformation, like productivity, exports, employment, income, this study provides evidence on the various components of structural transformation.

Given the crucial role of the informal sector to the economy of a developing country, a close consideration of the dynamic and structural properties of Nigeria, in light of the sheer size of the unorganized informal sector and its vast contribution to GDP and employment, is most imperative (Onyebuoke & Geyer, 2011). The economy is made up of a relatively small, organized private sector and a larger informal sector, which accounts for an estimated 70 – 80 per cent of employment and is as well a source of capital formation (Mordi, Englama & Adebusuyi, 2011). In a recent job creation survey by select Nigerian government agencies, informal jobs were depicted as businesses employing less than 10 employees or those “operating with little or no structures”. In particular, they constituted “mainly peasant or small-holder farmers, wholesale and retail trading, household manufacturing and individual services.” In the fourth quarter of 2014, the sector accounted for more than 53.5 per cent of the new jobs while the formal and public sectors contributed 37.9 and 8.5 per cents respectively (National Bureau of Statistics/NBS & The Federal Republic of Nigeria/FRN, 2014, p. 8, 71). Even though the informal sector is characterised by a large and fragmented structure and shows low levels of education, training and technical know-how of its operators, it continues to be a cheap source of low-level technical manpower to the organized private sector (ibid.).

Moreover, across the country there are several industrial clusters, that is geographical agglomerations of firms around a particular sector, that have varying levels of industrial dynamism, technological spill-overs and learning, and are attenuating unemployment and poverty. Some of these clusters include the Otagba Information and Communications Technology cluster, the Nnewi automotive SME cluster, the Kano leather cluster, the Aba micro,
small and medium leather and footwear cluster, the Aba fashion and garments cluster, and the Abeokuta and Oshogbo tie and dye industry.\textsuperscript{16}

Interestingly, the role of the informal sector and its size has not changed much over the country’s development path.\textsuperscript{17} Nigeria’s economic crisis of the 1980s as well as the then following structural adjustment policies (of currency devaluation, wage restraint, and waves of retrenchments which have increased the rates of open unemployment) led, amongst other things, to a further expansion of the informal sector. Ogbuabor and Malaolu (2013), for instance, found a direct relationship between the rate of unemployment and the size of the informal sector.\textsuperscript{18} Informal sector activities were estimated to have increased from approximately 50 per cent of the urban workforce in the late 1970s to about 65 per cent by the late 1980s. It is pertinent to note that even amidst the oil boom era of the 1970s, rising urban wages accompanied by rural-urban migration caused a continual rise in informal sector growth (Meagher & Yunusa, 1996). The informal sector still waxes strong today, in accounting for over 57 per cent of Nigeria’s rebased GDP, and being indeed the giant of Africa’s informal activity sector (Nwachukwu, 2014).

Drawing from data to assess the structure of the economy, we find that the contribution of agriculture to GDP has increased from 20.61 to 40.84 over the past 30 years, as seen in figure 2 below. Similarly, the services sector’s contribution to GDP, after an initial major decline, has increased from 35.08 to 36.08 per cent, including wholesale and retail trade which constitute a large percentage of services. Wholesale and retail trade’s contribution to total GDP decreased from 20.03 per cent to 18.70 per cent between 1980 and 2010.

The industrial sector’s contribution to GDP on the other hand has decreased by about 41 per cent over the same time period from 34.2 to 20.36 per cent. Notably, the oil sector, comprising crude petroleum and natural gas, has made the largest contribution to the industrial sector’s contribution to GDP, with a share of 61.84, 86.7, 87.74, and 77.87 per cent in the sector in 1980, 1990, 2000 and 2010 respectively. The extractive industry has not been known to have the best pathway for human development, particularly in Nigeria where there has been an absence of necessary institutions that mitigate its negative consequences on the economy (Odoemene, 2011; Ola-David & Oyelaran-Oyeyinka, 2014). Furthermore, it tends to employ few people, and

\footnotesize{
\textsuperscript{16} See Oyelaran-Oyeyinka, Adelaja & Abiola, 2007; Adebowale & Oyelaran-Oyeyinka, 2012; and Oyelaran-Oyeyinka, O., forthcoming.
\textsuperscript{17} A study by Ogbuabor & Malaolu (2013) shows that the size of the informal economy in Nigeria has hovered between 53.6 per cent and 77.2 per cent of GDP since 1970, giving an average size of about 64.6 per cent of GDP.
\textsuperscript{18} Ibid, see also Ekpo & Umoh, n.d.
}
to have few spillovers and linkages to the economy. \textsuperscript{19} Meanwhile, manufacturing comprised only 31.9, 12.72, 11.46, and 20.44 of the industrial sector’s contribution in these years. However, while manufacturing in general has been increasing over the past ten years it still falls far below the rule of thumb that specifies 25 per cent for meeting the condition of industrialization (UNIDO, 1975; Xinhua; 2013) – it contributed only 11.05, 5.5, 4.24 and 4.16 per cent to total GDP in 1980, 1990, 2000 and 2010.

**Figure 2: Structure of the Nigerian Economy, Sectoral contribution to GDP (1980-2010) \textsuperscript{20}**

![Graph showing sectoral contributions to GDP from 1980 to 2010.](image)

\textbf{Source:} CBN/Central Bank of Nigeria, 2011 (industry includes building and construction; services includes wholesale and retail trade)

Despite the role of agriculture to the economy’s GDP, it has failed to become a major exporting sector. However, in 2010, we see in figure 3 that this has begun to change, with the sector also overtaking manufacturing in the export share to GDP. Mining, which has dominated GDP, has also begun to decline.

\textsuperscript{19} See Oyelaran-Oyeyinka, B., 2014

\textsuperscript{20} Though separated in Figure 2, industry includes building and construction while services include wholesale and retail trade.
In terms of employment, agriculture still employs the largest percentage of the population, as seen in figure 4 below. However, the total share has declined by approximately 8 per cent from 64.18 per cent in 1980 to 58.88 per cent in 2010, while the contribution of the services sector rose by about 125 per cent from 15.59 to 35.11 per cent during the same period. The industrial sector on the other hand employed 20.23 per cent of the population in 1980, but the employment share declined by approximately 70 per cent to 6.01 per cent in 2010.

Source: Calculation from World Bank, 2014a, World Development Indicators (WDI)\textsuperscript{21}

\textsuperscript{21} Some data points from WDI were zero, which could be due to missing data.
Taking a closer look at the services and agricultural sectors, we find that the percentage growth in employment in the services sector far supersedes that of the agricultural sector from the early 1990s onwards as seen in figure 5 below. This figure suggests that Nigeria is on a right path of development, inducing more employment opportunities in non-traditional sectors.

**Figure 4: Structure of Employment (1980-2010)**

Source: Africa Sector Database (ASD); see de Vries/de Vries/Gouma/Timmer, 2013

**Figure 5: Growth of Employment in Services and Agricultural Sectors during 1980-2010**

Source: Authors’ calculation from ASD (see de Vries/de Vries/Gouma/Timmer, 2013)
Next, we analyse labour productivity growth over the thirty years. In an economy growth in labour productivity can occur in two ways – first, through growth “within” economic sectors through capital accumulation, technological change, or improved allocation of resources across plants” and secondly, through labour’s movement “across” sectors—from those with low productivity to those with high productivity—and thereby increase overall labour productivity in the economy” (McMillan, 2012, p. 3). Movement across sectors is seen as the “contribution of structural change to overall productivity growth. The contribution is positive (or, productivity-enhancing) if labour primarily migrates from lower to higher productivity sectors. It is considered negative (or, productivity-reducing) otherwise.”

In the following tables 1-3, the results of the shift-share analysis, which was used to calculate the total labour productivity growth in each of the sectors, are presented. The tables highlight within sector changes (column 3) and across sector changes what is growth due to structural change (column 4); as well the percentage contributions are presented (columns 5 and 6). We find that across all sectors labour productivity growth was low between 1980 and 1984, and that it has declined between 1990 and 1994, while afterwards it steadily was increasing till 2010.

For the agricultural sector in particular, as seen in table 1, we find that the share of the contribution of structural change to the sector’s labour productivity decline or growth is much less than that attributable to changes within the sector. This is corroborated by the fact that the structure of employment in the economy as a whole witnessed very little change.

**Table 1: Contribution of Structural Change in Employment to Labour Productivity in Agriculture, 1980-2010**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Labour Productivity Growth</th>
<th>Within Effect</th>
<th>Structural Change Effect</th>
<th>Share of Within Effect</th>
<th>Share of Structural Change Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-84</td>
<td>-9.62</td>
<td>-10.28</td>
<td>0.66</td>
<td>-106.89</td>
<td>6.89</td>
</tr>
<tr>
<td>1985-89</td>
<td>23.46</td>
<td>21.99</td>
<td>1.47</td>
<td>93.73</td>
<td>6.27</td>
</tr>
<tr>
<td>1990-94</td>
<td>11.33</td>
<td>10.63</td>
<td>0.69</td>
<td>93.87</td>
<td>6.13</td>
</tr>
<tr>
<td>1995-99</td>
<td>18.88</td>
<td>17.82</td>
<td>1.06</td>
<td>94.38</td>
<td>5.62</td>
</tr>
<tr>
<td>2000-04</td>
<td>23.11</td>
<td>21.78</td>
<td>1.34</td>
<td>94.21</td>
<td>5.79</td>
</tr>
<tr>
<td>2005-10</td>
<td>37.08</td>
<td>34.91</td>
<td>2.17</td>
<td>94.15</td>
<td>5.85</td>
</tr>
</tbody>
</table>

**Source:** Author’s calculation from ASD data base

Similarly, productivity in the industrial sector also fell between 1980 and 1984 and between 1990 and 1994. On the other hand, for the industrial sec-

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22 Emphasis is given by the author.
23 McMillan, 2012
tor, table 2 shows an increasing contribution of structural change to labour productivity growth between 2000 and 2010.

**Table 2: Contribution of Structural Change in Employment to Labour Productivity in Industry, 1980-2010**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Labour Productivity Growth</th>
<th>Within Effect</th>
<th>Structural Change Effect</th>
<th>Share of Within Effect</th>
<th>Share of Structural Change Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-84</td>
<td>-23.60</td>
<td>-22.46</td>
<td>-1.14</td>
<td>95.17</td>
<td>4.83</td>
</tr>
<tr>
<td>1985-89</td>
<td>17.20</td>
<td>16.31</td>
<td>0.89</td>
<td>94.83</td>
<td>5.17</td>
</tr>
<tr>
<td>1990-94</td>
<td>1.37</td>
<td>1.33</td>
<td>0.04</td>
<td>96.92</td>
<td>3.08</td>
</tr>
<tr>
<td>1995-99</td>
<td>10.20</td>
<td>9.67</td>
<td>0.53</td>
<td>94.80</td>
<td>5.20</td>
</tr>
<tr>
<td>2000-04</td>
<td>29.98</td>
<td>25.76</td>
<td>4.23</td>
<td>85.90</td>
<td>14.10</td>
</tr>
<tr>
<td>2005-10</td>
<td>27.92</td>
<td>21.74</td>
<td>6.18</td>
<td>77.86</td>
<td>22.14</td>
</tr>
</tbody>
</table>

**Source:** Author’s calculation from ASD data base

From table 3 below, we find that for the services sector, the share of the contribution attributable to structural change is higher in the latter period compared to within sector changes. This is substantiated by the fact that the structure of employment in the services sector witnessed a major change between 2000 and 2010.

**Table 3: Contribution of Structural Change in Employment to Labour Productivity in Services, 1980 - 2010**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Labour Productivity Growth</th>
<th>Within Effect</th>
<th>Structural Change Effect</th>
<th>Share of Within Effect</th>
<th>Share of Structural Change Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-84</td>
<td>4.61</td>
<td>4.88</td>
<td>-0.26</td>
<td>105.65</td>
<td>-5.65</td>
</tr>
<tr>
<td>1985-89</td>
<td>27.39</td>
<td>23.96</td>
<td>3.43</td>
<td>87.48</td>
<td>12.52</td>
</tr>
<tr>
<td>1990-94</td>
<td>11.71</td>
<td>10.91</td>
<td>0.80</td>
<td>93.17</td>
<td>6.83</td>
</tr>
<tr>
<td>1995-99</td>
<td>13.22</td>
<td>11.23</td>
<td>2.00</td>
<td>84.91</td>
<td>15.09</td>
</tr>
<tr>
<td>2000-04</td>
<td>49.21</td>
<td>25.53</td>
<td>23.68</td>
<td>51.88</td>
<td>48.12</td>
</tr>
<tr>
<td>2005-10</td>
<td>74.05</td>
<td>26.28</td>
<td>47.76</td>
<td>35.50</td>
<td>64.50</td>
</tr>
</tbody>
</table>

**Source:** Author’s calculation from ASD data base

While the share of the Within Effect in agriculture and industry sectors is
overwhelmingly higher than the share of the Structural Change Effect, in the services sector the share of the Structural Change Effect has increased sharply since 2000. The share of the Structural Change component in industry is increasing since 2000, but is reaching much lower levels. Structural Transformation in Nigeria is services sector-led, and to a much smaller degree it is industry sector-led. The share of the Structural Change Effect in agriculture has even remained stagnant at very low level. Structural Transformation in Nigeria is not at all influenced by the agriculture sector.

4 FDI, Structural Transformation and Poverty Alleviation in Nigeria: Towards Inclusive Growth

Nigeria is one of the top recipients of FDI in SSA, and in 2011 and 2012 it was the leading recipient of FDI in SSA (Orya, 2014). The influence of FDI in Nigeria’s economy has however to be understood within the political-economic background in which it took place. In the first wave of privatization, foreign investors “were excluded from bidding in all sectors except oil”. In the second wave, “[a]most 100 enterprises were targeted for privatization or commercialization in three phases”, including banks, hotels, insurance companies, electric power, and telecommunications (UNCTAD, 2009, p. 10-11). The privatization of the telecommunications sector in particular and the reforms of the banking sector have been beneficial to the growth of both sectors.

However, studies show that FDI has not had any significant effect on the Nigerian economy. Olokoyo, using an ordinary least squares regression estimation, finds that FDI “though not unimportant, ha[d] no relevant effect on the Nigerian economy” and was not significant in explaining growth in real GDP between 1970 and 2007 (Olokoyo, 2012, p. 24). Similarly Ugochukwu, Okore and Onoh (2013) found a positive, yet insignificant impact of FDI on the growth of the Nigerian economy in the period 1981 to 2009. Why might this be the case, and how can FDI be properly directed to encourage inclusive growth in the future?

Over the years, we find that the agricultural sector, which was the largest contributor to GDP and employment, has received a negligent percentage of FDI. Between 1962 and 2008, the percentage of FDI to agriculture ranged between 0.2 and 4.1 per cent with an average of 1.5 per cent over the time period. Similarly, Idowu and Ying (2013) found that FDI had no significant impact on agricultural output between 1980 and 2007. Industry on the other hand had a range of 50.7 and 85.7 per cent, with an average of 67.3, while the services sector’s FDI receipts ranged between a low of 12.4 and a high of 47.3 per cent and an average of 31.2 per cent over the same time period, as
seen in figure 6 below.

We can therefore conclude that since 1980, FDI has not been put in the sector (agriculture) that would have impacted the largest number of Nigeria’s working population. However, since 2000, we see the share of FDI in industry dropping while that of the service sector has been increasing. Within the three sectors comprising the industrial sector, manufacturing and processing received the largest share of FDI between 1980 and 1992, and between 2004 and 2009, while mining and quarrying received the largest share from 1993 to 2003. Building and construction as the third subsector of industry has received the least amount over the years.

**Figure 6: Percentage of FDI by Sector (1980-2009)**

![Percentage of FDI by Sector (1980-2009)](image)

*Source: Based on data provided by the CBN/Central Bank of Nigeria, 2009*

Additionally, while we acknowledge that there are many factors that affect rural and urban poverty including low agricultural productivity, poor market access, poor infrastructure, “informality among small businesses”, “limited social safety nets”, high costs of living, and a “lack of permanent hiring by large businesses” (McKinsey, 2014, p. 19-20), we find that population growth is negating the effect of structural change on poverty to some extent. Specifically, the Compound Annual Growth Rate (CAGR) of the population has been 2.60 while that of poverty has grown at the rate of 1.04. Figure 7 below shows that the trend-line of poverty growth is negative with a very high rate of decline, while the population trend line on the other hand has a positive slope.
FDI has a potential role for growth, structural transformation and poverty reduction in Nigeria, especially if FDI to manufacturing and processing increase in the coming years.

5 Conclusions and Policy Recommendations

This paper set about to address three main questions: Is Nigeria experiencing a structural transformation? What is FDI’s contribution to this structural transformation? And the last question, to be addressed in this section - how can FDI be steered towards inclusive growth?

In a previous write-up (Ola-David & Oyelaran-Oyeyinka, 2014), an institutional approach was presented to consider how FDI can be made effective so as to meet human security imperatives. While FDI “holds the promise of positive externalities, there is the tendency that FDI may induce negative externalities that could cause pervasive damage to the development prospects of the host country, thus resulting in fundamental economic insecurities and damages” (Ola-David & Oyelaran-Oyeyinka, 2014, p. 179), as to be seen in the Niger-Delta region. It is therefore necessary to push FDI-recipient countries to put in place proper institutions to guide the actions of both international and national actors, ensuring that FDI produces both, economic gains and inclusive growth, and that it is used as a means to improve the living standards.
Following from the above analysis, however, structural transformation implies undertaking a sector-based analysis. Therefore the findings in this study are used to see how the different sectors are affected by FDI. However, it is noted that, though FDI is not the panacea to Nigeria’s inclusive growth situation, with proper social policy innovations and institutions it can be a step towards enhancing it.

Data show that the Nigerian economy is undergoing a structural change, of a unique sort. In particular, it came out of the analysis that the contribution of industry to GDP has declined between 1980 and 2010, while that of agriculture and services has increased over the same time period. However, while the percentages of those employed in the industrial and agricultural sectors have been declining in the more recent years, the services sector has been employing more people. Labour productivity growth across all sectors grew over the years, except from 1980 to 1984 and 1990 to 1994. However, for the services sector, the share of the growth attributable to structural change increased in the past 10 years and surpassed that attributed to within sector changes between 2005 and 2010.

Furthermore, the industrial sector received the greatest percentage of FDI over the years, but this percentage has been declining in the past ten years, while that of the services sector has been increasing. FDI to the agricultural sector has been minute. It can therefore be inferred that FDI has been contributing to a services-sector led structural transformation process.

The analysis shows that the agricultural sector has been a major contributor to GDP and employment through the years, though there are minimal transitions to high productivity agro-industry, which is a significant contributor to manufacturing exports in other emerging economies, such as Brazil. This can be explained by the fact that most agricultural engagements in Nigeria are still at the subsistence and small-scale production levels targeted at supplying the local market, with little scale-efficiency to support exports. Data from McKinsey’s study corroborates this assertion in its observation that smallholder farms (with plots of less than 2 hectares) account for about 75 per cent of cultivated land in Nigeria (McKinsey & Company, 2014, p. 17). Also, much of the ground-breaking agricultural research which is churned out by research institutions has found little industry application.

Moreover, the record of low FDI flows to the agricultural sector, in spite of its huge investment potential, indicates that the current institutional infrastructure is not supportive of sustainable large-scale agriculture being necessary for creating a competitive and comparative advantage. This therefore lays an imperative for inclusive land reforms and agricultural policies, which

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24 This may not be far-fetched given the deadlock on land policy reforms in the country.
will prioritize protection of local rights, livelihoods and welfare (APP/Africa Progress Panel, 2014), as well as provide support for an innovative system of transforming outcomes of agricultural research to viable products. Notably, incentivizing large-scale domestic and direct foreign investments in agriculture is advantageous to generate desirable crop yields and to stimulate economic growth. However, for growth to be inclusive, policies that prioritize support for smallholder agriculture and facilitate access by farmers to improved farm inputs, implements and extension services are essential. In addition, the fact that the traditional agricultural sector accounts for a high percentage of rural employment points to the imperative for agricultural development as a precursor to inclusive growth in Nigeria.

While the historical experience of most industrialised countries shows the transition from low productivity agrarian economies through intensive manufacturing development to the development of the services sectors, along with increased employment and a larger value added productivity contribution in such industries, the experience of Nigeria mirrors an occurrence of premature de-industrialisation. This is a situation whereby structural transformation does not translate into industrialisation (Rodrik 2014); instead changes in the employment share of agriculture are informing about the swelling of the services sectors of the economy. Furthermore, micro, small and medium enterprises (MSMEs) and the informal economy continue to contribute to low-income, low-skills, and non-dynamic manufacturing. In 2010 for example, MSMEs contributed 46.54 per cent to the country’s GDP (National Bureau of Statistics/NBS & Small and Medium Enterprises Development Agency of Nigeria/SMEDAN, 2012). This early de-industrialization in Nigeria’s economic development process can be attributed to the effects of economic globalization and increased trade openness lying alongside the country’s low supporting infrastructure and globally uncompetitive manufacturing capabilities. Thus, services sectors are generating more employment than manufacturing factories are.

Certainly and well documented in the literature are institutional and governance issues including political instability, corruption, SAPs/structural adjustment programs, traditional over-dependence on the oil sector, unfavourable business climate, and poor infrastructure which have contributed to the dismal socio-economic outcomes, the negligible manufacturing sector and the poverty in Nigeria over the past decades. Naiya and Manap, for

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25 See for the case of India Amirapu & Subramanian, 2014
26 See Dasgupta & Singh, 2006
27 See Oyelaran-Oyeyinka, B., Laditan, Kajogbola & Akinbinu, 1997 (failure of large-scale industrial public enterprises); Oyelaran-Oyeyinka, B., 2014 (paradox of growth
example, show that there were structural breaks in 1974, 1984, and 1995 in Nigeria and they attribute these breaks to the 1974 oil price shock, the 1983 military coup, the subsequent application of austerity measures in 1984, and the departure from SAPs/structural adjustment policies in 1995 by the military government (Naiya and Manap, 2013).

In any case, there are dangers that a services-sector led structural change poses to Nigeria’s economy, given that it limits the capacity of the manufacturing sector’s labour productivity to converge to the frontier of developed countries (Rodrik, 2013a). Another implication of a services-sector led structural change is poor technological development, given that most technological change and innovation emanates from the manufacturing sector, before diffusing to other economic sectors such as the services sector.\(^{28}\) Thus, one opportunity cost of a services-sector led transformation is the forgone opportunity for technological improvements as a result of slow development of the manufacturing sector. Similarly, backward and forward linkages (Hirschman, 1958), to be gotten from diverse industrial manufacturing related to industries such as steel, machine tools, petrochemical processing, and high technology manufacturing, would be lost. Consequently, structural underemployment and unemployment might ensue as graduates of industrial engineering as well as science and technology institutes are left with limited opportunities to engage skills acquired in industry (due to the proliferation of low productivity services sector activities), thereby resulting in and increased motivation for international mobility. Manufacturing sector development is therefore very crucial if Nigeria will transit like East Asian exemplars through different technological development phases such as learning by doing, designing, and production, thereby building local technological capabilities and improving the speed of adapting foreign technologies to local conditions and needs; and there are opportunities to do this through encouraging present industrial, and largely non-formal clusters that exist in the country.

Presently, while clustering is seen as a viable solution to enable the manufacturing sector’s growth and performance, and proposals to establish enterprise zones “targeted at scaling up the informal sector to the Organized Private Sector (OPS)” are presented,\(^ {29}\) extant and spontaneous (i.e. not formed by policy, like export processing zones, industrial parks, and special economic zones) clusters which are already making these contributions are not taking a central enough position in the policy discourse. Concomitantly, policies that

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28 See Rosenberg, 1982; Nelson & Winter, 1982

and poverty in Nigeria); and Oyelaran-Oyeyinka, O., 2014 (historical review of industrial sector failures, industrial clusters, poverty and institutions).
emphasise the development of social infrastructure, small business development, and a favourable business climate, which make the Nigerian manufacturing sector attractive to domestic as well as foreign investment, are necessary to improve domestic capacity in manufacturing and to channel labour movements from low productivity productive agriculture towards high productivity manufacturing.

Additionally, low domestic manufacturing capacity, as it is the experience of a number of resource-rich African countries like Nigeria, in which cases structural transformation is led by productivity changes in the services sector, can lead to unfavourable terms of trade.\textsuperscript{30} Instead of being manufacturing-independent, such countries rely on massive importation of both manufactured consumer goods and intermediate industrial inputs, with most of their foreign exchange earnings accruing from sales of low value added agricultural commodities and extractive raw materials. Going forward, Nigeria can draw lessons from South Korea and Mauritius, both of which industrialized through the workings of a vibrant export sector. Mauritius, an African success story, transformed from being a resource-dependent to a vibrant export-led economy, by creating incentives which attracted manufacturing FDI to its EPZs. The gains from FDI in manufacturing and a thriving export economy have been useful in improving living standards in Mauritius, in such a manner that the country ranks as a high human development country in the 2014 UNDP Human Development Index. Alongside a vibrant FDI-led export manufacturing sector, services sectors such as tourism and financial intermediation continue to contribute to the progress of Mauritius. Table 4 below highlights some of the conclusions from this paper, proposed interventions, and effects that FDI within a good institutional framework can lead to.

There is a glimpse of hope for Nigeria, as data show that the manufacturing sector has experienced some improvements. Besides this, FDI to Nigeria’s services sectors can be said to be inclusive through its influence on macroeconomic stability, connectivity and labour productivity, employment creation, domestic competitiveness, and infrastructure development. Notwithstanding, perceptible gains from services-sector induced development can be harnessed for human development as in the case of Mauritius. Though, positioning for enhanced services sector delivery requires, as Rodrik puts it, a “steady and broad-based accumulation of capabilities in human capital, institutions and governance” (Rodrik, 2014, p. 44). Furthermore, given the overarching importance of strong manufacturing to put Nigeria on a path of sustainable economic growth, the drive for manufacturing investment promotion must never cease. By facilitating improvements in energy infrastructure and social infrastructure Nigeria will be strategically positioned to

\textsuperscript{30} See Amirapu & Subramanian, 2014
magnetise manufacturing FDI which are seeking alternative input sources (amidst rising labour costs in China, the world’s manufacturing factory), thereby providing skill development opportunities for its youthful population. In pursuit of inclusive growth, a set of policies which lower inequality of opportunity as much as poverty is of essence (Naiya & Manap, 2013).

Table 4: FDI, Structural Transformation and Inclusive Growth in Nigeria

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current situation</th>
<th>Proposed Interventions</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Little amount of FDI over the years; major contributor to GDP and employment over the years, though contribution to the latter has been decreasing in the past decade</td>
<td>Promote institutional infrastructure – inclusive land reforms, protection of local rights – and FDI that encourage sustainable large-scale infrastructural facilities by domestic farmers</td>
<td>Encourage rural development, export-oriented/non-subsistence based farming</td>
</tr>
<tr>
<td>Industry</td>
<td>Biggest recipient of FDI over the years; declining in the past decade; declining overall contribution to GDP</td>
<td>Direct FDI to build country’s manufacturing base; encourage informal industrial clusters</td>
<td>Skills upgrade; knowledge transfer; forward and backward linkages; employment; reduction in resource/commodity-based production</td>
</tr>
<tr>
<td>Services</td>
<td>2nd biggest recipient over the years with increasing shares in the past decade; increasing contribution to GDP and employment</td>
<td>Encourage infrastructure development; institute clear labour protection policies</td>
<td>Employment; social protection; reduction in resource/commodity-based production</td>
</tr>
</tbody>
</table>

Source: Authors’ Compilation

It is pertinent to note that, since there have been several proposed innovative initiatives towards agricultural development, poverty reduction, and industrialisation in the past, the government in Nigeria must now move beyond planning to effective implementation, while engaging a critical and objective evaluation of progress. This will necessitate impact evaluation research on past and on-going policies and programme implementation, such as the agricultural transformation agenda (ATA). Such policy evaluation researches are a crucial feedback to the planning process, for instance to ascertain what will work for high productivity agriculture, agro-industry development, and job-
creating manufacturing engagements and what may not work. In addition, in
the wake of current concerns with regard to trends in premature de-
industrialisation experiences of most developing countries, further studies
can empirically examine possible economic, social and political consequenc-
es of premature de-industrialization for SSA countries vis-à-vis other emerging
economies in Asia and Latin America.

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