Institutions and Economic Transformation in Africa: Sectoral Analysis From Nigeria

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Abstract

Economic transformation suggests sustainable and inclusive economic development. It includes the changes in the structures of the economy in favour of more productive sectors to ensure consistent economic progress. This has been the earnest desire of most African countries. However, achieving economic transformation will require strong institutions, among others. The channels through which institutions can influence the process of economic development using specific country analyses are still under-researched. Thus, this study examines the importance of institutions in the development and sustenance of some important sectors: finance, education, technology, industry, and trade, believed to drive economic transformation. Drawing evidence from Nigeria, the study submits that institutions have varying influence on all the selected sectors. Thus, the role of specific sectoral planning based on a strong institutional framework cannot be overemphasised in a country's quest for economic transformation.

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Introduction

Economic transformation simply suggests the sustainable process of moving resources to higher productive sectors, which includes the changes in the structures of the economy in favour of more productive sectors to ensure consistent economic progress (Beecroft et al., 2020; Tan and Phang, 2005). The effects of economic transformation are numerous: it includes trade competitiveness, industrialization, human capital development to foster innovation and creativity, improved financial sector development and technology.

To say that ‘strong’ institutions are relevant for the achievement of transformation is almost stating the obvious, especially comparing the institutional performances *vis-à-vis* economic outcomes in South Korea versus North Korea as well as Botswana versus Zimbabwe (Beecroft et al., 2020; Osabuohien, 2020a). Institutions, formal and informal rules and codes of conduct that affect the behaviours of economic actors, matter as market dynamics are made up of socially constructed institutions and conventions that are established to ensure the protection of individuals against moral hazards (Beecroft et al., 2020; Beecroft, Osabuohien and Olurinola, 2018; Ejemeyovwi, Osabuohien and Osabohien, 2018; North, 1991; Osabuohien and Efobi, 2013). Moral hazards imply that the consequences of a transaction or the actions of a party to a transaction can be detrimental to other parties (Osabuohien, Okorie and Osabohien, 2018). This has been eloquently discussed in Asongu (2016) regarding how the rule of law can affect investment in Africa as well as by Efobi and Osabuohien (2016) as well as Beecroft et al. (2020) who related it to manufacturing exports and infrastructures in Economic Community of West African States (ECOWAS).

Consequently, the study of institutions in relation to economic progress has almost reached consensus. Some of these studies have engaged cross-country analyses in reaching the conclusions on the role of institutions in economic growth and development (Cavalcanti, Magalhaes and Tavares, 2008; North, 1990). Amid these are the part institutions play in attracting foreign finance and improving (for instance) remittance utilization (Asiedu, 2005; Catrinescu *et al.*, 2009; Osabuohien and Efobi, 2013); enhancing trade competitiveness and outcome (Akinyemi *et al.*, 2017; Osabuohien and Efobi, 2011), and so on. Prodded by the above, this study contributes to existing knowledge by making a case for the role of institutional development in Nigeria's economic transformation agenda and comparing some specific indicators with Ghana and South Africa. Also, it underscores the relevance of this approach, considering the economic and political influence that these countries have in common on the African continent. This is to bring a broader perspective to the discussion on the sustainable growth of Nigeria and to further the consensus on how institutional development matters in this process. The study focuses on five drivers of economic transformation: trade, industry, finance, education and technology.

This study is motivated by the need for African countries to consider transformation by industrial development, improved trade competitiveness, and attract finance, among others. However, there is a need to understand that economic transformation does not occur in a vacuum as institutions matter a great deal. Also, institutional development can account for the disparities in the outcomes of the respective sectors of an economy, thereby making its assessment critical *as per* specific policy actions. The study is essential for the following reasons: the five economic drivers that form the focus of the analysis are crucial for economic transformation. For instance, the industrial development has been noted for absorbing resources from the agricultural sector and converting same into finished products that are suitable for export and local consumption (Aigbokhan, 2004; Ogunrinola and Osabuohien, 2010; Beecroft et al., 2020; Osabuohien, 2020b). Also, the development of the industrial sector will improve Nigeria's competitiveness in global trade through multi-product lines and innovation for enhanced production capacity. The financial sector is also crucial as this sector is involved in financial mediation, which will affect the quality of investment in the country; reduce poverty and inequality (Beck, Demirguc-Kunt and Levine, 2007); and foster higher economic growth (Levine, 2005), to mention a few. The significance of trade for economic transformation cannot be overemphasized as trade has been noted to improve economic growth (Frankel and Romer, 1999, Williamson, 2011); improve employment opportunities, and create platforms for female empowerment (Randriamaro, 2006; Tran-Nguyen and Zampetti, 2004).

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