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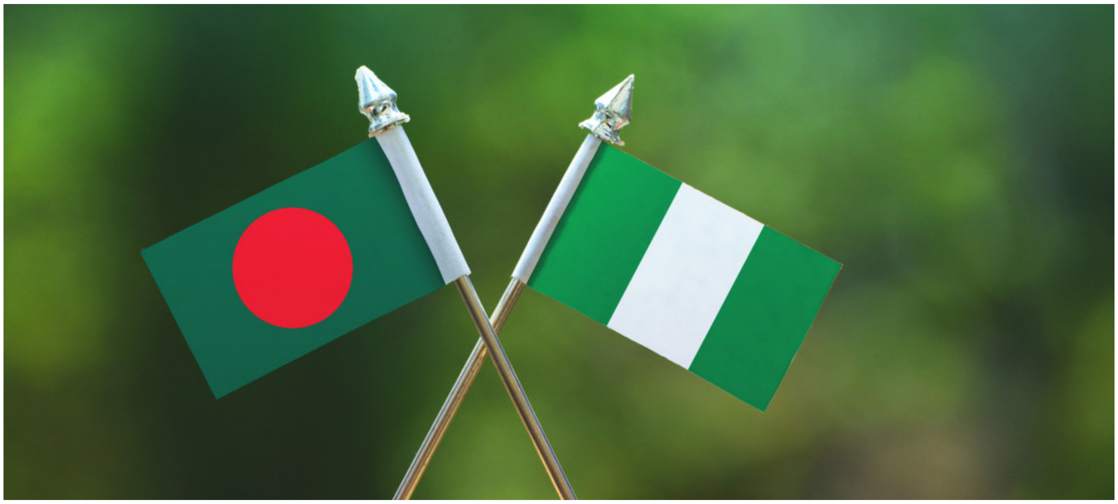

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Nigeria vs Bangladesh: A Tale of Two Countries

Nigeria and Bangladesh are both developing countries, each with its challenges. The politics and social fabric in both societies are highly complex with storied and blood-drenched histories. With a population of approximately 200 million and 165 million[1] in Nigeria and Bangladesh respectively, both countries feature among the most highly populated nations in the world. The challenges posed by a huge population in terms of jobs creation, skills development and empowerment, as well as robust resource mobilization to fund development resonates across both nations. Similarly, the two countries have a shared history marked by a prolonged period of political instability lasting decades post-independence. Yet, in recent times, Bangladesh has been able to record significant economic progress, making laudable headway around industrialisation, growth, and competitiveness. Nigeria on the other hand remains wallowed in sub-par economic growth, with a business cycle and fiscal position that move in line with ever so volatile global crude oil prices. Unemployment is stubbornly high and rising, per capita GDP is retrogressing, manufacturing remains lackluster, and with critical underinvestment in essential infrastructure, Nigeria's long-term potential remains severely challenged. A quick Google search would reveal the starkly different economic narrative of the two countries: while headlines across major international press read along the lines of "The Rise and Rise of Bangladesh," the Nigerian picture is the opposite, reflecting the comatose status of the country as the clichéd 'Giant of Africa' that is increasingly finding it hard to trudge along as it remains pulled down by the weight of its problems.

Nigeria's Fourth Republic: A New Dawn?

The emergence of Nigeria's Fourth Republic in 1999 was the beginning of a new era. Nigeria had withstood the test of time marked by a rollercoaster of fundamental socio-political and economic problems that had challenged the country's very existence, and was able to segue into a nascent democracy with renewed hopes going into the new millennium. Following this transition, Nigeria embarked on a series of reforms that yielded tangible improvements in economic outcomes, and significantly improved the macroeconomic environment in the country. More prudent fiscal management encouraged national savings and improved macroeconomic stability. In setting the fiscal budget, the government jettisoned the market-price of crude-oil approach and adopted the benchmark oil-price approach - where fiscal spending is predicated on a predetermined oil-price and production level for the year - a significant reform which helped put the lid on government expenditure. Oil receipts above the benchmark were to be saved in the Excess Crude Account (ECA), a contingency fund designed to create a buffer during periods of commodity shock to oil revenues. Nigerian authorities also negotiated a historic debt relief with multilateral lenders, leading to the Paris Club agreement which reduced Nigeria's overall debt stock by $18 billion[2] in 2005[3] .

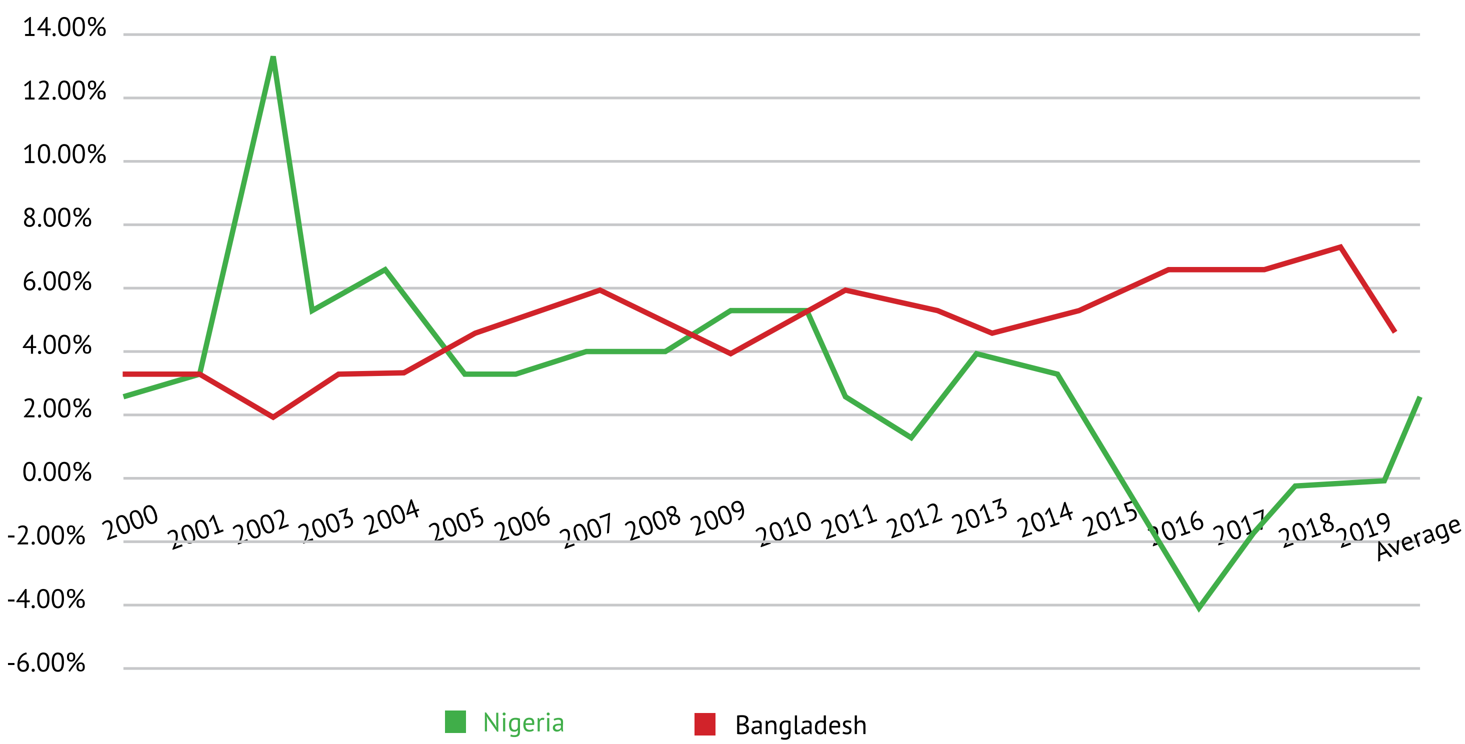
The watershed deal provided vital policy space for Nigeria, giving the country much-needed fiscal room to fund long-term development. The Fiscal Responsibility Act enacted in 2007 institutionalised key reforms ensuring sustained fiscal discipline. The government also pushed ahead with a number of pro-growth reforms which helped diversify the GDP away from crude-oil and gave rise to other vibrant sectors in the economy. One of the most noteworthy being the liberalisation of the telecommunications industry, which paved the way for productive private investments leading to a remarkable transformation in the industry. The bank consolidation exercise in 2004 equally created a more robust, stronger banking sector, resulting in improved financial intermediation and financial inclusion. While the political stability achieved alongside strong macroeconomic reforms resulted in high growth rates in the Nigerian economy, with GDP growth averaging 7.1% between the periods of 1999-2010, compared to a paltry 1.7% achieved during military rule between 1983 and 1999[4] , Nigeria was unable to translate these gains in the macroeconomy into substantial improvement in living standards and development outcomes. Poverty remained stagnant, and growth was not inclusive.

1 *https://www.worldometers.info/world-population/bangladesh-population/*
2 *The Paris Club Agreement provided $18 billion debt relief while Nigeria paid off $12 billion.*
3 *https://www.cgdev.org/topics/nigerian-debt-relief*
4 *Macrrotrends*
5 *Economist Intelligence Unit*
6 *https://www.thedailystar.net/news-detail-192303*
7 *https://www.brookings.edu/opinions/why-is-bangladesh-booming/*

Bangladesh: Still a Shaky Political Regime

While Nigeria's return to democracy at the turn of the century ushered in a new era of political stability - leaving behind the prior decades' instability of military rule, the shift in Bangladesh to a stable political regime has been patchy. Following nearly two decades of military rule ending in 1990, a non-elected, non-partisan caretaker government was put in place to manage the transition to democratic rule, and the country subsequently held a general election in 1991, adopting the parliamentary system. However, since the transition away from authoritarian military rule, consolidation of democracy in Bangladesh remained lacklustre, with the country's political structure being labelled a hybrid regime[5] – combining elements of both a democracy and autocratic rule. Although the caretaker government was initially intended as a one-off intervention to manage the transition to democratic rule, the system became institutionalised in the mid-1990s as elections were highly fraught, and marked with violence. The caretaker system remained in place up until 2011[6] , when the country devolved into a political crisis involving military interventions in 2006-2008. In 2015, another political crisis escalated, due to turmoil between the two main political parties, following the controversial 2014 general elections, with the opposing party demanding for a return to the caretaker system. The economic condition in the country over the period of instability remained bleak, and it wasn't until 2006 that Bangladesh began its economic ascent, which at the time was dismissed as a fluke.[7]

Figure 1: Bangladesh vs Nigeria: Growth Trends in Per Capita GDP (2000 – 2019)



Source: World Bank

Choices Shaping Reality

Although the structure of the Nigerian economy has evolved over the years, with crude oil currently accounting for under 10% of national output compared to nearly 40% in 2000[8] , diversification away from oil has not trickled down to fiscal revenues and export earnings. This reliance on the oil sector is the Achilles heel of the Nigerian economy, and key economic indicators in the country largely mirror volatilities in the global oil market. As oil still accounts for around 62% of government revenues; over 90% of export earnings, and forms the bedrock of the central bank's foreign exchange reserves, a crash in global crude oil prices is all it takes for the national currency to go on a freefall, inflation to spiral, capital inflows to dry up, and output in other sectors to contract.

A critical challenge for Nigeria is to identify sectors in which the country has a strong comparative advantage, and strategically position these sectors for exports. In Bangladesh, this export-led model is the impetus for the country's high growth rates and encouraging signs of economic take-off. Through its garment industry, Bangladesh has been able to strategically place itself as the world's second leading exporter of ready-made garments (RMG)[9], while creating broad-based growth. For Nigeria, a key thrust for the government is transforming the agriculture sector to be the leading driver of job creation and export diversification. While Nigeria's abundant labour and arable-land make it very much suited to a green revolution, challenges abound which policy has hitherto failed to address in order to unleash the potential of the sector.

Farming practices are largely subsistent, and the agriculture sector in Nigeria is dominated by smallholder farms. Poor farm management practices and lack of sufficient fertilizer drag yields on produce. The yield on a staple like cereal is 1,444kg per hectare in Nigeria, compared to 3,810kg per hectare and 7,114kg per hectare in South Africa and Egypt respectively[10] . This low productivity in the agriculture sector is made all the more acute by the severe infrastructure gap in the country. While the transport system in Bangladesh remains underdeveloped, the country boasts of a comparatively stronger transport network than Nigeria, having a national railway that connects different parts of the country including special parcel trains for transporting agricultural products[11] . The lack of extensive road and rail-network that links different parts of the country in Nigeria severely limits access to markets for farmers, and poor storage facilities increases postharvest losses. All these challenges have stifled the promise of Nigerian agriculture, ensuring that the contribution of the sector to revenues and exports remains low, and the value-added per capita in the sector has risen by less than 1% annually, over the past 20 years[12]. Yet the challenges impeding on Nigeria's agricultural transformation are symptomatic of the broader economic malaise in the country. The country's underinvestment in critical infrastructure alongside the weakening economic indicators continue to weigh on the potential of key sectors across the economy.

8 https://www.oecd.org/countries/nigeria/1826208.pdf
9 https://www.dw.com/en/bangladeshs-textile-industry-works-towards-becoming-more-eco-friendly/a-50983898

The Bangladeshi Economic Narrative

In Bangladesh, prudent macroeconomic management has ensured a favourable environment for growth and investments while boosting overall economic resilience. The country's Public Money and Budget Deficit Management Act (2009) stipulates that public debt as a percentage of GDP should be gradually declining[13]. In line with this legislation, policymakers in Bangladesh have kept the lid on public spending. Although challenged in terms of sufficient revenue mobilisation, the emphasis on spending control has kept the fiscal deficit in the country below the budget target of 5% over the last decade[14]. This has resulted in a steady trend in the public debt profile of the country, with a historical average in public debt to GDP ratio of 35.2% [15]and has equally helped to keep inflation within the Bank of Bangladesh's (BB) target of 5.5%[16]. On the back of this macroeconomic stability, Bangladesh has been able to attain the '7% magic mark', the level of GDP growth rate needed for an economy to double its size within a generation[17] .

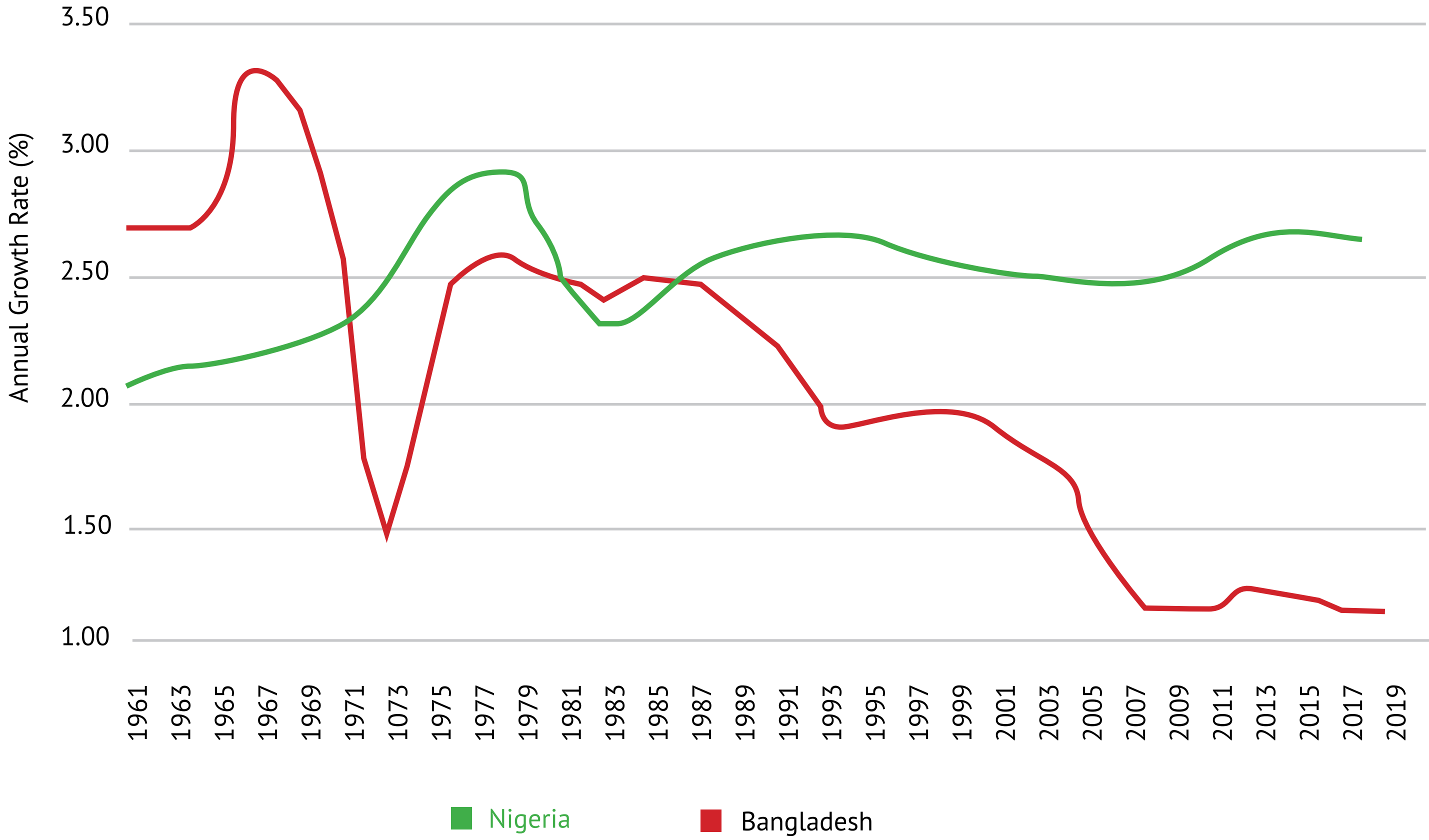
As the world marches onto the new decade on the pandemic induced bleak note, Bangladesh's strong fiscal indicators give it the fiscal room to implement counter-cyclical policies to mitigate the worst of the global downturn. The country is set to be an outperformer globally, with forecasts indicating that it will surpass regional giant India in terms of GDP per capita within the decade[18] .

10 FAO
11 https://www.dhakatribune.com/bangladesh/nation/2020/05/01/bangladesh-railway-launches-special-parcel-trains-for-agricultural-products
12 http://www.fao.org/nigeria/fao-in-nigeria/nigeria-at-a-glance/en/
13 https://www.imf.org/external/pubs/ft/dsa/pdf/2018/dsacr18158.pdf
14 https://countryeconomy.com/deficit/bangladesh
15 http://documents1.worldbank.org/curated/en/433161571855501067/pdf/Bangladesh-Joint-World-Bank-IMF-Debt-Sustainability-Analysis-September-2019.pdf
16 file:///C:/Users/agusto/AppData/Local/Temp/1BGDEA2020001-1.pdf
17 A generation here is defined as a period of 10 years.
18 https://www.ibtimes.com/bangladesh-economy-outperforming-india-much-asia-2926512

Population: Dividend or Time-bomb?

Nigeria's current population is approximately 200 million. [19] With a population growth rate of 2.6%[20], the country is set to become the third most populous nation in the world by 2050 with 400 million[21] people. While there's certainly strength to numbers, demographic dividend can very easily devolve into a demographic time-bomb if society fails to create opportunities for its teeming youth population. As at Q2 2020, Nigeria's youth unemployment rate came out at 35%.[22] This army of increasingly restive unemployed youth is not sustainable – and Nigeria has long been boggled with rising security challenges, all of which are escalated by the economic realities of the day. British economist Robert Malthus made a bleak prediction that unconstrained population growth rate would spell doom for societies, as agricultural output, will fail to keep pace. Luckily, many countries across the world have been able to escape the "Malthusian Catastrophe" by investing in technologies that enhanced agricultural productivity and ensured food security, whilst reducing population growth. Although fertility rates[23] tend to decline with rising per capita GDP levels, Bangladesh was able to expedite its fertility transition at a very low per capita GDP level through an aggressive family planning programme that provided door-step delivery of contraceptives to women in the early 1970s. Between 1971 and 2004, Bangladesh was able to halve its fertility rate . By effectively managing population growth, the country was able to record a faster rise in per capita GDP. In strategizing for the future, one of the fundamental questions Nigeria needs to ask is the sustainability of the country's population growth rate.

Figure 2: Bangladesh vs Nigeria: Trend in Population Growth Rate (in %)



Source: World Bank

19 *World Bank*

20 *Macrotrends*

21 *https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050*

22 *NBS Labour Force Statistics: Abridged Labour Force Survey Under Covid-19*

23 *https://openknowledge.worldbank.org/bitstream/handle/10986/26334/430450NWP0BD0gender0Box0327344B01PUBLIC1.pdf?sequence=1&isAllowed=y*

Looking Ahead

As Nigeria pushes ahead with policies to unlock investments and deliver high economic growth, it is imperative that growth is broad-based and inclusive. The Nigerian economy has long been characterised by periodic bursts of high GDP growth rates - largely following strong global oil prices - with little achievement in terms of poverty eradication and job creation. A continuous repeat of this so-called jobless growth can only be avoided by ensuring that future growth is driven by highly labour-intensive sectors, and targeted social policies aimed at empowering the populace at the grassroots level are successfully implemented at scale. One of the most remarkable aspects of Bangladesh's economic progress has been the country's ability to translate economic growth into substantial improvement in social outcomes and livelihoods for those at the bottom of the pyramid. Public investment in technology, rural infrastructure and human capital boosted the country's agricultural productivity[24]. As a result, Bangladesh made substantial progress toward food security despite its high population density, lack of arable-land, and frequent natural disasters, and agriculture accounted for 90% of the reduction in poverty between 2005 and 2010[25]. Also, the labour-intensive nature of the economy's key driver of exports - the garment industry –has helped made growth inclusive, with 80% of garment workers being women[26] . This is further re-enforced by the country's success in implementing grassroots level, pro-poor policies, with gender at the heart of its development strategy.

In supporting sectors for growth, it is paramount that the Nigerian government identifies the root cause of underperformance, so that policies are targeted at addressing fundamental concerns, as opposed to providing palliatives, or in some cases, aggravating existing problems. Nigeria's ban of foreign exchange access for key products including agricultural produce and the border closure are prime examples. Whilst many countries have resorted to some form of protectionism in a bid to develop local industry, policy makers must not lose sight of the fact that the key impediment to growth for local producers in Nigeria is the harsh operating environment and critical infrastructure gaps.

Nigeria needs to re-assess its priorities as reflected in the country's fiscal spending. Government spending is largely channeled towards a burgeoning recurrent expenditure. At the same time, the sluggish improvement in fiscal revenues has failed to catch up with the rapidly increasing fiscal spending. This has resulted in a fast build-up of public debt. In Q1 2019, debt servicing accumulated 99% of the Federal Government's retained revenue[27]. This spending pattern is not sustainable, and the economy is reeling from a lack of sufficient capital expenditure to plug critical gaps in healthcare, education and other key sectors. From 2015-2018, Nigeria spent ₦2.3 trillion[28] on petrol subsidies, an amount which if harnessed judiciously, could have provided a meaningful contribution to the country's decayed infrastructure. Reforms such as reducing spending on subsidies and overheads must be pushed ahead. The recently announced removal of subsidies on petrol points toward the right direction. However, more important is that the savings are redirected into productive capital spend.

By pursuing sound macroeconomic policies and investing heavily in social and physical infrastructure, Nigeria can effectively capitalise on its low labour costs like Bangladesh, and status as Africa's largest economy to position itself as a leading recipient of foreign direct investment (FDI) globally. However, the proportion of FDIs to total investment flows dropped from 20% in 2016, to a meagre 4% in 2019[29] . The lack of investor interest in committing patient capital, which confers substantially greater benefits to the economy, is a key area of concern. The underlying challenges associated with poor infrastructure are further aggravated by unfavorable policies such as the multiple exchange rate regime which all act to deter long-term investment inflows.

Echoes from Charles Dickens

The title for this article borrows from Charles Dickens' book, A Tale of Two Cities. As an opener, Dickens made the famous expression "It was the best of times, it was the worst of times." 2020 is most certainly not the best of times for any country on the planet. However, with a GDP growth forecast of 3.8%[30] for Bangladesh compared to Agusto & Co.'s forecast of a 4.5% contraction for Nigeria, what is today the worst of times for Bangladesh could very easily be Nigeria's best of times in this decade - should business continue as usual. Economic transformation is by no means easy to achieve, and important trade-offs have to be made that would inevitably entail some painful structural adjustments. But a change of direction is vital, again inspired by Dickens, to enable Nigeria to leap from the winter of despair, to the spring of hope. While

Bangladesh and Nigeria are by no means a homogenous pair, both countries share similar scenarios which make progress challenging to achieve. However, the former has been making significant strides suggestive of a nascent economic transformation building momentum in the country, and the latter can look to it for pointers on how to refocus.

24 https://www.worldbank.org/en/results/2016/10/07/bangladesh-growing-economy-through-advances-in-agriculture
25 https://www.worldbank.org/en/results/2016/10/07/bangladesh-growing-economy-through-advances-in-agriculture
26 https://www.worldbank.org/en/news/feature/2017/02/07/in-bangladesh-empowering-and-employing-women-in-the-garments-sector
27 2020 MTEF & FSP
28 https://www.thisdaylive.com/index.php/2019/09/27/pwc-report-fg-spent-n2-3tn-on-oil-electricity-subsidies-in-four-years/
29 https://www.stearsng.com/article/the-dynamics-of-foreign-investment-flows-in-nigeria
30 IMF Forecast

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