Impact of The Economy and Poverty on The Ease of Doing Business

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"*As long as Poverty, Injustice and Gross Inequality persist in our world, none of us can truly rest*"……Nelson Mandala.

Foreign Direct Investments have different effects in an economy, which includes important avenue for improvement in the economy, increase in competitiveness, regional development, a major source of Foreign Capital Inflow which can help grow the economy, strengthen the local currency, create employment, and most important the transfer of technologies which can help propel a country to the world stage in manufacturing which further grows the economy.

While Governments around the world try to woo investors into their economy through easier regulations in the Ease of Doing Business, the same governments must look beyond the factors of regulations and at other factors which play a greater role in determining whether foreign investors will come or stay in their economies. Policies must be created around these factors and must not be tempered with, bipartisan politics is what will promote the positive results for the common interest of all. While Nigeria has concentrated on promoting the Ease of Doing Business, we have neglected the most important factor that will attract foreign investors.

According to the 2018 Global Peace Index report, The Institute for Economics and Peace, a non-profit think tank that has authored the report for the last 12 years, outlines "The Economic Impacts of Violence: How the use of force hurts global economic output". The 2018 Reports states that the Economic Impact of Violence in 2017 was $14.8 trillion in constant Purchasing Power Parity and roughly 12.4% of global GDP or $1,988 per person, with Syria recording an Impact of 68% of its GDP, Afghanistan 63%, South Sudan 49%, Central African Republic 38%, Somalia 30%, and Nigeria at 11% (equivalent to $150.2 bn) of GDP at Purchasing Power parity.

In his Book "The End of Poverty" Prof. Jeffrey Sachs states that and I quote "The Destinies of the haves are intrinsically liked to the faiths of the have nothing at all, if we didn't know this already it became too clear on September 11, 2001. The perpetrators of 9/11 might have been wealthy Saudis but is was in the collapsed poverty stricken state of Afghanistan they found sucker and sanctuary. Africa is not in the front line against terror but it soon could be"

Even as we declare war on terror, we must not fail to understand the deeper cause of the instability, the truth is that the increased surveillance and military expenditure will never bring us peace unless we address the fundamental cause of the problems. The increased military and security expenditure would have long solved the problems had they been channeled to the right cause.

While looking for answers on Nigeria and carrying out research on the world and Africa, we discovered two major findings among countries with internal conflicts that has degenerated into terror afflicted zones, they were low education expenditure and high poverty rate. On January 14th, 2011, the Arab spring began in Tunisia which later spread to other Arab countries igniting mass protests, but the root cause were…Economic Mismanagement, Corruption, and Increasing Poverty which had reached their heights, today the consequences are still being felt in places like Libya and Syria where the situations have degenerated into full scale civil war 7 years later.

According to the Broker, a think tank organization which carries out research to help policy makers with better decisions makings….and I quote "Looking at inequality between countries essentially means looking at poverty. Research by internationally renowned experts like Paul Collier and Nicholas Sambanis has shown a strong link between the wealth of a country and the probability of it suffering from civil war.

For instance, in the Democratic Republic of Congo, a senior officer's salary is less than $100 a month and often goes unpaid. One of the commanders of a rebel group in the east of the country recalled the moment he was recruited: "I had spent five months in a training camp in Kinshasa with no salary. My family was going hungry. When [General Laurent] Nkunda began recruiting, I saw I didn't have any option". Democratic Republic of Congo is where 71% of the population lives in Extreme Poverty.

While the Nigerian government may enhance the regulations surrounding the Ease of Doing Business, the greater restrictions for companies coming to invest in Nigeria still remains Political Stability and Security. In 2017, the World Bank conducted a survey to know what CEO's of multinational companies really want before investing in Emerging Economies, Political Stability and Security was top on the list with 50% of the CEO's holding it to be critically important, and only 2% saying it is not important at all.

Large domestic market size comes second with 42% as critically important, while only 4% says it is not important at all. Legal and Regulatory Environment comes third with 40% saying it is critically important while 2% says it is not important at all. Macro-Economic Stability and Favourable Exchange Rates comes fourth with 34% and Available Talent and Skills of Labour comes fifth with 28%.

According to our findings, Nigeria has failed to focus on the major critical factor which will attract Foreign Investors despite its massive advantage of population and geographical location. Over the years the country has continued to witness security issues which has continued to plague our chances of attracting investors into strategic sectors like manufacturing. The simple truth is that the security challenges will not reduce because the underlining factor which is poverty and extreme poverty is on the rise. We may be able to subdue terrorism for a while but there are willing tools and people whom poverty will push against their will and their very own consciences.

While Poverty and Extreme Poverty continues to increase as a percentage of population and threatens the stability of the country, the question has been why Nigeria has recorded economic growth over the years and poverty increasing at the same time. Today the Asian countries have continued to lift their citizens out of poverty while the opposite is happening in Nigeria. If we have economic growth and at the same time increasing poverty then it means that something is wrong and we are probably operating the wrong economic model. Economic Growth should lead to Economic Development, and Economic Development leading to better Human Development, but what we've had in Nigeria is Economic Growth that has continued to lead to deteriorating Human Development.

If we are operating the wrong economic model then which is the right one that is meant to reduce poverty?....our research spans over 58 years going back to when Nigeria gained her independence and we have compared Nigeria with over 150 countries during the same 58 years to know what we are doing wrong and what the other progressive countries are doing right. Our findings were astonishing!

SUSTAINABLE DEVELOPMENT……

According to the International Institute for Sustainable Development (IISD) Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In conclusion, it is the Economic Development that is conducted without depletion of Natural Resources, it is an economic model that drives Education, Innovation, and Required Skills. It is then logical to conclude that we are not operating the right economic model.

Nigeria's economic model is not designed to create wealth as the creation of wealth comes from empowering the people through investments in Human Capital Development. Nigeria has been operating an Expense Budget since the Mid-80's rather than an Investment Budget, Investment creates wealth and not expense.

INCREASING POVERTY….

In the 60's, 70's, and early 80's Nigeria had a better standard of living than most Asian and African countries because of the heavy investments in Human Capital, especially Education which most Asian countries and African countries were not doing, hence Nigeria had less people living in Poverty. In 1981 approximately 47% out of the population of 75.7 million people lived in poverty representing 35.6m people, by year 2000 the percentage had increased to 65% of the 122.3m people bringing the total headcount of people living in poverty to 79.5m people.

By 2010, percentage living in poverty had further increased to 70% of the total population of 158.6m people, the headcount living in poverty increased to 111m, this means that between 1981 and 2010, a total of 75.4m had been added to poverty. The Percentage living in Poverty has remained at 70% ever since while population continues to increase thereby increasing the headcount of people living in poverty, by the end of 2015, headcount had increased to 126.8m out of a population of 181.2m. The worrisome part is that GDP has increased from $61.1 bn in 1981 and reaching an all-time high of $568.5 bn in 2014, an increase of $507.4 bn (830.4%), within the same period Nigeria added 87.9m people to poverty and by 2016 had added 94.6m people to poverty.

Today Nigeria can be said to be in a situation called the Poverty Trap….A mechanism which makes it very difficult for people to escape poverty. A poverty trap is created when an economic system requires a significant amount of various forms of capital in order to earn enough to escape poverty. When individuals lack this capital, they may also find it difficult to acquire it, creating a self-reinforcing cycle of poverty.

From the research we found that from 1981 to date, Nigeria has had both Economic Recessions and Economic Growth with Poverty Increasing at both times, so no matter what happens in the economy poverty continues to increase. As Poverty continues to increase, Crime, Social Unrest, and Corruption will continue to increase which can lead to both State and Regional Instability.

By 2016, China's Economy had grown from $196bn in 1981 to $11.2 trillion in 2016 (5617%) lifting 789.5m people out of poverty, India's Economy grew from $196.9bn in 1981 to $2.264 trillion in 2016 (1050%) and lifted 137m people out of poverty, Indonesia's economy grew from $85.5bn in 1981 to $932.3bn in 2016 (990%) and lifted 78.7m out of poverty, Thailand lifted out 29.4m people with an economic growth of $34.8bn in 1981 to $411.7bn in 2016 (1083%), Malaysia lifted out 2.93m people with an economic growth, and Bangladesh lifted out 24.3m people.

How did the Asian countries who were behind countries like Nigeria in the 60's, 70's, and early 80's able to make such a giant stride?.....our research found out that it was because these Asian countries changed their economic model in the mid-80's by investing in Human Capital Development thereby driving Sustainable Development, ironically from research it was the same time Nigeria started reducing its investments in Human Capital Development.

Reaching 5% of GDP in 1981, Nigeria continued to reduce its Education Expenditure from the mid-80's reaching an all-time low of 0.76% (Less than 1%) in 1992 and it has remained below 1% ever since, while it continued to treat education as an expense rather than an Investment. Investing in Human Capital Development is what helps individuals create wealth by attaining their potentials and this has long been the economic model of the western world, this was what Nigeria did in the 60's, 70's, and early 80's and why Nigeria was ahead of the Asian countries. Immediately Nigeria stopped the Asian countries started their massive investments in Human Capital Development, building sustainable development and growth which has led to the reduction of poverty across the region.

With abysmal investment in Human Capital Development, there is no meaningful investment in the people to create wealth, and as poverty increases corruption continues to increase as well….Poverty leads to Corruption and Corruption further reinforces Poverty leading to deeper Poverty, this is why the number of Extreme Poverty in Nigeria will continue to increase threatening peace and limiting foreign investments.

EFFECT OF INCREASING POVERTY ON THE GLOBAL PEACE INDEX AND TI INTERNATIONAL

The increasing Poverty over the years has led to increased crime, social unrest, and corruption in Nigeria, with the Social unrest leading to both state and regional instability between 2012 and 2015 when Boko Haram insurgency unleashed terror on North-Eastern Nigeria. The Global Peace Index which measures Global Peacefulness through 1). The level of Societal Safety and Security, 2) Extent of Ongoing Domestic and International Conflicts, and 3) Degree of Militarisation, ranks countries annually on peace.

The number one factor which drives foreign investors' confidence in an economy is Political Stability and Security, in 2008 Nigeria ranked 118 out of 163 countries in the Global Peace Index, by 2011 the country had moved down the ranking to 142, and by 2013 it had further moved down to 148, this was the same time Boko Haram terrorized the North-East of the country. By 2014 and 2015, Nigeria's ranking reached 151 at the height of the insurgency, not surprisingly Foreign Direct Investments into the country started reducing after reaching its peak of $8.84bn in 2011 to $7.07bn in 2012 and reaching $3.13bn in 2015.

Poverty leads to corruption and corruption breeds social unrest which leads to insecurity, it is no surprise that almost all the countries at the bottom of the Transparency International Index are the same countries at the bottom of the Global Peace Index. Almost all the countries at the bottom of the Global Peace Index are the same countries on the Global Conflict Tracker, a platform which tracks all the major conflicts in the world and which affects The United States interests globally.

Since Political Stability and Security is the number one factor that determines the Ease of Doing Business, the same countries dominate the bottom of the Global Ranking in the Ease of Doing Business and are the same countries ravaged by Poverty and Extreme Poverty. Nigerian may have succeeded in reducing the insurgencies in the North-East and moving up the global ranking in the Ease of Doing Business by 24 points, from 169 to 145 but the question is will it be sustainable with the increasing Poverty and Extreme Poverty?.

If we must attract Foreign Investors we have got to reduce Poverty and Extreme Poverty, only then can Nigeria guarantee security, and to reduce poverty we have got to change our Economic Model from a mineral resource economy by building a Sustainable Economy which invests in Human Capital Development, by investing in Education it enables the people create wealth and improve their standard of living. Enhancing regulations is not what will bring in investors but a stable political and security environment will not only attract investors but attract long term investments and not just FPI's.

"The War against terror is bound up in the war against poverty"…….General Collin Powel

As Poverty and Extreme Poverty increases we should expect increase in social unrest and insecurity in the future, and as Nigeria leads the world in Extreme Poverty with 44.3% of its population and 70% living in Poverty, the country might just be building up both state and regional instability in the future like what happened between 2012 and 2015 and investors will avoid investing in the economy no matter how good the regulations are in the Ease of Doing Business.

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