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# Nigeria Vs. United States Global Economic Environment

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**Abstract**

It has been seen that in most of the variables we have analyzed, Nigeria and the US are light years apart. Top of the agenda is industrialization. As discussed in the analysis, for any meaningful development to be achieved, stable electricity, a working steel industry, peace and security as well as a reasonable level of human capital are basic requirements. Similarly, we have seen that both countries are large in terms of size and heterogeneity but it is the US that is maximizing the benefit of population and diversity through the spread of taxes and government expenditure per head and a system of government that allows regional governments to govern themselves and control their resources. On the contrary, Nigeria struggles to provide basic educational and health facilities to its teaming population hence there's a growing frustration and call for restructuring. The next section discusses these differences and similarities in details followed by a conclusion and recommendations.

**Keywords:** Nigeria, United States, Global Economic Environment.

## INTRODUCTION

In Management, the international economic environment refers to global factors which are outside the control of individual organizations but that can affect consumer standard of living and ultimately the way that businesses operate (Hill, 2008). This means that for any business to successfully operate, especially internationally, special attention has to be given to the economic environment which can make or mar any business decision and performance activity. For example, Virgin Group which successfully runs business operations in finance, aviation and healthcare sectors of developed countries like the United States (US) and United Kingdom (UK) failed to properly make environmental considerations before initiating business operations in Nigeria and it backfired negatively (Howell, 2018).

According to Michalopoulos and Ng (2013), a developing country is any country going through the initial levels of industrial development and has a low per capita income. These countries usually have high levels of unemployment, poverty, illiteracy, birth and death rates and are dependent on developed countries for finished goods. On the contrary, a developed country is any country with advanced level of industrialization, high gross domestic product (GDP), a working healthcare and educational facilities and above all, a developed country is generally self sufficient (Yamakawa, Peng, & Deeds, 2008).

This essay seeks to compare and contrast Nigeria, a developing economy and the US, a developed economy as classified by OECD (2017) indices of assessing countries. In line with Leontief, Carter and Petri (1977)'s framework of comparing countries, the following tools will be employed in order to clearly compare and contrast these two countries; level of industrialization, size which is inclusive of area, income and population, physical and human resource endowment, dependency on external forces and macro-economic variables.

While the choice of Nigeria on one hand, as the developing economy to be used in this comparative analysis may not be unconnected to the writers' bias and concern for identifying environmental economic factors necessary to stimulate growth and development of the country, the US on the other hand is uniquely placed as the ideal developed country for this exercise because of its strong economic environment. Major differences such as the US's heavily industrialized society which produced an astronomical 2017 gross domestic product (GDP) of $19.39 trillion dollars as against Nigeria's import dependent economy and GDP of $375.77 Billion further buttressed this decision (Statista, 2018). Moreover, the US emerged as the ideal model for Nigeria because of similar political system, religious and ethnic diversity, physical and human resource endowment, historical and colonial background, etc.

The next section discusses these differences and similarities in details followed by a conclusion and recommendations.

## DIFFERENCES AND SIMILARITIES

### *Industrialization*

Industrialization is the process of transforming an economy from the production of primary agricultural goods and raw materials to the manufacturing of finished goods (Blumer, 2018). Industrialization further replaces manual labour subsistence production with machine based commercial production. This implies that an economy like Nigeria which primarily depends on importation of finished goods is less than industrialized. Additionally, research such as Roy, Shah and Sharma (2017) and Frank (2018) have shown that for there to be sustainable industrialization, a country has to have stable power supply, a working steel industry, relative peace and security as well as reasonable human capital. These variables are discussed in details in the succeeding paragraphs.

Since independence in 1960, Nigeria has failed to put things in place which will ensure transition into industrialization (Ogbuabor, Orji, Anumudu, Onwumere & Manasseh, 2018). Conversely, Data from the U.S energy information administration (2018) shows that the US produces 4,000,000 megawatts of electricity for a population of about 300 million people while Nigeria peaks at 7000 megawatts with 180 million people according to (Aliyu, Ramli & Saleh, 2013). This is better explained as 13 kilowatts for every US citizen while a Nigerian gets less than half of a kilowatt on average. As a result, communication companies like MTN and Globacom are having to rely on alternative sources of electricity i.e. diesel generators to power their facilities.

On steel, while Nigeria possesses an almost nonexistent steel sector, figures from the World Steel Association (2018) show that the US was the 4$^{th}$ steel producer of 2017 with 81.6 million tons. After almost 40 years, the Ajaokuta steel plant which is meant to pioneer steel production in Nigeria has been at 98% completion for decades with only concessions, contract terminations and litigations to show for the $10billion investment (Ocheri, Ajani, Daniel & Agbo, 2017). Indeed, the difference is staggering.

Peace and security are relative terms however the US enjoys a reasonable level of peace without any direct threat to its territorial integrity. Although there are reported cases of school and mass shootings by lunatics, that has proved to have little to no effect on the country's industrialization. On the contrary, Nigeria has been battling an 8 year war with one of the world's deadliest insurgent groups in the northern part of the country (Hassan, Fausat & Baba, 2016). Additionally, militant activities in the southern delta region have seen oil exploration facilities blown up on several occasions. These two direct threats to Nigeria's National security have further contributed into scaring away local and foreign investors thereby crippling industrialization effort Imhonopi and Urim (2016) added.

OECD (2017) describes human capital as the measure of education, skills and competencies acquired by individuals or groups which influence their capacity to produce economic value. It can therefore be seen that for any country to achieve proper industrialization, the variables that constitute human capital stock must be satisfactory. For example, a healthy and educated workforce that is up to the task is needed to operate and maintain factories. Furthermore, a high stock of human capital helps attracts foreign investment which has positive effects on industrialization as stated by Azam and Ahmed (2015). In this regard, the US stock of human capital is 24th out of 130 countries with a score of 78.86 while Nigeria ranks a lowly 127th with a score of 48.86 according the World Economic Forum (2016).

***Size***

Research has produced inconsistent results in determining the ideal size for a country in terms of population and land mass. Both Nigeria and the US are large countries in terms of population although the US is much bigger in terms of area. There are developed countries that are small both in population and area and there are also developing countries with similar characteristics.

Alesina and Spolaore (2005) observed that of the 10 richest countries in the world in terms of GDP per head, only the US and Switzerland have more than 5m people. However, such statistics are not always definitive because as Krugman (1980) noted, large countries benefit from economies of scale and can afford proportionately smaller governments and essential running cost that can be spread over many tax payers thus costing less in defense, embassies and infrastructure. Unlike the US, Nigeria is a primary single commodity exporter so it does not depend much on taxes for real income (Ikein, 2017). This means that there is not much benefit for Nigeria as regards the spread of taxes over the population. Similarly, Dasgupta (2000) states that Nigeria's high population seems to exceed the available healthcare, educational and employment resources and that is giving rise to many conflicts and crisis that have proved detrimental to economic growth. Therefore, for Nigeria to benefit from its high population, the government must put measures in place to ensure essential resources at least match the population.

Another position taken by Alesina and Spolaore (2005) is that large countries are very likely to have diverse heterogeneous population whose varying preferences and demands a government may find hard to meet. Furthermore, Alesina and Spolaore (2005) state that people generally prefer living in homogeneous communities and that most large countries bar the US, are homogeneous. Similarly, Bolton and Roland (1997) posit that large countries that are heterogeneous run the risk of breaking up citing the US's federal structure which allows each state to govern itself and control its resources as the main reason why it remains intact. If the US were as centrally ruled as France for example, breakup would've been unavoidable, Alesina and Spolaore (2005) concluded.

Therefore, the best size for a country in terms of population is a tradeoff between the benefits of scale and costs of heterogeneity. For Nigeria, this means seriously looking into the restructuring debate with a view to reducing the heavy concentration of power at the center.

***Resource Endowment***

When it comes to natural and human resources, both Nigeria and the US can be said to be endowed. Although the US edges Nigeria in both, it is the contrasting way in which both countries have managed their resources that portray the real difference. In line with Sachs and Warner (2001)'s suggestion, we will assess people, land, coastline, coal and oil as the most significant resources in determining a country's resource endowment.

In terms of people, the US has about 300million while Nigeria has nearly 190million (Mbachu & Alake, 2016). However, the difference is not in the number but in individual productivity. While Nigeria is battling with close to 13million out of school children, the average US citizen has at least a sound secondary level education (Hussar & Bailey, 2017). Additionally, the level of unemployment in

Nigeria as compared to the US is astronomically high. This can be associated with overall lack of job opportunities which is typical of any unindustrialized economy and because the average Nigerian lacks the necessary skills needed to be employable in the 21st century (Ayegba, 2015). Consequently, the stock of human capital in the US is a sharp contrast to that of Nigeria. For example, Silicon Valley in the US is the world's leading tech center while Nigeria's Yabatech is still in its infancy.

On land, the US is one of the largest countries in the world with Nigeria being an average sized country. However, both countries have enough land to feed themselves and have left over for export but the differentiating factor is that while US farmers engage in high tech mechanized farming as stated by Berry (2015), Nigerian farmers are mostly peasants that practice low level subsistence farming. This means that in stark comparison to US farmers, Nigerians lack enough farming education, basic storage facilities and other necessary infrastructure. As a result, Johnson and Dorosh (2017) concluded that Nigeria is forced to rely on rice and tomato import not because of absolute or competitive advantage but mainly because local production does not satisfy demand.

Another variable is the Coastline. Coastlines are important to nations because they provide a platform to build ports and ensure easy access for ships and cargos which are major facilitators of international trade (Alkan & Yazicoiglu, 2017). Additionally, coastlines are a good hub for coastal businesses like fishery, water sports etc. While Nigeria has merely 853 kilometers of coastline, the US mainland alone has about 19,928 kilometers of coastline which stretches across many states (National Ocean Policy Coalition, 2018). The US coast generated about 2.6million jobs and contributed $222.7billion to the country's GDP in 2009 alone. Conversely, the unhealthy activities of major oil companies, militant bunkering and human negligence have polluted most of Nigeria's waters thereby crippling local water related businesses (Oluwaniyi, 2010). Moreover, because of insecurity in Nigeria's Niger-delta region which occupies a significant length of the country's coastline, most major import and export activities are carried out through the Apapa port in Lagos thus narrowing down options and undermining the benefit of wealth distribution among coastal states (Oluwaniyi, 2010).

At some point in world history and perhaps even now, coal and oil and gas are at the forefront of the discussion on a country's resources endowment. This was especially important during the industrial revolution and is still relevant despite climate activist's effort to curtail carbon emissions and use of nonrenewable resources. A nonrenewable resource according to Apergis and Payne (2012) is a resource which humans are depleting faster than nature can replace. On one hand, the US has the world's largest coal reserves representing 27 percent of world total and produces 702 million tons annually according to Shafiee and Topal (2009). During the industrial revolution, coal was used to energize US steamships and steam-powered railroads. Additionally, it is being used up till now in fueling iron blast furnaces to make steel and in electricity generation. However, Nigeria also has high coal reserves standing at about 600 million tons although production and usage has been minimal (Sambo, 2008).

Sambo (2008) furher states that in 1980, Nigeria's annual coal production was about 194,000 tons but output kept going down until the government owned Nigerian Coal Company (NCC) crashed. The fall of the NCC prompted the government to issue out mining licenses to private firms which bumped up production to 53,000 tons in 2013 and has been lingering around that level since. As it stands, to say Nigeria is underutilizing its coal reserves is an understatement considering its production represents a minute amount of the country's GDP and is barely used for electricity generation, Oyedepo (2012) concluded.

It is in oil and gas that Nigeria seems to take the lead even though the US was also a force in that regard. In 1916, the US was almost monopolizing world oil supply by supplying two-thirds of the world's total output. At a time when great inventions like war tanks, cars, submarines and airplanes were coming to the fore, oil production was a strategic advantage. However, the US was wise to not rely heavily on that oil and by 1950, Saudi and other Arab countries were also deeply in the oil production business and comparative disadvantage meant the US had to abandon most of its oil production (Adelman, 1974). It didn't turn out to be a tough transition especially when Nigeria's attempt to diversify economy from oil is put in perspective.

Nigeria is now the sixth largest oil producer in the world with 2.5million barrels per day amounting to 10% of GDP and over 80% of total export revenue (Aliyu, 2009) and conversely, the US is now the second largest importer of Nigeria's oil after China. Unfortunately, Nigeria remains a single commodity exporter and this over reliance on oil proceeds became obvious when oil prices crashed in the international market in 2014 as the country went into recession with high inflation and a volatile foreign exchange. This lays a good foundation for the final analysis area, the degree of external dependence and macroeconomic variables of the case study countries.

***External Dependence***

Over the years, international trade and globalization have demonstrated many advantages such as employment redistribution, increased global security and improved global efficiency and productivity through comparative advantage (Giddens, 2018). However, a developing country like Nigeria that depends heavily on the importation of finished goods to satisfy local demands and whose primary commodity of exchange is crude oil continues to encounter balance of trade and payment challenges. This, along with oil price volatility in the international market, a lack of adequate savings and weak political leadership means Nigeria continuously resorts to borrowing to fund budget deficits (Mahmud, 2018). Similarly, Nigeria seems to find it difficult to claim the benefit of globalization that ensues from the natural flow of jobs from high wage to low wage countries because it doesn't possess the adequate human capital and the necessary infrastructure to attract job seeking FDI.

On the other hand, Giddens (2018) states that the US is negatively affected by globalization because it has shipped off jobs to developing countries. Furthermore, while Nigeria's debt to GDP stands at 21% in 2018 (Trading Economics, 2018), the US has a debt of 107% of GDP in same year (Focus Economics, 2018). Despite that, US high human capital stock which has led to technological progress in almost all sectors of the society presently ensures that it is a global force to be reckoned with. This means that even though the US is among the world's major importers of foreign goods, it's equally high export of mostly unique technological goods and services offsets the imbalance that would otherwise have occurred in its balance of trade and payment (Lall, 2015). However, like Nigeria, the U.S is also heavily indebted to countries like China but its degree of dependence on those countries is minimal because it possesses more ability than any other country of the world to politically, militarily and economically upset world order (Deutsch, 2015).

***Table 1**: Key Figures and Statistics*

| | US | Nigeria |
|---|---|---|
| **GDP** | $19,391 trillion | $375.7 billion |
| **Unemployment** | 3.7% | 17% |
| **Inflation** | 2.1% | 12.2% |
| **Literacy Rate** | 99% | 68% |
| **Life Expectancy** | 78 years | 53 |
| **Population** | 325,791,178 | 19,886,331 |
| **Population below poverty line** | 15.1% | 50% |
| **Avg. Disposable Income per person** | $3.258.85 | $731.6 |
| **Export Revenue** | $1.56 trillion | $95.68 billion |

## CONCLUSION AND RECOMMENDATIONS

In conclusion, it has been seen that in most of the variables we have analyzed, Nigeria and the US are light years apart. Top of the agenda is industrialization. As discussed in the analysis, for any meaningful development to be achieved, stable electricity, a working steel industry, peace and security as well as a reasonable level of human capital are basic requirements. Similarly, we have seen that both countries are large in terms of size and heterogeneity but it is the US that is maximizing the benefit of population and diversity through the spread of taxes and government expenditure per head and a system of government that allows regional governments to govern themselves and control their resources. On the contrary, Nigeria struggles to provide basic educational and health facilities to its teaming population hence there's a growing frustration and call for restructuring.

Interestingly, it can also be seen from the analysis that both countries are highly endowed with resources but it is how each country utilizes its resources that spells the real difference. The US is among global top steel producers but a crash in steel prices is unlikely to send the US economy into recession like has been seen with Nigeria when crude prices crashed in 2014. This is because while the US economy is fully diversified, Nigeria depends on oil proceeds for about 80% of government revenue. Additionally, it has been seen that globalization came at a cost to US citizens by shipping away jobs to low wage developing countries. This means that there is room for Nigeria to benefit from such factor movement if it resolves the issue of poor human capital and other industrialization bottlenecks.

Lastly, the level of dependence on external forces has been discussed. It was seen that through international interaction of countries, both the US and Nigeria are dependent on some external force through foreign debts. However, Nigeria's inability to balance international trade and payment and even finance annual budgets shows its degree of dependence on external forces exceeds by far that of the US as a result, a table which shows the effect of those topics discussed on the macroeconomic variables of both countries was drawn to further highlight their differences.

Taking all these into consideration, the following recommendations are proposed. First, the Nigerian Government should devote more resources in tackling those aspects that hinder industrialization such as human capital stagnation, insufficient power generation and insecurity. This will in turn create employment opportunities and reduce dependence on import and other external forces thereby further reducing the pressure on its foreign exchange and reserve. Secondly, Nigeria must tackle the rate at which population is growing while also improving the state of social amenities available to the populace. Similarly, some form of restructuring is required in order to reduce concentration of power at the federal level. This should introduce healthier competition between states and will give citizens more sense of belonging.

Implementing these recommendations will serve as a boost to those macroeconomic variables outline in the table 1. Additionally, companies looking to operate across borders must conduct this type of analysis in order to ascertain the economic environmental situation of countries before developing strategies to suit their markets. It should also be noted that although developing countries have similar characteristics amongst themselves, they usually have unique challenges therefore a one size fits all strategy may not work. This means each country has to be analyzed by itself.

One limitation this study encountered is a lack of adequate time and word count. For a research like this to be fully comprehensive, more time and word count must be allowed in order for other equally important variables to be discussed. Also, exactly how to make the transition from a developing country to developed country is recommended for future research.

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