BUSINESSDAY

Shared Prosperity: Algeria versus Nigeria

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"Regardless of how fast GDP grows, an economic system that fails to deliver gains for most of its citizens, and in which a rising share of the population faces increasing insecurity is, in a fundamental sense, a failed economic system. And policies, like austerity, that increase insecurity and lead to lower incomes and standards of living for large proportion of the population are, in a fundamental sense, flawed policies." Joseph E. Stiglitz, Economics Nobel Prize winner and former Chief Economist of the World Bank, in The Age of Vulnerability, Project Syndicate, Oct. 13, 2014.

Algeria and Nigeria have a lot in common. Both are well-endowed in terms of geography, geology, and demography. Algeria has a total land area of 2.38 million sq km, more than twice Nigeria's total land area; although Nigeria's arable land use is 39% of its total compared to Algeria's 3.2%, as much of it is desert. Both have extensive coast lines, while Nigeria's water resources are more than twenty times that of Algeria. Nigeria's population estimated at over 170 million people is more than four times that of Algeria at 38.8 million. Both countries have young population, with two out of three Nigerians below the age of twenty four years, while nearly half of all Algerians are below that age bracket (CIA, World Fact Book).

Both countries are blessed with oil, gas, minerals, and other natural resources. Nigeria's estimated proven reserves of crude oil and natural gas of 37 billion bbl and 5,153 trillion cu m compares favorably with that of Algeria's 12 billion bbl and 4,504 trillion cu m respectively. Both economies are heavily dependent on natural resources with Algeria's hydrocarbon and Nigeria's oil accounting respectively for 95% of exports and foreign exchange, 60% and 80% of government revenues, and a third and a fifth of GDP.

Algeria is in a relatively better position to withstand the shocks to its economy from falling oil prices. Its budgeted benchmark oil price of $37 is half of Nigeria's benchmark rate. As a result, according to the IMF, Algeria's Oil Savings Fund is at about $72 billion or a third of GDP, compared to Nigeria's $2.8 billion or less than 1% of GDP in Excess Crude Account. Algeria's foreign reserves war chest increased from $82 billion in 2006 to nearly $200 billion in 2014 (36 months of imports), while that of Nigeria declined from $50 billion to $38 billion (7 months of imports) respectively. Thus, Algeria does not depend much on foreign portfolio inflows to support its exchange rates. Both countries have made notable progress with macroeconomic stability. However, Algeria still has an edge with inflation rates and prime lending rates at half of, while key policy rate is one-third of Nigeria.

Africa's largest economy has been growing at an average of 6.2% over the past five years, doubling the growth rate of 3.1% for Algeria's economy. Nigeria's rebased economy put its 2013 GDP at US$510 billion, much higher than that of Algeria, which is ranked 4th largest economy in the Continent, after South Africa and Egypt. The four countries, as the SANE Economies, account for more than half of Africa's GDP and greater than the combined GDP of the remaining 50 African countries.

Nigeria's higher economic growth rate has not translated to better welfare and improved standards of living. According to UNDP's Human Development Report 2014, Nigeria's overall Human Development Indicators (HDI) ranking is low, 152 out 187 countries, compared to 93 for Algeria, which is classified among high HDI countries. The HDI is a composite index, which measures progress in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. Algerians have a life expectancy of 72 years, twenty years more than for Nigerians; infant mortality rates per 1,000 births are 17, four times lower than in Nigeria.

Nigeria's unemployment rate of 24% is two and a half times that of Algeria; and youth unemployment rate doubled that of Algeria. At least six out of ten Nigerians, compared to two out of ten Algerians, live below the poverty line. In absolute terms, roughly 100 million people in Nigeria live below the poverty line, compared to 7.8 million people in Algeria. Per capita income in Algeria more than doubled that of Nigeria. Overall, Nigeria's misery index of 48, the third highest among 90 countries, is nearly three times that of Algeria at 16.8, with a rank of 46.

Similar endowment, different outcomes

What accounts for broadly similar endowment, but significantly different economic outcomes? The outcome reflects policies and strategies with markedly different development models. First, there is the growth versus inequality policies. According to the IMF, "Economic growth in Algeria over the last decade has been relatively more favorable to the poor than to the rich helping to reduce inequality….*Algeria's pro-poor growth over the past decade coincided with a significant decline in unemployment and increases in social spending. Between 2000 and 2011, the unemployment rate fell steadily, from 29.5% to 10%. Over the same period, per capita spending on health and education doubled in real terms…….these developments may have disproportionately benefited the poorer segments of society*." The IMF also indicates that Algeria's Gini coefficient fell from 0.34 in 2000 to 0.31 in 2011 and on average across all households, real spending increased by 6.4%.

In Nigeria, the rungs of the income and wealth ladders are farther apart and the inequality distance from the top to the bottom is greater. In spite of faster economic growth rate, inequality has deepened in Nigeria with a rising Gini coefficient of nearly 50, coinciding with the rise of the ultra-rich oligarchs. *"Thirty percent of Nigeria's wealth is concentrated in the hands of 15,705 people: 5 billionaires with 11% plus a silver of 15,700 millionaires who control 19%. This leaves millions of mostly young Nigerians at the bottom of a pyramid. The gap between the bottom and top is increasing rapidly as the wealth of Nigeria's 5 billionaires increased by 812% in the past 5 years." (*Business Day editorial's *stemming the tide of Inequality of July 1st, 2014).* It is not a mere coincidence that Algeria has only one billionaire on the Forbes List, while Nigeria has five, and the disparity between Algeria's richest man's wealth of $3.8 billion and Nigeria's richest man of over $20 billion is for real.

Second, there is the market-driven versus developmental state strategic approach to economic prosperity. In Algeria, there is pervasive state ownership and domination of the economy, reflecting its state-led development model since independence. In recent years, efforts to privatize state-owned industries have been halted. Heavy regulations weigh on private sector and foreign involvement in the economy. Structural reforms in key non-hydrocarbon sectors including the financial sector have met stiff bureaucratic resistance.

On the other hand, since the advent of democracy in 1999, Nigeria has become a more market-based economy, with strong entrepreneurial spirit. Nigerian government has deepened public-private partnership which has led to strong growth in telecommunications, financial industry and other services. In Nigeria, incentives are indeed in place for private sector-led growth in various sectors of the economy. However, too often, incentives have been provided within the context of a captured state, where a few oligarchs have emerged with accumulated, concentrated and consumable wealth in commanding heights of the economy—oil, energy, banking, telecom, real estate, and other services. In a captured state, economic oligarchs become self-perpetuating. The concentration of economic power reinforced special interests, with undue influence in politics, and which, in turn, ensure the adoption of policies, including licenses, waivers, and concessions, to favor their class.

International metrics for both countries reflect the different economic models-- market versus state. World Bank's Doing Business 2014 Index ranks Nigeria at 147 compared with Algeria's 153. According to World Economic Forum's Global Competitiveness Index 2014-2015 Rankings, Algeria ranks at 79 compares to 127 for Nigeria out of 144 countries. However, Nigeria outperforms Algeria on key measures of private sector and market-driven economy, including business sophistication, financial market development, goods market efficiency, easy of starting a business, property rights, and protecting investors.

Both countries score low on governance, but Nigeria has the trophy on corruption with a higher ranking of 144 as against Algeria at 94, according to Transparency International. In addition to having encountered wars, Algeria in the 1950s and Nigeria in the late 1960s, both countries have recently experienced insecurity, bombing and attacks targeting citizens and government interests. Nigeria's rating of 17 on the Fragile State Index is worse than that Algeria's 71 out of 178 countries.

While infrastructure remains an impediment to growth in both countries, Algeria is still well advanced on this front. Its electricity production and installed generating capacity are twice that of Nigeria; while its paved roadways are three times that of Nigeria. Its fixed telephone landlines are eight times that of Nigeria; although Nigeria's mobile phone of 113 million is three times that of Algeria, the latter is still ahead in terms of per capita penetration. Both countries have envisioned three key projects: the Trans-Saharan gas pipeline, the Trans-Saharan road and fiber optic cable in the context of the New Partnership for Africa's Development.

In concluding, markets and state have crucial roles to play in a balanced development process. There is no dispute on the roles of the markets in creating wealth and prosperity. Algeria can learn a few things from Nigeria about using the market, entrepreneurship and private sector in generating higher economic growth and prosperity. But markets alone cannot effectively ensure that wealth and prosperity are shared equitably and fairly. Nigeria can learn from Algeria on the role of the state in inclusive growth and reduction of poverty and inequality by providing public goods of social and physical infrastructure. Both countries still have a lot to do in improving governance and security.

Nigeria and Algeria can share ideas on shared prosperity within the context of a Nigeria-Algeria Joint Commission.

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