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Research article

THE NEW NIGERIAN ECONOMY, SOUTH AFRICAN OUTFLOWS POSE BIG RISK, EMERGING COUNTRIES COULD TAKE OVER BRICS (BRAZIL, RUSSIA, INDIA, CHINA, SOUTH AFRICA): THE SOUTH AFRICAN ECONOMY NEEDS A PROPER PLAN AND NOT LOW INTEREST RATES: COLLECTIVE ACKNOWLEDGEMENT OF NIGERIA'S EMERGENCE REQUIRED

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ABSTRACT

The paper looks at the Nigerian economy which has now eclipsed that of South Africa in terms of the first Nigerian overhaul of its Gross Domestic Product (GDP) in twenty years. What are the consequences and reasons for this move are briefly raised. The paper in conjunction with the above looks at capital outflows from South Africa which poses a big risk for the South African economy. In addition, the paper discusses new emerging countries, which are poised and ripe to take over from BRICS. Lastly, it is argued that the South African economy needs a proper plan and not low interest rates in respect of structural reform and development initiatives. These are important issues that require government understanding and intervention in order to regain the moral high ground.

Key Words: Economy, Outflows, Risk, Emerging Countries, Plan, Interest Rates, Business Climate, Gross Domestic Product, Overhaul, Sectors.

INTRODUCTION

The issues that will be discussed in this paper are important from the perspective that South African democracy goes to the polls on the 7th of May, 2014 and issues that confront the government and the nation state of South Africa are important and vexing in a trying period of serious service delivery protests, escalating debt, overt corruption, the Nkandla scandal in which the President is directly involved and other corruption scandals that has tainted the image of the country both internally and externally. The paper therefore looks at Nigeria's attitude, not its Gross Domestic Product (GDP) data that actually counts, given the fact that the Nigerian economy has now eclipsed the South African economy, in terms of its first GDP overhaul in twenty years and which includes many new sectors. The issue of the outflows of capital poses a big risk to the economy of South Africa. This therefore in many ways will dent the much required recovery and dampens the possibilities of dealing decisively with poverty, inequality and unemployment. These issues by implication stifle economic growth and further dent the brand image of South Africa as a destination for investment. Given these scenarios, the new 'emerging' countries are ripe and ready to take over from Brics, of which South Africa is a member of this club. Colombia, Indonesia, Peru, the Philippines and Sri Lanka have a sound business climate, similar to that of the BRICS countries. A brief discussion on this aspect will be undertaken to project and understand this phenomena. Given, all of these scenarios, the South African economy requires and needs a proper plan and, cannot be cushioned by low interest rates. This is the thrust of this paper.

METHODOLOGY

The methodology used in this paper does not follow the classical research methodology because, it is an analysis by the researcher of the Nigerian economy given its emergence only recently as Africa's largest economy for the first time. It compares the new Nigerian economy with that of South Africa and the possible risks that South Africa faces with emerging markets and within the context of BRICS (Brazil, Russia, India, China, and South Africa). It therefore argues that South Africa requires a proper and well thought out economic plan. In addition, it argues that the emergence of Nigeria as the largest economy in Africa must be seriously acknowledged by African countries and the world at large. In assembling the article, the researcher used critical thought processes, desktop research were applicable, the internet and intranet together with relevant articles that appeared in the South African press and media, to evaluate the Nigerian economy against South Africa's economy. In so doing it argues critically that South Africa requires an economic plan to emerge from the current economic and financial quagmire that it is placed in. The critical analysis is further expanded upon in terms of positing that the African economy and the world must acknowledge Nigeria's emergence as an economic powerhouse on the continent of Africa.

RESULTS

There are no finite results that emerged from this desktop study in terms of the classical research methods usually utilized in research. However, the paper alludes to important issues in respect of the emergence of Nigeria as an economic and financial giant on the continent of Africa. It alludes to the unnecessary prejudices against Nigeria by other African countries and particularly the West and the world at large. The paper underscores the reality in terms of the findings that Nigeria although, grappling with corruption, nepotism and political patronage has made great strides in dealing with these issues. The results could only therefore, be the obvious reality that Nigeria is becoming of age and, has rightfully taken its place as the leading economy in Africa and, is on the march in terms of restoring its image on the continent of Africa and the world. In spite of the manifest problems and challenges that confront Nigeria, its recent successes in bringing about economic and financial stability can only augur well for purposes of consolidating its image and economy on the world stage.

DISCUSSION

NIGERIAS ATTITUDE

The film industry in Nigeria employs a million people, making it the largest employer in Nigeria after agriculture. The film industry according to Heistein (2014: 18)" brings in about$590 million (R6.2 billion) a year). This was never entered into its GDP until last week. It now contributes 1.4 percent of its GDP". This is one of the many changes that have taken place after Nigeria decided to rebase its GDP measurements for the first time in 24 years; mist countries do it every three to five years. Rebasing GDP measurements id important because calculations need to keep up with the changing economy. It means changing the way statistics are measured and compared, not just in the years following the rebasing but for the years preceding it as well. It creates an entirely new time series of data that allows comparison across time periods based on a new set of measurement criteria. The last time South Africa released its GDP measurements was in 2009, choosing 2005 as its base year. This means that, all calculations are measured by the methods and prices used in 2005, taking out the effect of inflation since then. South Africa is long overdue for a rebasing, and when it is done the official GDP figure is likely to change, probably not as much as Nigeria's.

Heistein (2014: 18) points out that "Nigeria's published GDP nearly doubled to reach it new official level of $509.9 billion, 60 percent larger than South Africa's. for the first time, South Africa is no longer the largest economy in Africa. Nigeria now records 46 new additions in information technology, music, online sales, airlines and film production. According to old figures, telcoms used to contribute 0.8 percent of GDP, and oil and gas contributed 32 percent. They now contribute 8.6 percent and 14 percent respectively. Its debt to GDP ratio has dropped from 19 percent to 11 percent." The argument by South African economists that , it's all lights, fireworks, and much ado about nothing does not hold good or for that matter rebasing simply puts reality on paper, it does not change the reality; 61 percent of Nigerians live on less than a dollar a day and that was the same when the announcement was made. This may be true but by whose standards is this insignificant. Nigeria is making strides and South Africa's position was no better when it was the leading economic player. One thing is for sure Nigeria is taking its economy seriously. It probably poses no threat to South Africa. It should however, be a wake – up call that change is happening in Africa and that, South Africa is no longer leading it. South Africa's economy according to Heistein (2014: 18) "is growing slower than that of Algeria, Mozambique, Ethiopia, Ghana, Niger, and Libya, among others. This is a very serious concern and while these economies may not boast the institutions an infrastructure South Africa has, and the fact that many of them have come out of wars and instability, they are not relying on South African business for their growth. South Africa has to penetrate the economies of African countries which provide opportunities for lucrative business and not fierce competition.

The size of the Nigerian economy was estimated, according to Bloomberg (2014: 1) "at 80.3 trillion naira (R5.1 trillion) for 2013. This compares with the World Bank's 2012 GDP figures of $843.3 billion (about R4 trillion) for South Africa and $262.6 billion for Nigeria. "The new figures took into account growth in agriculture and tourism that have flourished since democracy was restored in 1999, ending decades of military dictatorship. Bloomberg (2014) further reports that "Ghana's economy grew by 60 percent when it recalculated its goods and services production in 2012. Kenya and Zambia are considering the same. Rebasing does not change what was already there. it's about measuring better and more accurately." Yemi Kale (in Bloomberg, (2014) indicates that "the figure exceeds forecasts from Renaissance Capital, which predicted in December, 2013 that the revision would boost the size of the economy by as much as 60 percent. Nigeria with about 170 million people and, is an OPEC (Oil and Petroleum Exporting Countries) member and Africa's biggest oil producer. The government is targeting 7.16 trillion naira in income from oil and gas this year." Nigeria's economy has grown by at least 6 percent a year since 2006. Youth unemployment stands at 38 percent a little better than South Africa, but is a negative factor.

CAPITAL OUTFLOWS FROM SOUTH AFRICA A RISK

In continuing the discussion there are certain scenarios that may significantly affect the rand's strength and inflation during this year. Currently, the major risk factors to South Africa ['s growth and inflation prospects are capital outflows, European growth, the standoff over Ukraine, and local labour and political instability. In the past year much has been written about the US Federal Reserve's tapering of monetary policy and how this has led to significant capital outflows from emerging economies. Those emerging economies with high current account deficits and higher risk profiles were hardest hit by the reversal of capital flows. These flows resulted in currency devaluations across the board for many emerging economies. South Africa was particularly hard hit with rand devaluations of 28 percent from January last year to January this year (2014). Compounding this situation is the strength of growth expected in the US and the UK. Emerging economies attract foreign flows if growth in these markets exceeds that of developed economies. This has been the case in the past, but this year the tables have turned for many emerging economies, such as South Africa, Brazil and Russia, which will experience lower growth rates than those in the US and UK. According to Parker (2014: 16) "South Africa is not attracting enough foreign direct investment (FDI). The FDI inflows since 2010 have been dismal. The lack of FDI investment has been identified as a major risk factor to the high current account deficit. The bottom line: South Africa is simply not attracting enough investment to finance this deficit. Frost and Sullivan estimates that in order to maintain the current account deficit under these conditions, the country would need to attract at least $10 billion (R106 billion) in FDI a year. South Africa has only averaged $3 billion a year in the past three years. This is a significant shortfall which cannot be financed by bond and equity purchases alone."

In order for the Rand to recover, levels of exports need to improve. Most of South Africa's exports to Europe are high value added products with significant backward and forward linkages in the local economy. The decline of exports to Europe has had a major impact on economic growth and has contributed to the growing current account deficit. Growth is expected in Europe this year and this will have a positive impact on South Africa's exports to this region, but the tensions between Europe and Russia may lead to a situation where growth may stagnate once again. Local conditions have the ability to affect economic growth and inflation prospects this year. Since the beginning of the year South Africa has seen rising tensions in the labour sector with major general strikes in the mining industry and in this regard Parker (2014) indicates "a loss of R11.2 billion rand in revenue. All of this may affect its credit rating once again. Credit ratings play an important part and role in help determining a country's cost of borrowing. Since the affirmation of ratings late last year from many agencies, things have steadily deteriorated in many aspects for South Africa. The rand received a serious devaluation in January driven by capital outflows, and the nation has received a damaging report on the involvement of the president in terms of the Nkandlagate scandal. If the country slips further on the corruption perceptions index, it is very likely that it will receive a downgrade this year. This would compound the negative impact of international economic and political conditions and there may be a further devaluation of the rand. This would be significant in terms of Nigeria eclipsing South Africa for a long period in terms of being the economic power house of Africa.

BRICS (Brazil, Russia, India, China and South Africa)

As things stand at present, Colombia, Indonesia, Peru, the Philippines and Sri Lanka have a sound business climate, similar to the BRICS countries and therefore are poised to take over from the BRICS countries. After 10 years of growth, the BRICS countries are slowing down sharply. Coface (International Credit Insurer (2014: 16) forecasts that "growth on average of 3.2 points lower than the average growth these countries registered over the previous decade is significant. At the same time other emerging countries are accelerating their development. Among them, a 'top ten' emerges with good production prospects and sufficient financing to support expansion. Despite a consumer trend that remains favourable, the BRICS are experiencing a growth downturn due to an adjustment in supply and a marked slowdown in investment. Their businesses no longer have sufficient production capacity to meet continued strong demand." To identify the promising countries that the BRICS are now giving way to, Coface identified "several criteria, including two that are essential: countries that have high growth which is accelerating, and whose economy is diversified and resilient to growth slowdowns" (New World Order, 1014: 16).

There are a number of countries that have sufficient funding capacity to finance growth, without the risk of creating a credit bubble or which do not have equity markets of a comprehensive size of those in Organization for Economic Co- operation countries. Coface, in New World Order (2014: 16)) identifies "only 10 new emerging countries which meet all the criteria. However, these countries are not the same in terms of their business environments; the weaknesses of which can stifle growth. Coface therefore, distinguishes two groups in the new emerging countries, Colombia, Indonesia, Peru, The Philippines and Sri Lanka. All of which have sound business climates (A4 or B), similar to that of the BRICS countries today." Kenya, Tanzania, Zambia, Bangladesh and Ethiopia have very difficult (C) or extremely difficult (D) business environments, which hampers growth. New World Order (2014) further adds that "the quality of in Brazil, China, India and Russia was comparable to that of Kenya, Tanzania, Zambia, Bangladesh and Ethiopia today. Growth of the new emerging countries will take a different path than for the BRICS. Some weaknesses compared with the BRICS persist nonetheless. It must be remembered that the 10 identified new emerging countries currently only represent 11 percent of the world's population (but China and India have huge populations), while the BRICS accounted for 43 percent of the population. Secondly, their Gross Domestic Product (GDP) level is only 70 percent of that of the BRICS in 2011." Finally, the BRICs recorded on average a current account surplus while the new emerging countries run a deficit of about 6 percent of GDP. This was different for BRICS countries in the 2000's. Be this as it may, South Africa is an insignificant contributor to BRICS and has been included more on sentiment than reality. It therefore, soon will also be eclipsed by some of these new emerging economies. Placed in context, the issue of Nigeria in the long run will prove significant, if South Africa does not improve governance and would slip further in terms of not being the leading economy on the continent. If this would happen, it will not prove well nor augur well for South Africa in the long run.

IS NIGERIA'S NEW GDP STATUS ONLY ON PAPER?

Nigeria is now Africa's biggest economy. This has shifted the focus among global investors to Nigeria's potential and raised the question whether South Africa which has hogged the limelight as Africa's biggest economy, has had its moment in the sun. The number of economic activities included in the new Nigerian calculation has increased from 33 to 46. There are some concerns about the new restated GDP calculations, but on the positive side, one thing is sure, it has taken over from South Africa and rightfully so as Africa's biggest economy. Writers completely miss the point when they make comparisons in respect of various variables and indicate that South Africa is better than this or that as compared to Nigeria. They do not factor that South Africa is a highly corrupt country with very poor governance modalities and so on. These are significant variables because it does not create an environment and climate for investment. On the other hand, it has not been able to deal with rampant poverty, inequality and unemployment for protracted periods of time. The rebasing of Nigeria's GDP is welcomed because it gives a clearer indication of the structure of the economy. "What is required is for the government of South Africa and the private sector in South Africa to work together to identify collaborative opportunities to nurture mutually beneficial trade and investment relations with Nigeria and other countries in Africa. But South Africa in spite of its infrastructure, roads, banks' communication infrastructure and the like cannot rest on its laurels, because competition for investment in Africa is intensifying, as is the demand for skills. This places pressure on South Africa to ensure economic policy consistency and accelerate the implementation of the National Development Plans, vision. This will ensure its global competitiveness, which is key to attracting and retaining investment and consolidating its position as one of Africa's largest and most attractive economies," (Patel, 2014: 10), in order to regain the moral high ground from Nigeria.

SOUTH AFRICA HAS LITTLE TO FEAR IN SPITE OF NIGERIA"S STATISTICS RESHUFFLE

Nigeria's figures show that the pace of growth is higher than previously estimated. Isa (2014: 2) states that "anticipated output growth of about 7 percent both this year and next, the economy is set to pull further ahead of South Africa's, which is likely to notch up growth of less than 3 percent over the same period." According to Abedian (In ISA, 2014: 2) "It means global businesses will consider Nigeria, rather than South Africa, as a possible gateway to Africa." In South Africa and Nigeria the shortfalls of the economy remain evident. Rating agencies have kept Nigeria's credit rating steady at Ba3 with a stable outlook. It's not ratings but profitable investments. Amidst a host of variables South Africa scores higher than Nigeria. Both South Africa and Nigeria are consumer markets, but it is a question of purchasing power, income prospects and the state of law. However Abedian (In Isa, 2014(b states that "South Africa's position as the only African member of the G20 group of industrial nations could be called into question. Nigeria's new ranking could also cast doubt over South Africa's inclusion in the BRICS group of emerging economies. There are widespread implications that South Africa has to take seriously." South Africa will now face stronger competition from Nigeria for foreign investment, and therefore policies will have to be reviewed as an approach to investor confidence. This is exemplified by:

- "More than 48 000 workers lost their jobs in South Africa in March, with the bulk of losses occurring in the mining sector.
- Net gold and foreign exchange reserves dipped to $45.04 billion in March from $45.33 billion in February, Reserve Bank data showed. Gross reserves fell to $49.454 billion from $50. 137 billion in the previous month.
- The International Monetary Fund (IMF) slashed South Africa's economic growth outlook to 2.3 percent in 2014 from an earlier forecast of 2, 8 percent. The growth outlook for 2015 was revised to 2.7 percent from an earlier forecast of 3.3 percent.
- Mining production decreased 4.8 percent year on year in February, compared with a rise of 3.1 percent in January. The worst growth rates were recorded for platinum group metals, building materials and diamonds.

The above issues show a negative scenario and therefore require a balanced view in order to overhaul these aspects and to safeguard investment going to Nigeria in future as Nigeria continues to rise (Hits and Misses, Sunday Times, Business Times, 2014: 2).

NIGERIA'S BOUNTY IS AFRICA"S PRIDE

Nigeria's GDP boost is testimony to the continent's progress. "In spite of power shortages, religious insurgency and corruption, it still revealed a $509 billion – strong economy. It is not a silver bullet for the country's myriad challenges" (Donnelley, 2014: 3). Nevertheless Nigeria's rise is a cause for cheer. The issue is can it achieve the millennium goals, "considering that its GDP ratio is now 12.3 percent and markedly lower than the United Nation's 20percent of GDP. It must be appreciated that Nigeria's debt metrics, even before rebasing were extremely favourable with public debt amounting to $66.4 billion, including the domestic and external liabilities of the federal government and individual states. This was equivalent to about 22. 2 percent of GDP, but with the new GDP figure, the ratio fell to only 13.2 percent. Nigeria would be in a position to take up more external debt without damaging macroeconomic stability. The publicity provided by the rebasing of GDP could also draw in new creditors (Donnelley, 2014: 3). Nigeria remains one of the top recipients of FDI on the continent. What Nigeria's GDP re – estimation confirms is that it has eclipsed South Africa, and this is a reality that must be acknowledged; but at the same time there is no single country in Africa that is going to have a pronounced impact on the region. Instead, it would be significant and important, if a more substantive symbiotic relationship amongst African nations and regions would emerge.

THE SOUTH AFRICAN ECONOMY NEEDS A PROPER PLAN – NOT LOW INTEREST RATES

The economy of South Africa, according to Hazelhurst (2014: 16) "should not preoccupy itself with an inflation targeting policy with a 35 percent unemployment rate. In reality there should be targets for employment and reducing poverty and inequality. If low interest rates were all that was required to reduce unemployment and poverty, would the world still suffer from these scourges? Wouldn't governments wave the magic wand?" Low interest rates can provide a short term stimulus at certain points in the economic cycle and a cushion in emergencies such as the global recession. However, South Africa's problems are not cyclical but structural. High wages should be slashed. Hazelhurst further points out that "Essentially, South Africa's labour force is 45 percent less competitive than it was 12 years ago. A weak rand will not reverse South Africa's sagging industrial competitiveness, thereby lifting economic growth and redressing the unemployment problem. Since 2011, the rand has weakened but where are the jobs." The weaker currency has pushed up imported inflation, and this aggravates the cost of labour as wages rise to compensate for inflation and therefore depresses further employment. The economy needs intelligent planning not a weak rand and low interest rates. If this is achieved, South Africa could regain the moral high ground of once again emerging as Africa's leading and biggest economy on the continent.

SOUTH AFRICA MUST WAKE UP TO AFRICAN GROWTH: COLLECTIVE ACKNOWLEDGEMENT REQUIRED

South Africa woke up to a seismic shift that had transformed the continent, at least economically. It was number one, the biggest economy on the continent by far. The reality was a rude awakening to the announcement of Nigeria' calculation of its GDP, which moved South Africa to number two on the continent. The slumbering African giant of Nigeria had awakened to the continents countries taking cognisance of its potential. "The editorial (Mail and Guardian, 2014: 32) points out that "The smartest South African money is putting a positive spin to this. The treasury and business leaders indicated African growth is good for South Africa, as is investing in this growth." It may be a question of sour grapes and the mismanagement of the South African economy that has led to statements that the economy is small to develop significant manufacturing capacity, that Nigeria's GDP is larger than South Africa's because its population is more than three times larger. There have been numerous other comparisons, in this regard. These comparisons are true but lose the point because it does not talk to a wake – up call. Inequality is a challenge to both countries and therefore this must be dealt with and in South Africa, unemployment, poverty and inequality must be dealt with decisively, rather than justifying its loss to Nigeria as the biggest economy on the continent of Africa. On the other hand a collective acknowledgement of Nigeria' emergence as the leading economy in Africa is required by South Africa and Africa, as a whole. Take a bow Nigeria.

TAKE A LEAF OUT OF NIGERIA" BOOK

Nigeria has toppled South Africa as the biggest economy in Africa. Fikile – Ntsikelelo Moya (2014: 14) makes the following points. In this regard, it is necessary for South Africa to take a leaf out of Nigeria's book. These points are:

- "The South African poor are required to mourn along with the analysts and society elites.
- Instead of massaging the egos that are bruised by the relegation to second place, this development should serve as a wake – up call for South Africa, and use it to create a more inclusive economy whose growth and decline will be celebrated or mourned by all.

- Without celebrating the same exclusionary flaws in the Nigerian economy, attention must be paid to what South Africa can learn from how it grew to be where it is.
- Contrary to the stereotype, there is more to Nigerians than running drug and prostitute rings.
- They are reputed to have some of the most innovative entrepreneurial people who are not averse to travelling outside their country to find and exploit opportunities. Few countries export more PhD's than Nigeria.
- More importantly, whatever steps are taken to reclaim the top spot must involve as many South Africans as possible and make them real shareholders and beneficiaries of a process they are asked to cheer or mourn from the sidelines."

CONCLUSION

The paper discussed important issues and has shown that Nigeria's economy grows at 7 percent a year as compared to South Africa's at 3 percent. As a relatively developed economy, it is much harder for South Africa to achieve higher rates of growth. But Africa is awakening as South Africa sleeps. If some of the leaders in the ruling party put as much effort into reforming the political leaders somnambulant ways and demonstrating much – needed leadership as they put into discrediting chapter 9 institutions, covering up overt corruption, it would do more to benefit African growth and its own growth. Nigeria, irrespective poses a great challenge to South Africa and it has dented South Africa's image and reputation on the international stage.

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