

**THE POLITICAL ECONOMY OF DEREGULATION
AND ECONOMIC GROWTH: A STUDY OF NIGERIA'S
TELECOMMUNICATIONS SECTOR (2000-2014)**

BY

SHAFIU YAHYA MIKA'IL

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ABSTRACT

Telecommunications remain one of the most strategic economic sectors that assume prominence in the current discourses on growth and integration of national economies and transnational production. An effective telecommunications system enables countries to achieve impressive socio-economic gains. However, the Nigerian telecommunications system under state monopoly has been characterized as grossly inefficient and financially a burden on the government, among others. The government has placed a conscious strategy towards regulatory reforms in the sector. The reforms emphasize on market opening by allowing entry of private and transnational operators into the country's telecommunications market, which will eventually lead to a transformation within the industry. This study attempts to conduct a comprehensive analysis of the transformation in Nigeria's telecommunications industry, with emphasis on the impact towards economic growth. The privatization policy in this sector that resulted in the emergence of private and transnational firms, led to telephone services being more easily accessible, cost effective and competitive amongst the operators. The central argument of this study is that a significant correlation exists between market competition and growth, showing Nigerian telecommunications has been positively affected by the new deregulation policy. The positive impact of deregulations was proven by the growth rate of the selected indicators that were arranged into two broad dimensions: economic and technological dimensions. The economic dimension focuses on some economic variables, namely the sector's investment growth rate and revenue percentage compared to GDP, while the technological dimension gives emphasis towards technological and ICT related indicators, to be precise, advanced telecommunications infrastructure and the emergence of new telecommunication services.

خلاصة البحث

لا تزال الاتصالات واحدة من القطاعات الاقتصادية الاستراتيجية التي تحتلّ مكانة بارزة في الخطابات الحالية بشأن نموّ وتكامل الاقتصادات الوطنية وإنتاج البلدان الأخرى. ويمكن نظام الاتصالات الفعّال البلدان من تحقيق مكاسب اجتماعية واقتصادية مثيرة للإعجاب. ومع ذلك، ومن بين أمور أخرى، فإنّ الاتصالات النيجيرية في ظل احتكار الدولة كانت تتسم بعدم الفعالية الفائقة وعبء مالي على الحكومة. وبالتالي، وضعت الحكومة استراتيجية واعية نحو إصلاحات تتعلق بالنظام في القطاع. تؤكّد الإصلاحات على فتح أسواق من خلال السماح بدخول المشغلين من القطاعين الخاص وغير الخاص إلى سوق الاتصالات في البلاد مما يؤدي في النهاية إلى تحوّل الصناعة. وتحاول هذه الدراسة إجراء تحليل شامل حول تحوّل الاتصالات النيجيرية مع التركيز على تأثير تحوّل القطاع على النمو الاقتصادي. وقد نتج عن سياسة الخصخصة في القطاع ظهور شركات خاصة وعالمية في سوق الاتصالات في البلاد، ممّا يجعل خدمة الهاتف سهلة المنال وبتكلفة معقولة وتنافسية بين المشغلين. والنقطة الأساسية التي تدور حولها هذه الدراسة أنّ هناك علاقة كبيرة بين المنافسة في السوق والنمو، وأنّ الاتصالات النيجيرية قد تأثرت بشكل إيجابي بسياسة إلغاء التنظيم. يتم إثبات التأثير الإيجابي لرفع القيود من خلال معدّل نموّ المؤشّرات المختارة التي يتمّ ترتيبها حسب بُعْدَيْن أساسيين: البعد الاقتصادي والتكنولوجي. ويركّز البعد الاقتصادي على بعض المتغيّرات الاقتصادية، وهي معدّل نموّ استثمارات القطاع ونسبة الإيرادات إلى الناتج المحلي الإجمالي، في حين أنّ البعد التكنولوجي يركّز على المؤشّرات التكنولوجية والمتعلقة بتكنولوجيا المعلومات والاتصالات، على أن تكون البنية التحتية للاتصالات متطورة بالإضافة إلى ظهور خدمات اتصالات جديدة.

APPROVAL PAGE

The thesis of Shafiu Yahya Mika'il has been approved by the following:

Assoc. Prof. Dr. M. Moniruzzaman
Supervisor

Prof. Dr. El Fatih Abdullahi Abdel Salam
Co-Supervisor

Assoc. Prof. Dr. S.M. Quddus
Internal Examiner

Prof. Dr. Hudu A. Ayuba
External Examiner

Prof. Dr. Habu Muhammed
External Examiner

Assoc. Prof. Dr. Shahrul Na'im Sidek
Chairman

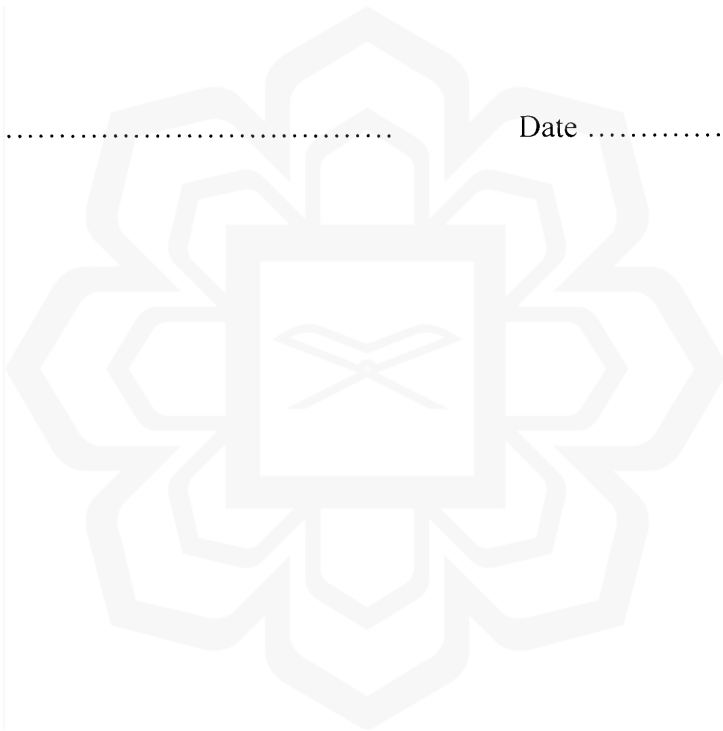
DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at IIUM or other institutions.

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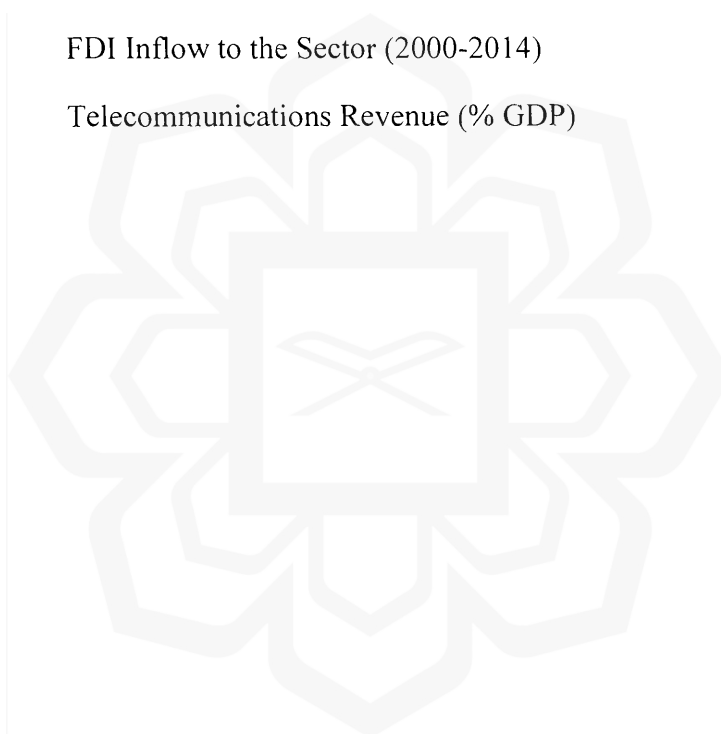


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LIST OF ABBREVIATIONS

ASUU	Academic Staff Union of Universities
IMF	International Monetary Fund
NEEDS	National Economic Empowerment and Development Strategy
FDI	Foreign Direct Investment
OPEC	Organization OF Petroleum Exporting Countries
NNPC	Nigerian National Petroleum Company
NGC	Nigerian Gas Company
EIA	Energy Information Administration
NPP	National Party of Nigeria
NAFPP	National Accelerated Food Production Project
ADP	Agricultural Development Project
ADAP	Accelerated Development Area Project
MSADP	Multi-State Agricultural Development Project`
OFN	Operation Feed the Nation
RBDA	River Basin Development Authority
NDA	National Directorate Employment
NAIS	Nigeria Agricultural Insurance Scheme
NFDP	National Fadama Development Project
NSPFS	National Special Program for Food Security
NEPA	National Electric Power Authority
SAP	Structural Adjustment Program
LDC	List Development Countries
SEEDS	State Economic Empowerment and Development Strategy
CET	Common External Tariff
ECOWAS	Economic Community of West Africa
ISIC	International Standard Industrial Classification
SIPRI	Stockholm International Peace Research Institute

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Economic growth depends on appropriate economic policies and their implementation in a country. Economic sectors are responsible for economic growth and one of them is telecommunications industry. It is widely believed that effective telecommunication process aids economic growth (Castells, 1989). Advanced telecommunications assume prominence in the current discourses on growth and integration of national economies and transnational production in the contemporary world (Aronson, 2010). Therefore, states put conscious strategies towards generating dramatic change in their telecommunication sectors. Deregulation is one of the common strategies being employed in order to pave the way for efficiency and economic growth (Haskel, 1991). Currently, national telecommunications are completely subjected to innovation, competition and inexpensive services (Pilat, 1996).

Liberalization policy and deregulation of telecommunications are international trends. Japan started the process of liberalizing its telecommunication sector after the passage of the Nippon Denshin Denwa Kabushiki Kaisha Law (NTT Law) in 1985 which facilitated gradual privatization of the sector in 1986. The United States has deregulated its telecommunications company, the American Telephone and Telegraph (AT & T). In 1986, the Telecommunication Act was passed in the Congress with an aim to deregulate and promote competition in the hitherto monopolized telecommunications industry of the country. In 1987, the British government privatized its British Telecom (BT) by selling off 51% of the company's shares to the private entities.

The successful cases in Japan, the U.S, and Britain helped the World Trade Organization (WTO) and International Telecommunications Union (ITU) to provide general guidelines and a framework through which liberalization policy was realized in other parts of the world, most especially in the developing countries. In China for instance, advancement towards liberalization programmes was effected due to the country's gravitation towards membership of the WTO in 2001. In other parts of Asia, deregulation of telecommunications sector was successfully implemented in Singapore, South Korea, Malaysia, Indonesia, India, Pakistan and other countries (Yao, 2007). Similarly, in the Latin American region, Chile had completely privatized its telecommunications sector in 1987, while Argentina and Mexico completed their privatization exercises in 1990 (Pera, 1998). In the case of Africa, South Africa, following the separation and corporatization of the telecommunications arm of the South African Post and Telegraph (SAPT) in 1991, and the granting of licenses for mobile telephony in 1993, became the first liberalizer under a well-structured regulatory framework while other states followed including Botswana, Kenya, Zimbabwe, Egypt, Mauritius, Ghana and Nigeria (Aboyade, 2005).

In Nigeria, the deregulation programme laid its foundation through the guided adoption of the Structural Adjustment Programme (SAP) in the aftermath of the nation's experience of the 1980's global economic crisis, and the eventual democratization process that paved ways to market reforms which consequently facilitated the liberalization and deregulation in the country's economic sectors including telecommunications.

The prime motive and the driving force behind the deregulation of Nigeria's telecommunication sector are to improve the quality of the service, to attract Foreign Direct Investment (FDI) and to reduce heavy government subsidies. The Nigerian

Communications Commission report (1992) provides three major reasons behind the deregulation programme of Nigeria's telecommunications sector. First, the inability and unwillingness of the government to continue subsidizing public telecom company, NITEL. Second, there was a growing demand for more effective and advanced telecommunications facilities especially by the business community. Third, the state-owned telecommunications industry was characterized by poor service delivery and slow growth in infrastructure.

Towards this end, the Nigerian Communications Commission (NCC) was established in 1992 to begin the process of deregulation of the state's monopolized telecommunications sector. The Commission began with the granting of operational licenses to some private companies for fixed wireless network service in 1997. In 2001, licenses were granted to private telecommunication firms for the Global System for Mobile Communication (GSM) to promote competition in mobile telephony. In 2002, and 2007, additional licenses were granted to other operators to increase the speed of development in the country's telecommunication sector. In line with the foregoing, the Internet Services Providers (ISPs) were also granted licenses to facilitate access to the Internet nationwide (Oluwadare, 2013).

The rate of development in all spheres of the nation, most particularly in the means of communications and its attendant market has been expanded since the deregulation exercise began. Prior to the deregulation exercise, monopolized telecommunications was only able to set up 20,000 lines on annual basis with 400,000 subscribers at 0.4% teledensity per 100 inhabitants for the entire 40 years. In contrast, in the post-deregulation period, a growth of 8 million lines on annual basis and 59 million subscribers at 42% teledensity per 100 inhabitants was achieved within seven years.

By 2015, all 774 local governments were connected to one or more of the five GSM operators and fixed wireless networks making telephone services accessible to every individual regardless of socio-economic status. An immediate effect of deregulation on the country's telecommunications market is the formation of a conducive environment for competition among various service operators. As a result, the telecommunications services seemed to become more efficient and affordable in line with international standards. In addition, private investment especially in the form of FDI in the sector also surged from \$50 million in 2000 to over \$36 billion in 2014. Thus, the sector has become one of the most promising sectors in the country and the second major source of national income after the oil sector. Presently, Nigerian telecommunications market maintains the status of the largest in the whole continent and among the fastest growing in the world. However, the issues that remained to be assessed are: has deregulation triggered sectoral economic growth? What have been its impacts on other sectors? How and what particular sectors have benefited by it?

The remarkable achievement in the telecommunications sector of Nigeria calls for investigation regarding the political economy of deregulation and economic growth. Many studies have been conducted on this issue (Adegbemile, 2007; Adoga, 2008; Alexander, 2013; Awolaye, 2012; Harrison, 2012; Lola, 2011; Jega, 2000). However, none of them has provided an in-depth examination of the major transformations effected in different aspects of the nation, particularly within the context of the new age of telecommunications. The mostly referenced literatures in this regard are advance reports from the Nigerian Communications Commission (NCC), which do not qualify as scholarly studies in this consideration. Some studies involve IT issues and quality of telephone service as the major outcomes of the sector's transformation (Kajogbola, 2004; Ndukwe, 2008; Aboyade, 2005; Tella,

2007). In consideration of the foregoing, this study attempts at conducting a comprehensive analysis of the transformation of the telecommunications sector with emphasis on the impact of the sector's transformation on economic growth.

1.2 STATEMENT OF THE PROBLEM

The rationale behind Nigeria's telecommunications sector deregulation was that it is growth friendly, competitive and contributes to economic expansion. As the sector remained under government monopoly for long and its role and contribution to the economy was under serious stress, deregulation was an alternative policy in the wake of policy rethinking under the global trend of neoliberal economy. Since the deregulation exercise began the sector has passed more than one and a half decade, but has the deregulation realized its expected result? Has there really been any measurable qualitative change in the sector following deregulation? These fundamental concerns and questions call for a serious and systematic investigation regarding the political economy of telecommunication deregulation and economic growth in Nigeria. Many studies have been conducted on this issue (Adegbemile, 2007; Adoga, 2008; Alexander, 2013; Awoloye, 2012; Harrison, 2012; Lola, 2011; Jega, 2000). However, none of them has provided an in-depth examination of the major transformations effected in different aspects of the nation, particularly within the context of the new age of telecommunications. The mostly referenced literatures in this regard are advance reports from the Nigerian Communications Commission (NCC), which do not qualify as scholarly studies in this consideration. Some studies involve IT issues and quality of telephone service as the major outcomes of the sector's transformation (Kajogbola, 2004; Ndukwe, 2008; Aboyade, 2005; Tella, 2007). In consideration of the foregoing, this study attempts at conducting a

comprehensive analysis of the transformation of the telecommunications sector with emphasis on the impact of the sector's transformation on economic growth.

1.3 SIGNIFICANCE OF THE RESEARCH

Even though many studies have been conducted on deregulation programme in the Nigerian telecommunications sector, nevertheless, none of them has provided an in-depth examination of the major transformations achieved in different aspects of the nation, particularly within the economic context. In addition, the mostly referenced literatures in this regard are advanced reports from the NCC, which do not qualify for academic investigation. Therefore, this study is significant on three accounts: theoretical, practical and policy making.

First, theoretically the study will be a valued addition to the neoliberal economic theory. The findings of the study will help to show the prediction of the neoliberal economic theory for economic variables.

Second, practically, the study will provide statistical evidence and ideas about the extent to which deregulation contributed to economic growth in Nigeria. The findings of the study will also demonstrate the contribution of deregulation towards telecommunication firms' efficiency. In addition, the study will reveal the contribution of deregulation towards employment generation, improvement in the service delivery and sector's growth. Furthermore, the study will provide the manner through which deregulation enhances competition among service providers, thereby allowing subscribers of the services to have more choices.

Third, in terms of policy-making, the outcome of the study will be useful to the regulatory body i.e. National Communications Commission (NCC) to improve market competition, service efficiency and inflow of foreign investment. In addition, the

study will be useful for policy-makers to help the players in the industry, consumers of the services and improve revenue based generated capacity.

1.4 RESEARCH QUESTIONS

In order to analyse the issue, the following questions are raised and answered in the course of the research:

1. Why did the political regime decide to deregulate the telecom sector?
2. Did the deregulation programme mediate the relationship between market liberalization and growth?
3. Has deregulation succeeded in transforming Nigeria's telecommunications sector?
4. To what extent has the transformation of Nigeria's telecommunications sector contributed to economic growth and development?

1.5 RESEARCH OBJECTIVES

The study aims at achieving the following objectives:

1. To explain the political motive and rationale behind the deregulation of Nigeria's telecommunications sector.
2. To examine the relationship between market liberalization policy and growth through an in-depth case study of Nigerian telecommunications sector.
3. To examine the extent to which deregulation contributed to the transformation of Nigerian telecommunications sector.
4. To examine the impact of sector's transformation on Nigeria's economic growth.

An elaborate analytical framework with research method is presented in chapter two of this research work.

1.6 CHAPTERIZATION

The study confines its investigation on the political economy of deregulation in Nigeria's telecommunications sector. Structurally, the research is organized into six chapters. The current chapter has provided the broad context for the entire research; setting the research questions and highlighting the research objectives. The second chapter presents the literature review, theoretical approach and analytical framework. In addition, a detailed analytical framework and research method is presented in the chapter.

The third chapter addresses the first research question. It explores and explains why the political regime during the study period decided to go for deregulation and liberalization programs.

Chapter Four addresses the second research question two in the research by examining the nexus between deregulation policy and growth, through an in-depth case study of Nigerian telecommunications sector. The chapter identifies the means through which deregulation succeeded in transforming the sector. The chapter analyses three variables which are: competition, productivity and efficiency.

Chapter Five addresses the third research question. It assess how deregulation influences transformation of Nigeria's telecommunications sector. The chapter also assesses the results of these investigations through two major dimensions which are economic and technological dimensions.

Chapter Six deals with the fourth research question. The chapter examines the extent to which transformation of Nigerian telecommunications contributed to the country's economic growth during the post-deregulation programme.

Chapter Seven concludes the research with a summary and discussion of the research findings and their general implications on theories relating to deregulation and their usefulness to the regulatory agencies, especially the Nigerian Communication Commission (NCC). In addition, the chapter includes some suggestions for further research.



CHAPTER TWO

LITERATURE REVIEW, THEORETICAL FRAMEWORK AND RESEARCH METHOD

As pointed earlier, deregulation programme and market liberalization in telecommunications sector are international trends. The existing literatures on deregulation policy have addressed several themes and questions related to its effect on growth especially in developing countries. Some of the literatures view the positive relationship between deregulation and growth, while others see negative correlation]L0-+between the two.

According to my survey, deregulation in Nigeria is a recent phenomenon. Therefore, the stock of literature is still emerging. However, the existing studies on deregulation in Nigeria suggest two major themes: rationale behind deregulation in Nigeria and outcomes of the deregulation policy in Nigeria, in which proponent and opponent perspectives are discoursed.

2.1 STUDIES ON RATIONALE BEHIND DEREGULATION IN NIGERIAN ECONOMY

In general, deregulation of economy happens as a result of depression. Depression is an economic condition where there is severe and prolonged downturn in the economy, fall in prices and productivity that led to general economic deterioration (Opeyemi, 2014). Hence, liberalization policy in Nigeria especially, deregulation of state-owned enterprises including NITEL is a response to economic decline which resulted from poor production and financial burden of those enterprises on the government.

There is a broad recognition that economic deterioration is a challenging financial condition that pushes states to liberalize their economies. A number of studies have justified deregulation policy in Nigeria on the basis of economic stagnation caused by drop of oil prices at the international market. Prior to the discovery of oil in Nigeria, the economy of the country was agricultural based. So the primary commodities dominated the country's export while manufactured substances dominated imports (CBN, 1993). However, the oil boom of early the 1970s led to the emergence of a new dimension into the economic activities in the country. The increase of oil revenue has significantly contributed to the country's economic growth. This is because, the increase of the oil revenue had led to massive increase in public spending that, was intended to expand infrastructure and non-oil productive capacity. During this period, the government's role in the economy was intensified as argued by Jerome (2008) whereby the government was able to build huge public enterprises that covered not only agriculture but also manufacturing and public utilities.

However, the fall of oil prices at the international market in the early 1980s marked the beginning of economic challenges in Nigeria. The decline of oil prices has negatively affected the economy of the country as a result of heavy dependence on oil revenue. Godwin (2001), maintains that the fall of oil prices at the international oil market in the 1980s was the prime motive behind deregulation policy in Nigerian economy. At that point of time, Nigeria's economy was almost at the verge of collapse. The nation was suffering from budgetary deficit, external debt and other macroeconomic imbalances. Similarly, Adekanya (2002) contends that deregulation policy in Nigeria was adopted as a response to the decline of oil prices at international oil market. He further argues that the policy of deregulation was planned to achieve fiscal balance and balance of payment availability as well as liberation of the financial