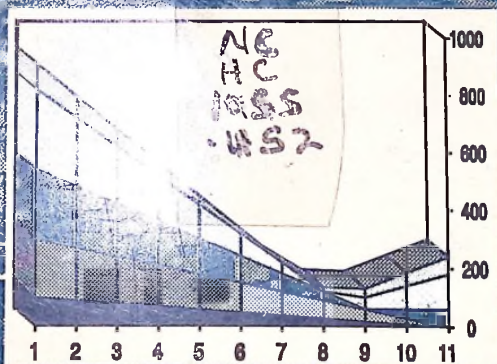


ECONOMIC REFORMS AND NIGERIA'S POLITICAL CRISIS



ROSE UMOREN



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**Economic Reforms and Nigeria's
Political Crisis**



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Rose Umoren



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Dedication

This book is dedicated to my late maternal grandmother, Madam Edem Adiaha Isuaikoh, who translated God to me.

She taught me that the oppressor always loses;
That love conquers all;
That dignity must be maintained no matter the circumstance;
That hard work is a tribute to God;
That honesty is priceless.

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Preface

In local and international discourse of Nigeria's political and economic crises, the two are usually treated as mutually exclusive. They are, however, intertwined as this book shows using the latest political crisis and the two decades old economic crisis. The book challenges the widespread attribution of the 1993-99 political crisis to the annulment by the military of the June 1993 presidential election and the subsequent incarceration to the death of the presumed winner of that election. Instead, it shows that the economic framework at the time midwived the crisis with election annulment only serving as the trigger.

This thesis is anchored on a detailed review of the economic framework in the lead-up to the election: the World Bank-International Monetary Fund (IMF) administered Structural Adjustment Programme (SAP). The review draws mostly from official data and documents from notably the World Bank IMF, Central Bank of Nigeria and Nigeria's Federal Office of Statistics covering the SAP period 1986-91. The Nigerian SAP experience is then weighed against successful turnaround strategies of specific developed and developing countries.

The findings regarding Nigeria, I believe, could be extrapolated in varying degrees to other African countries some of which have been implementing SAP since the 1970s.

The object of this book is not ideological, hence literature is drawn from left, right and centre of the development debate. The object instead is a balanced intervention in the rather unfocused search by Nigeria and other African countries for economic development strategies. This lack of focus has left these countries susceptible to, sometimes faddish, externally derived economic strategies promoted by both left and right of the international ideological spectrum. These have included *basic*

needs, trickle down and *mixed economy* with SAP as the latest.

This book was first completed early in 1993. It had to be severally revised over the last eight years to incorporate, as far as relevant, the profound experiences Nigeria has since undergone including the political crisis which erupted following the election annulment and the restoration of democracy in May 1999. Nonetheless, its crux has remained the review of SAP in Nigeria against some successful economic turnarounds elsewhere in the developing and developed worlds.

This book aims for a very wide readership in Nigeria in particular and Africa at large, where SAP has been most widely implemented under day-to-day supervision of the World Bank as IMF. The goal is to enlighten, so Africans especially can make real choices about their development strategies.

For Nigerians, the book is particularly timely as the Obasanjo government begins economic reforms with both left and right proffering strategies.

Acknowledgements

For a book which has been in the making for nine years, there are naturally many to thank. These include the British government which sponsored my MA at the University of Manchester which dissertation forms the core of the book; Mr Ralph Young of that university's economic and social studies faculty who supervised the dissertation; Concord Press of Nigeria Limited, my employers at the time, who granted me a generous study leave and thereafter a friendly intellectual environment to complete the book's first final draft; agents, publishers and politicians who in a variety of manner helped delay the publication of the book – because everything happens in its time. I thank the late Bashorun Moshood Abiola, my friend and mentor, who never tried to monetise our relationship but ceaselessly taught me that unless you dream you cannot see vision. Above all, I thank God for making my life one long miracle.

Rose Umoren
Lagos
February, 2001



Chapter One

Introduction

Located in West Africa, with a population of about 100 million, and 250 ethnic groups, Nigeria is Africa's most multicultural and populous country. It became a British colony since the beginning of the 20th century, and it gained independence in 1960. Since then, it has suffered a 30-month civil war (1967-70) which left about two million people dead and has had a stormy political evolution. It has undergone two short civilian rules: 1960-65 under Tafawa Balewa and 1979-1983 under Shehu Shagari. The rest have been seven military regimes, and all but the just departed Abdulsalami Abubakar's, through coups. Only one head of state, General Obasanjo (1976-79) has ever retired according to established constitutional procedure.

The largest black nation in the world is experiencing another round of resurgence after hitting the brink again under the late General Sani Abacha. In the discourse of this latest crisis which is often traced to the annulment by the military of the June 12, 1993 Presidential Election – presumably won by the international businessman, Bashorun Moshood Abiola, who subsequently died in government custody – the tendency has been to see its genesis only in political terms. Where economics are touched upon, it is mostly to the extent of implications or impact of the political crisis. The farthest many venture in considering economic causes of the crisis is in reference to corruption.

The role of corruption as the midwife of the crisis is undeniable, for both the military and their civilian cronies were in the main drive, over the years, in quest of such personal enrichment which their legitimate earnings, regardless of station, would not confer. But corruption was only a by-product of the warped economic framework in the lead-up to the crisis.

The economic framework, which operated in Nigeria from September 1986, the Structural Adjustment Programme (SAP), substantially sowed the seed for the subsequent political crisis. This it did in five major ways:

- (a) It was totally externally directed, reducing Nigerians to factory-line policy executors.
- (b) It was totally externally formulated and the outcome was important only as it fulfilled the design and fitted the evaluation mould of the World Bank and International Monetary Fund (IMF), both representing creditors, notably the Group of Seven (G7) leading industrial countries – the United States, Japan, Germany, France, Britain, Italy, Canada – the Organisation of Economic Cooperation and Development (OECD) at large, and international banks under the grouping London Club. The evaluation mould was (i) ideological – in that SAP was being implemented at all levels regardless of how – and (ii) statistical, regardless of how the statistics were collated or collected.
- (c) It was totally closed to healthy discourse; the formula had to be adhered to.
- (d) It thrived on personality cult – dictatorship or such collective. Indeed, the discussion of developing countries' economic reforms in mainstream international media and the preponderance of World Bank literature at the time were skewed in favour of dictatorships with Chile's dictator, General Augusto Pinochet, for instance, widely celebrated. This is reflected in the way the Nigerian situation was reported by such influential media as the *Financial Times* on which much of the world relies for information on Africa. It is also reflected in the way Nigeria was appraised in World Bank and related economic literature.
- (e) It thrived on secrecy, near-falsehoods and falsehoods. SAP was, for instance, being presented as "home-grown" by

both the bank and the Nigerian military regime. There was also the claim that external debts would contract when they actually ballooned. There were as well several claims that fuel price would be untouched only for it to be repeatedly increased by swift fiat. Yet another such claim was that the IMF was no party to the programme.

Nigeria is naturally a capitalist country. And successful capitalist states, notably the United States where ironically the World Bank and IMF are based, have demonstrated for decades that capitalism thrives on openness. It also requires majority participation, at various levels, in broad policy making. This is to ensure ownership of whatever policies are enacted. The SAP reforms in terms of formulation, implementation and so-called evaluation were total antithesis of capitalism. The result, as you will see in subsequent pages, is that, like other superimposed issues, the reforms were visible on paper and the military regime's will to ram them through the populace, but short on delivering on its objectives. Nigerians who overwhelmingly volunteered during the 1985-1986 'IMF Loan debate' to sacrifice for reforms they were convinced their country needed became hostages of reforms on which they were not consulted and which were not implemented to their real and sustained benefits. At the same time, the necessary debate, which keeps the policy process in a capitalist state healthy, was eliminated by brute force, convincingly administered by one of the two most brutal leaders in Nigeria's history, General Ibrahim Babangida. The only debate, if it could be so tagged, on the reforms, existed between the IMF under the shadows of its sister, the World Bank, and General Babangida, flanked by officials endorsed by the two Washington-based Bretton Woods institutions (BWIs). The reforms, expectedly, turned out to be a ten-commandment process. Babangida, in secrecy, obtained from the BWIs the policies which, rather than being unique to and revolving around Nigeria's problems, were common to at least 50 other countries

in Africa, Latin America and Asia. He rammed them through the populace with force and corruption of the leaderships of the civil society including the media and labour unions. There was also a battery of officials – some World Bank and IMF-trained, some eager to be seen as internationalists as opposed to the “nationalists” reviled by the BWIs and leading international newspapers – to rationalise all such policies and their often *ad-hoc* amendments as in Nigerians’ interest. Dissenters were roundly condemned as ignorant and unpatriotic.

In between, Babangida, his lieutenants and cronies took care of themselves, cornering, often with fronts, banking licences, privatisation, poorly recorded oil lifting, legitimate oil proceeds, fuel pump prices and the gamut of factor and price manipulations SAP was to carry out. The externally-driven nature of SAP and the attendant secrecy, allowed its key implementors to use liberalisation just as the discredited import licensing system, for corrupt self-enrichment and political patronage. Licences in aviation, the petroleum sector and banking, purportedly meant to liberalise the sectors, mostly went to fronts and cronies of key members of the regime. Some people ended up with two or more banking licences at a go, even as they were yet to prove capable of sustaining a bank.

Most Nigerians paid the double price. First, for a faulty policy package which even the World Bank finally acknowledged SAP to be in 1996 and ordered a review, although the IMF is yet to do so. And also, for a less than honest implementation of that package.

Yet, there was a fertile ground for genuine policy reforms. After the 1970s oil boom, Nigerians had become increasingly aware that their country’s economy could not continue on the policy path it had followed since independence in 1960. Notably, it was clear by the early 1980s that decision makers lacked the discipline to maintain the import licensing regime which, in any case, had become too cumbersome as imports skyrocketed from

around \$200 million to some \$26 billion before contracting again to stabilise around \$13 billion in the mid-1980s. There was the added burden that import licensing was going out of vogue globally. The latter was important because Nigeria is some 70% import dependent and at least 65% generally dependent on external trade. Many economic operators and technocrats acknowledged that to retain import licensing meant dislocating import administration from the rest of the world's. There was, therefore, a groundswell of opinion for economic reforms.

Creditors' notion of Nigerians as helpless and incapable of deciding by consensus what direction their economy should take was unfounded. Their decision that the World Bank and IMF in conjunction with "reformist" Babangida should lead Nigerians by the nose only ensured there was no local ownership of the SAP policies. This took away the basis for genuine policy articulation, implementation and sustainability, resulting in its unceremonious abandonment sometime in 1992. It also fouled the overall policy environment, thus, preparing the ground for the subsequent political crisis.

Instead of transparency which SAP, were it honestly and inclusively formulated and implemented, would have enthroned, a dark cloak of secrecy steadily enveloped Nigeria's policy process and the management of resources. When it emerged that parliaments, the press and the civil societies at large in such countries as India and post-communist Poland were openly debating their country's negotiations with the BWIs including Letters of Intent which spell out possible future policies, Nigerians increasingly felt short-changed. They often demonstrated this with indifference to or outright non-compliance with the SAP policies. This could only bode ill, for the policies required enormous public support and sacrifice to succeed.

Consequently, the nation that SAP promised to make richer got poorer and went from being heavily indebted to being

severely indebted and debt distressed. The key SAP implementers, on the other hand, got stupendously rich. Instead of enhanced private capital inflows expected to result from liberalisation, Nigeria, a capital deficit country, intensified her export of capital as both private and public sector operators abused the freedoms financial liberalisation engendered.

Indeed, the liberalisation of the banking system which, because of the centrality of payment to an economy, was the fulcrum of SAP, arguably best encapsulates what happened in 1986 - 92. It illustrates the breakdown in systemic controls and other checks and balances in the economic framework during the SAP period.

Whether in 1986 Nigeria truly needed more than the 12 merchant and 29 commercial banks then in operation will remain a point of debate. There was a clear need though for better access to and more qualitative banking services as opposed to banks' increasing complacency in a culture the Central Bank of Nigeria (CBN) called "arm chair banking". Purportedly to enthrone competition, the Babangida regime adopted a two-prong financial system liberalisation. One prong comprised licensing of new banks; the other was privatisation of older ones owned wholly or partially by the government. Who cornered which privatised bank's shares or new bank licence may remain unknown for a while, largely because of wide scale use of proxies, although some indications are emerging in the ongoing board changes in some of the banks. Not so unclear, however, is that the licensing of new banks had little to do with concerns about the quality, accessibility of banking services or for that matter real savings mobilisation. For one, most of the new licences were for merchant banks unknown for branch proliferation or interest in huge customer base. All the new banks crowded in Lagos, some in two-bedroom flats. The focus was trading in guaranteed foreign exchange from the Central Bank.

Outside Lagos, the country remained under-banked. Banking services remained poor even in Lagos. But bank ownership turned out to be even more lucrative than the ousted import

licences. A bank licence automatically granted access to the foreign exchange market. Virtually every weekday or every week, a bank, regardless of size, was more or less guaranteed foreign exchange which, because of its scarcity, was hotly chased by other economic operators including speculators. In the days of the 'Dutch Auction' on the then Second-tier Foreign Exchange Market (SFEM), small new banks with hardly customers' base would outbid big old banks with established customers' base for foreign exchange. Under subsequent systems, small and big banks were guaranteed foreign exchange. Either way, many of the new banks had huge sums of scarce foreign exchange to play with. The extortion gate had only shifted from the Federal Ministry of Trade which administered import licensing to the banks. Much of such sums ended up on the parallel market where the premium over SFEM often hovered around 11%. Foreign airlines and other investors desperate to circumvent the then law on capital and profit repatriation went through such banks who fiddled books to reflect the transactions otherwise. More significantly, some of the banks served as gateways for illegal remittance abroad for Nigeria's ruling elite. The once respected, if inefficient, banking system became a house of cards. Besides cheap foreign exchange, some new banks like the subsequently liquidated Alpha Merchant Bank got huge government take-off grants by deposits. Claiming efficiency, they declared profits in a tiny fraction of the average of four years it used to take. Alpha declared profit within four months.

Some of the new banks were so powerful that they were untouchable by the Central Bank, which was ironically "autonomous" in the SAP period. They abused SFEM rules quite often. Most infractions revolved around foreign exchange demand and utilisation. The CBN complained publicly. Now and then it imposed penalties. But whether a bank served its penalty or not, depended on its owners' access to Babangida or his military aides. The CBN penalties became a joke because they were hardly effected or for the statutory course. All sectors

of the economy for which the state was in a position to issue licences in the name of liberalisation were similarly affected, including the aviation and petroleum industries.

When Bābangida's phoney transition programme was unfolded, his cronies had so much money that they hijacked the process, using their bank vaults as political vending machines. Their staff followed suit. This precipitated a systemic crash in 1993 which became manifest after the June 12 election was annulled and the political process disbanded by Babangida. Not only did many of the new banks collapse, they also dragged into liquidation some old blue chip banks, notably ICON (Merchant Bankers) Ltd. Besides, the state had to bail out depositors of the altogether 31 banks liquidated in two waves (1995) and in March 1998, which severely tested the capacity of the NDIC, established only in 1988. The fallouts are still manifest in the trials of the owners and managers of the failed banks which have proved difficult despite the creation in 1995 of special tribunals for the purpose. By May 1999, less than 10% of the cases had been tried and some suspects had languished in police custody for upwards of three years. The tribunals were abolished in May 1999 with the cases transferred to Federal High Court's jurisdiction; but the huge numbers and complexity of the cases are bound to remain problematic in view of the manpower and infrastructural shortages in the judiciary.

By the time Abacha became the head of state, the economy was so bad and values so truncated that the only way out for some people to survive and ditch poverty was to participate in the ruler's personality cult. No sector was spared, from the media to the police, the professional politicians and public accountants. Were Abiola not a man of great personal wealth which he spent generously to further his ambition of having his election actualised, Babangida would have got away with the June 23, 1993 annulment and would probably still be in power. The spread of unearned wealth occasioned by the SAP policy framework

had delivered the polity to him. The contest had become not of traditional values against a new market philosophy, but of being honest and staying poor or joining the personality cult and becoming instantly rich from state concessions under the cloak of reforms. The role models had become not men of honest means, but the ruler's cronies and acolytes who became rich with hardly any other qualification.

That Nigeria, after 25 years of independence from Britain, developed into a most cruel dictatorship led by the late General Abacha is largely traceable to the poverty of respect, transparency and eventually wealth, which the so-called SAP reforms helped to institute. With the large scale failure to deliver by the reforms, the long-standing gap between the rich and the poor widened. More damaging perhaps to the socio-political fabric was how people got rich or stayed rich. Hard work gave way to idle cronyism characterised by access to Babangida and his military aides.

A major casualty in the policy making process was the annual budget. While in the United States and other G7 countries, the dominant influences in the BWIs, a budget is understood as the consensual fiscal instrument that it is and subjected to broad inclusive discourse including vigorous disagreements with possible government shutdown, in Nigeria, the budget might as well have been dictated in the office of a middle level IMF Africa manager working in conjunction with his World Bank counterpart. In the ten-commandment transmission process, Nigerians would be told what to do in the yearly budget speech by Babangida, followed the next day the breakdown by his finance minister of the moment.

Nigerians, individuals and businesses, became alienated from the policy process. This was traumatic. For one, Nigeria traditionally had a vibrant public decision making process, despite long years of military rule. The Organised Private Sector (OPS) – comprising the Manufacturers Association of Nigeria (MAN), the National Association of Chambers of Commerce,

Industry, Mines and Agriculture (NACCIMA) and the Nigerian Employers Consultative Assembly (NECA) – older than the country, had long prided itself on and was by 1986 well used to influencing policy making, especially the national budget. It had a tradition of preparing for government pre-budget memoranda and post-budget reviews, which was expected to be taken seriously. Regardless of the hue of government, some kind of mutual respect had, over the decades, been established between policy makers and business.

One of the first signs that this respect was being lost on both sides occurred in SAP's first year. Directly after the 1987 budget breakdown by the Finance Minister, Dr Chu S. P. Okongwu, then President of the Lagos Chamber of Commerce and Industry (LCCI), the country's oldest business grouping, Professor Ayo Ogunsheye exploded in an interview with me, (then a reporter for *Concord Newspapers*). "Consumers will pay," he fumed in an uncharacteristic outburst, emphasising that the just announced fiscal measures were far from discussed or negotiated with business. He caught himself just in time to plead for this not to be reported, promising a more comprehensive and formal reaction which though less trenchant, was still with anger. The paucity of respect for business in the policy making process was key to the failure of, for instance, the government's attempt to foster backward integration by manufacturing firms.

Meetings between the two sides, such as those of the joint committees on tariffs and local sourcing by the brewing industry degenerated into dialogues of the deaf, and levels of representation subsequently went down. The result: the tariff could not last its planned seven-year life-span and the local sourcing imposed on the breweries generally flopped.

Where previously there had existed some measure of collaboration, business and government began to engage in a reactionary spiral to each other's actions; the government by way of often *ad-hoc* policies, businesses by way of often

arbitrary price increases and sharp practices. By 1989, the government was more or less permanently at odds with business and the two were working at cross-purposes, running circles around each other. Manufacturers and banks were routinely accused of sabotaging, especially the Second-tier Foreign Exchange Market (SFEM) where the adoption of various types of auction in quick succession failed to stabilise the exchange rate. Culprits were not lacking either. Some manufacturers inflated invoices with the collaboration of their banks. Sometimes, at the instance of foreign technical partners, the excess foreign exchange demand was for repatriation of profits, royalties, etc. at a time the foreign exchange policy was to limit such transfers. Often too, Nigerian managers and business owners helped themselves with transfers to buy property or simply stash cash abroad. The sense of alienation among businesses combined with the corrupt example set by the political leadership and inert greed of some business operators to make the common sense need to conserve available foreign exchange nonsensical. What the political leaders left, bankers and manufacturers looted through over-invoicing which funded illegal transfers, and fraudulent claims of customers' demand. The secretive, high-handed and hypocritical policy environment made the search for loopholes easy and fruitful. Some of the fraudulently secured foreign exchange ended up on the unofficial parallel market at a premium of around six naira per dollar.

The CBN responded by regularly penalising firms, including banks, by barring them from the SFEM auctions. But reflecting the political background of how they got licensed, the new banks especially, usually responded belligerently to the penalties, openly daring the CBN in the press. Often, the CBN was the one backing down, getting weaker and weaker in the process.

By June 1993, the country was rudderless economically and the political framework was only waiting for a trigger to erupt into a crisis. The June 12 election annulment was just that trigger.

The emergence of Abacha and his reign of terror was more or less a natural outcome.

Nigeria has to look critically into its past to know how to deal with the present, more so, as it remains confronted by the same economic problems as in 1985 including external debt overhang and intense poverty. This is the purpose of this book. This examination is all the more critical because the country's menu of options in solving these problems remain basically the same with the most viable ones still revolving around the creditors represented by the BWIs. On their part, the Washington institutions have demonstrated how badly they want to re-establish their foothold in the economy because Nigeria represents an ideological prize. High level World Bank and IMF visits have been regular since this year, with the bank's Vice-President for Africa a spectator at the inauguration of President Olusegun Obasanjo last May 29. But Nigeria's economic problems are not ideological. They are genuine problems of poverty and economic transformation. They must, therefore, be tackled within the appropriate economic, social and political context.

Much as Nigeria needs the goodwill, technical assistance of and financing from the BWIs, the experience from 1986 to 1992 is a clear case for genuine partnership which mandates real consultations and debate, mutual respect between internal and the external stakeholders, and internally-driven evaluation parameters and mechanism. The World Bank in November 1998 announced intention to expand its activities in Nigeria; this is fine provided the injection of the much needed development financing is not a return to the earlier policy framework. This means taking to heart the lessons therefrom. There are four such key lessons:

- (a) That reforms are often neutral instrument which can be abused by anyone;
- (b) That only transparency and popular participation, which means ownership of, can guarantee reforms;

- (c) That reforms, no matter how well packaged or successful elsewhere, can be abused by the political leadership unless secured by public scrutiny;
- (d) That to secure public ownership, reforms must be robustly debated locally and have a robust local input.

Synopsis of Economic Reforms and Nigeria's Political Crisis

This book, written over a period of about seven years and based substantially on a Master of Arts (MA) dissertation thesis, has two basic premises. One is that it traces the latest political crisis from which Nigeria is hopefully emerging, to the economic reforms of 1986-1992 under SAP. The second premise is a critical analysis and evaluation of the SAP reforms against their stated goals to determine their advantages and inadequacies. An auxiliary third premise is a critique of the free market model upon which SAP was supposedly based. The critique starts with a review of Adam Smith's theory of the ideal market including his thesis of comparative advantage. It goes on to present case studies of some countries' successful development strategies *vis-a-vis* the SAP reforms.

The book is in two parts. Part One comprising seven chapters presents the SAP reforms and their evaluation. The evidence is that Nigeria by 1986 badly needed economic reforms such as would abolish, among others, the cumbersome and corrupted import licensing regime and the farmers' penalising-marketing boards; but the externally-driven nature of the SAP reforms as well as insincere implementation ended up destabilising the country both economically and politically.

Chapter One summarises how the reforms established the basis for the political crisis which erupted in 1993 with the annulment by the military of the June 12 Presidential Election

presumably won by the late Bashorun Moshood Abiola. Chapter Two traces the origins of the country's external debt crisis, which largely informed the external focus of the SAP reforms.

Chapter Three introduces the SAP reforms against the backdrop of Nigeria's economic and political experiences from independence in 1960. Chapter Four presents the design and implementation of the reforms including financial sector liberalisation, external trade reforms and reforms of the public sector notably commercialisation and privatisation. Chapter Five examines external support that was so critical in the success of economic reforms in notably Latin America and post-Communist Poland. Chapter Six evaluates the reforms' economic outcome against stated goals using the before-after approach. There are two major limitations in this evaluation:

- (a) Reliability of official data in the case of a programme railroaded through without popular participation and on which the integrity of the military was staked. For example, the Manufacturers Association of Nigeria (MAN) and the CBN/Federal Office of Statistics regularly disagree on industrial capacity utilisation, a key index of the economy's performance. MAN's figures are regularly lower than the latter's. For 1991 for instance, the CBN report puts average capacity utilisation at 39.4% while MAN conversely puts it at 37.4%, (*African Guardian*, 29 June 1992, *West Africa*, 27 July, 1992). However, such conflicts were resolved in this work with the acceptance that the CBN, like any other Central Bank, and the Federal Office of Statistics have better machinery than any other agency in the economy to collect and process the affected data. Nevertheless, where possible, World Bank data were used to either supplement or contrast.
- (b) Lack of data on the informal sector (estimated at 60% of the overall economy). This is important in terms of rate and

level of unemployment, income, and the real volume and value of exports which leave Nigeria by means of smuggling. Chapter Seven evaluates the socio-political impact of the reforms.

Part Two comprises a critique of the free market theory and contrasts the theory and claims about it with the actual economic turnaround and development experiences of some topical countries in different parts of the world. There are four case studies: South Korea, Japan, Britain and post-World War West Germany. Precisely, Chapter Eight is a critique of Adam Smith's free market theory as it encapsulates labour, prices and other factors, as well as international trade based on what he called "comparative advantage." This critique goes beyond claims about what Adam Smith said to critically examine his benchmark 1776 book: *An Enquiry into the Wealth of Nations*.

Chapter Nine presents the four development case studies: Britain, South Korea, Japan and post-World War II West Germany. Chapter Ten presents the limitations of it just as it recognises the inevitability of the market provided it is within a pragmatic framework. Chapter Eleven contains conclusions, including lessons for Nigeria.

Chapter Two

Origins of Debt Distress

2.1 Introduction

Nigeria accounts for more than a fifth of the about \$230 billion currently owed by sub-Saharan African countries. In structure, however, Nigeria's debt of about \$28 billion has more in common with Latin American countries such as Mexico, Argentina and Brazil than fellow Sub-Saharan African countries. To understand why this is so mandates an examination of the origins of the debt which is largely intertwined with the very structure of the country's post-independence economy. This chapter takes us back to the 1970s beginnings of substantial borrowings, across the early 1980s external short-term credit jamboree, and the late 80s to early 90s mounting payment arrears and humiliating dependence on concessional reliance multilateral loans generally tagged aid.

2.2 How it Started

Nigeria was a poor country until the 1973-74 oil price rises. Thus, from its first Five Year Plan in 1962, the country had to borrow externally. But such borrowings were frugal, of medium to long-term and sometimes concessional. In consequence, debt servicing was never a problem, hovering around 2% of exports. This cautious attitude prevailed throughout the 1960s and most of the 1970s.

From 1976, the caution dissipated. Oil prices had fallen again. About this time, Nigeria's third military government, headed by General Olusegun Obasanjo was in its dying moments. Partly to leave some marks behind, the government embarked on large projects pegged on external financing. Thus, alongside Mexico

and Venezuela, Nigeria borrowed and the lenders in competition lent with vigour against its perceived oil wealth. These were partly short-term loans, at floating interest rates, with large commissions among other charges. They also had various client-centred liability clauses, the implications of which some client-negotiators probably failed to understand.

In January 1978, Nigeria negotiated on the Euromarket a \$1 billion loan repayable in seven years. It was and probably remains the largest Euroloan ever obtained by an African country. In July of the same year, Nigeria sought another \$1 billion. This was more difficult to obtain because oil prices were still falling, the country's external balance was in deficit for the third consecutive year and it in effect was no longer considered a first class borrower. However, late in 1978, it obtained \$750 million. As another illustration of the competition to lend among banks, in February 1979, a consortium of German and Austrian banks provided a further \$1.126 billion. The other international banks rejoined the scramble and provided a further but this time 'tied' \$200 billion.

In September 1979, with just a few days to hand-over on October 1, oil prices bullish again, the government raised more Euroloans amounting to about \$1 billion (Europa 1989).

By the end of 1982, Nigeria's external debt service had risen to \$134.1 million. But this was a comfortable 4.9% of exports. Total debts then at \$13.124 billion were just 17.4% of GNP.

By 1984, the sharp deterioration of Nigeria's debt portfolio was more evident. Apart from all ICM loans having fallen due since 1982, trade arrears accumulated between 1981 and 1983 were also building up rapidly. A major problem was that no one at that time knew for certain just how much the arrears amounted to. In the four-year Shagari civilian government, import licences were issued by the Ministry of Trade with little bearing from the Central Bank. And with Nigeria's perceived oil wealth, foreign exporters just kept the credit open, some guaranteed by their home governments.

There were no new loans between 1984 and 1985. From 1986, the new government under General Babangida resumed borrowing. But this time only from the World Bank as the banks had since 1982 stopped lending to Nigeria. In 1986, the World Bank made a \$452 million trade policy and export development loan commitment.

The Babangida government did not stop at this World Bank loan; nor could it, for as far back as 1983, Nigeria was estimated to need \$11 billion external funding (Europa, 1989) and that need deepened with dwindling export earnings. In 1988, the World Bank announced it was making available to Nigeria \$2.95 billion over 1988-90; this would include two structural adjustment loans to support trade and industry. Commercial banks were also to provide \$320 million and Japan \$200 million (Europa, 1991).

As many a post-colonial state, Nigeria needed to upgrade and build a lot of infrastructure. To administer a country of 924,000 square kilometres and 250 ethnic groups speaking about 450 different languages required not only a redistribution of existing infrastructure, but a substantial amount of new investment considering that while a few parts were already well developed, most parts, especially the hinterland were effectively islands of their own.

Indeed, this lopsided economic development was a fundamental cause of the 1967-70 civil war. This is yet another factor of Nigeria's large borrowings in the 1970s. An estimated two million people were killed in that war; most existent infrastructure and private-property outside Lagos, then federal capital, were destroyed. It was just in time that the 1973-74 oil price rises occurred alongside new oil finds bringing Nigeria's production close to 2 million barrels per day.

When the 1975 oil slump occurred, a lot still needed to be done, especially in boosting investments. The manufacturing sector was virtually non-existent. Operating transnational

corporations did very little manufacturing in the country which is rich in a variety of resources from agricultural and marine to mineral resources. Nigeria was about 90% import dependent while her resources lay waste.

It was up to the state to lead. Not only did it enter into equity investments with such TNCs as Volkswagen of Germany, Leylands of Britain; Peugeot Automobile of France to set up motor assembly plants, it also in some instances set up manufacturing companies by itself either for want of equity partners or for what it deemed national interest.

The various loans procured between 1978 and October 1979 although mostly untied, were targetted largely at such investments. These included paper mills, steel plants, refineries, and power installations. One of the loans, the \$750 million from a consortium of German and Austrian banks, was meant mainly for the Delta steel project near Warri.

Phase I. The 1978-79 borrowings could be described as the first phase of Nigeria's external debt distress origins. In this era, borrowings were investments-targetted. The soundness of those investments may now be in question. Some remain uncompleted. Colman and Nixon's (1986) points about many less developed countries (LDC) debts applies in most part to Nigeria's:

With hindsight, ... in many instances money was borrowed and lent on the basis of inadequate project appraisals and exaggeratedly optimistic forecasts of the time needed to construct capital projects, their efficiency when operating, and the marketability of their products. For their part, the Western commercial banks involved in these loans possibly took an over-relaxed attitude to the productivity of their loans; it was reasonable for them to assume that at the end of the day the IMF and Western governments would do their best to prevent LDCs having to default on loans and to effectively guarantee the integrity of the system of financing international trade. On the other hand, in some LDCs economic mismanagement and widespread corruption led to both poor investment decisions and a diminution of the cost effectiveness of good

projects. (p194)

A lot of domestic mistakes were made in choice, siting, design and execution of projects. But while political mistakes cannot be ruled out, a lot of the errors may be much more attributable to manpower inadequacies, most notably negotiating manpower. Nigeria in the 1970s was short of such highly skilled manpower and relied heavily on foreign experts for negotiations, design and implementation of projects.

Costly mistakes ensued. The steel projects on which a lot of hope was built are only partly completed. Design faults have been spotted several times and in the process of correction, the cost of the Ajaokuta steel complex for example, has risen about seven-fold, from \$1 billion at inception to currently estimated \$7 billion.

The story of the steel companies is the same as that of the paper mills. The end-user mills have been completed since the early 1980s. But their designs mandate that at least 20% contents be imported although the raw materials for those contents are locally available in large quantities. Furthermore, the supplier of some of the two completed mills' intermediate raw materials work which began earlier is still uncompleted due to design problems, underestimation of costs and now lack of funds to complete the project's remaining 15%. The equity investments in automobile manufacturing have been a huge disappointment. Despite agreements at inception in the 1970s that they would achieve a local content of 70% over 10 years, as at 1983 they had achieved less than 10% and even as the country's economic crisis deepened by 1990, they had still achieved less than 20%. As a result, their outputs have remained small and too expensive to effectively tap the local market. Exports have also been constrained for the same reason but more because the TNC partners already operate in one form or another in neighbouring countries.

Yet another beneficiary of the loans was a group of petrochemical projects. Phases I, II, III of the projects were

expected to be completed in 1983, 1987 and 1990. By 1986, Phase I whose outputs were to be used for the manufacture of woven sacks, bottle crates, automotive components, textiles, footwear, carbon papers, pigments, production of detergents, etc, was only partially completed.

But some projects in this phase of borrowing have turned out satisfactory, at least for a while. An example, until 1995, is the National Fertilizer Company (NAFCON), Onne. Built with around \$700 million, NAFCON not only met 50% of domestic fertilizer requirements (450,000 metric tons) but within a year of operation posted healthy profits in foreign exchange from exports which allowed it to service its debts and procure its 20% offshore content.

Phase II, (1980-83): This phase had two key characteristics. First, was the collapse of central control. The rivalry between the National Party of Nigeria controlled centre and the nine states controlled by the three parties of the opposition Progressive People's Alliance (PPA) was displayed even on the international financial market. While NPN states generally sought federal consent on their external loans, the other state governments often did not bother. Second, there developed a paradox between the federal and state borrowing patterns. Most state external borrowings, at least in principle, went into notably industrial projects. Although most of such projects were incomplete by December 1983 when the military again seized power, evidences of work in progress existed and some eventually turned out viable, at least temporarily. An example is the Quality Ceramics Industry in Uyo. Some have, however, turned out disappointments on completion due to both political manoeuvres and technical faults.

Conversely, most federal debts in this phase went into consumption items. The state-owned Nigerian National Supply Company (NNSC) imported various items of mass consumption, from sugar and rice to milk. Trade arrears mounted for even

after the \$4.977 billion external surplus had been wiped out by 1982, and the binge continued. To all these should be added the state owned national carrier, Nigeria Airways. A sound investment on its own, boasting world class personnel, the airline was rarely allowed to operate as a commercial venture. Interventions ranged from poorly arranged loans, aeroplane leases, and servicing contracts imposed on the airline by the federal authorities, to disruptions of flight schedules by politicians. Thus, a potentially viable organisation has been unable to service its debt and has steadily deteriorated.

Yet another dimension was credit supplies of 'raw materials' which were invariably ready-for-market concentrates and completely knocked down (CKD) parts from parent TNCs such as Unilever, Volkswagen, Peugeot to their subsidiaries. These, ranging from barley malt, auto-components to sugar drink and cream concentrates were kept up long after the country had ceased being able to pay for them.

Phase III: After a new loans-free period between January 1984 and August 1985, there was a resumption with a \$119m World Bank loan (CBN, 1986) perhaps for the different agricultural development projects which the World Bank has been financing since 1961. In 1986 came a \$312.9m loan from the World Bank, a part of which was the \$252 million first tranche of the \$452m earlier cited TPEDL. In 1987 the World Bank provided \$694m, its affiliate the International Finance Corporation (IFC) \$20m and the African Development Bank (ADB) from which Nigeria, a major shareholder had rarely borrowed, provided \$31.2m (CBN, 1988). It is not clear what the former was for, but the latter was to finance a water project in Ibadan, one of Nigeria's largest cities. In 1988 came \$300m and \$22.9m from the World Bank and IFC, respectively.

The next year, 1988, marked a turning point for Nigeria, a return to its pre-1973 status as a poor country. With the World Bank now estimating income below \$300 per head, it declared

Nigeria a low income country, eligible for the bank's concessional International Development Agency (IDA) resources. Thus, in 1989, Nigeria got \$100.9m from IDA whose loans are repayable over 40 years, after 10 years of grace and at 0.75% interest. The loan was for rural and agricultural development projects. Alongside this came \$1.1b from the core World Bank for similar projects as well as others in industry especially small and medium scale enterprises, water supply and sewerage, and to support the structural adjustment policies. IFC also provided \$14.4m to finance private sector projects in textiles, fisheries, and medium-scale enterprises. African Development Bank (ADB) provided \$278m to finance water supply and rural infrastructure as well as a credit line for on-lending to private enterprises. Thus, altogether, \$1.4933b loans were provided that year, a 462.5% rise from the previous year and about the highest since the debt crisis in 1982.

In 1990, the World Bank committed \$500m to finance projects in agriculture and rural development, energy, telecommunications, urban development, population - health and nutrition. International Development Agency (IDA) provided \$120m in support of the reform and rationalisation of the federal university system. IFC provided \$6.2m for private projects in agriculture and manufacturing. From ADB came about \$400m to finance various projects in health, agriculture and public utilities.

Two notes of caution though. First, above may not be all the loans within the period as Central Bank presentations vary but they capture at least 95% of all such loans. Second, most of these figures are commitments which are different from actual disbursements. Disbursements are often in graduated tranches each of which is the subject of further negotiation.

A feature of this phase is that borrowings were restricted to multilateral and concessional sources such as the World Bank, Japan's OECF, ADB, etc. A notable omission, however, is the IMF and this, as indicated in Chapter One and more fully

explained presently, was a political symbolism by the Babangida regime. Restricting new borrowings to multilateral sources was official policy in realisation of previous follies. Exceptions were made of key projects such as the Oso Condensate and Liquefied Natural Gas projects, negotiations on which are going on. On the other hand, the international capital market is still suspicious of Nigeria's creditworthiness and banks have been reluctant to lend, even as a part of existing debt negotiations/agreements. Second, borrowings are largely investment-directed, like in the pre-1980 days but this time perhaps out of necessity to ensure such loans can be serviced as well as the fact that consumption-oriented loans would rarely be available. A third feature is that centralised control of external borrowings returned. Virtually no one could borrow externally without the consent of the Federal Government

2.3. Debt Management and the Lead-up to SAP

In 1983, the Shagari government secretly began negotiations with the IMF. However, by the end of that government, the negotiations were yet to be concluded. The obstacles were the need to reconcile Nigeria's accounts and just how much restricted economic programme would be politically expedient in view of growing violently expressed discontent.

When the Buhari-led military government assumed control in 1984, it immediately began talks with creditors and negotiations resumed with the IMF. There were two sore points: (a) the exact amount of Nigeria's debts was not known and conflicting claims from suppliers and Nigerian recipients were not helping matters. Some suppliers constituting powerful political blocs in their home countries, for example Germany, bore heavily on the attitude of such governments. (b) The IMF offered a standard programme with stringent conditions some of which the government found objectionable. These were a

30% devaluation of the naira, which at that time, was stronger than the US dollar (see table 3); withdrawal of all subsidies; and complete trade liberalisation. The government in the meantime embarked on what proved to be a long process of reconciling the 1981-83 trade debt claims.

Chase Merchant Bank of London was appointed to carry out the reconciliation. Servicing of the known debts continued. In 1984, this claimed \$3.11168b, representing 27.15% of foreign exchange earnings. This was in addition to promissory notes issued on reconciled trade arrears claims. By July 1985, the government was close to accepting an IMF programme. But in August it was overthrown by General Babangida.

Exploiting the considerable public opposition to a fund programme, Babangida threw the subject open to a public debate. In apparent abeyance to popular will, Babangida in October publicly terminated the negotiations with the fund. But Nigeria was still negotiating with the Bretton Woods institution, fund, not for loans but for the usual stand-by agreement (endorsement) which would allow any headway with the Paris Club of creditor governments and the London Club of commercial banks.

By the end of December 1985, further progress was made in refinancing the trade arrears: additional uninsured claims of \$1.3b and insured claims of \$433m were reconciled and accepted, and about \$253m was paid as interest on promissory notes already issued and accepted claims whose owners declined promissory notes. New promissory notes amounting to \$1.0482b were issued on the newly reconciled claims bringing the total value to \$1.3062b. A fair picture of the total outstanding indebtedness had now emerged and this was determined as \$17.30b as at the end of that year. Of this, the Federal Government accounted for \$13.962b or 80.7%; and states \$3.327b or 19.3%, including unguaranteed loans of \$477.4m. Reconciled trade arrears totalled \$7.438b. Total debt

service for that year was \$3.71939b, an increase of 16.34% over 1984, and representing 33.5% of export earnings.

In 1986 negotiations continued with the IMF and creditors within the framework of the Baker plan. To bolster such negotiations and "address the underlying balance of payments problem, a comprehensive structural adjustment programme" was adopted in July. (CBN, 1986).

Chapter Three

A New Strategy Called SAP

The eruption of the debt crisis in Africa marked the exhaustion of the development formulae which prevailed over the previous 20-30 years. In the context of the 1980s, it is clear that the assumptions and specific points which had guided development efforts in the 1960s and 1970s had led African states to an economic impasse. The debt crisis has overshadowed many other things including the capacity of governments to meet long-term aspirations. It has forced them not only to reshape their priorities but also to re-examine methods which they had relied upon to achieve their objectives. The ensuing dilemma reaches across the ideological spectrum: capitalism/socialism. The result is a different relationship with the external community, encapsulated by dependency on external agencies led by the World Bank and the International Monetary Fund (IMF). Consequent upon this dependency, African states have since the early 1980s been forced to adopt IMF-World Bank structural adjustment policies:

- (a) Devaluation
- (b) Trade liberalisation
- (c) Freeing the prices of goods, services and factor inputs
- (d) Financial sector deregulation
- (e) Privatisation and commercialisation
- (f) Public expenditure cuts. (UNECA, 1989; Rodrick, 1990).

In its first decade of independence, Nigeria remained a conventional ex-colonial underdeveloped economy. It depended on agriculture for about 80% of the revenue, employment and output (Young, 1982). From 1971, following substantial oil price rises, petroleum that its production began in 1957 gradually

became the main revenue generator and the main source of economic dynamism. Paradoxically, however, about 70% of the population who remained in the rural areas engaged in agriculture. The petroleum industry, even in its most buoyant year, 1980, when it earned a recorded \$26 billion external income, never employed more than 20,000 people (op.cit.).

By the mid-1970s, oil had become the pivot of the economy accounting for about 89% of total government domestic revenue and about 98% of foreign exchange earnings (CBN, various; IBRD, various; Europa, 1991). Attempts to diversify were, as in other large developing countries like India, Mexico, Brazil and Argentina, geared towards large-scale Import Substituting Industrialisation (ISI). Import substituting industries for mass consumption items such as soap, detergent and beverages had existed before independence (having been established by transnational corporations such as Unilever, Cadbury and Ovaltine). The drive in the 1970s was towards more substantial consumer products such as automobiles and, more importantly, towards the establishment of an intermediate industrial base.

Large amounts of Direct Foreign Investment (DFI) were attracted from Western Europe and the Americas in partnership with the state, especially in the automobile ventures; on the other hand, the state went it alone in its intermediate industrial drive, perhaps for lack of partners. Thus, notably in the late 1970s, the state with Eastern and Western bilateral support, embarked on such large-scale intermediate projects as the Jos, Katsina, Delta and Ajaokuta Steel complexes; the petrochemical plants in Ekpan; and two paper mills located in Iwopin and Oku Iboku; a machine tools complex in Oshogbo; and fertiliser complexes in Kaduna and Onne.

Alongside this state-guided industrial drive, there occurred a large-scale urban infrastructural development. This was necessitated both by the fact that as a newly independent country, most parts of Nigeria lacked key forms of basic physical

infrastructure and that in some areas considerable destruction had been caused by the 1967-70 civil war.

But apart from trunk roads which ran through most parts of the country, infrastructural development and the attempts at economic diversification basically brought little stimulus to the rural sector. Although such programmes as the River Basin Development Authorities (RBDAs), Operation Feed the Nation (OFN), the 1976 Land Use Decree (which vested all lands in the state), and the early 1980s Green Revolution were launched with much fanfare, they had limited effect on agriculture. In addition, agriculture was taxed through the pricing policies operated by the state marketing boards (Young, 1982, p.222-230; IBRD, 1989a; Oyejide, 1990). Thus, although at least 60% of land is arable, and endowed with extensive marine, livestock and other agricultural resources, Nigeria by the late 1970s became a net food importer to the tune of \$2 billion annually (*Business Concord*, 2 July, 1991). In addition, the naira had been allowed to become overvalued, provoking rising domestic costs and a deterioration in the international competitiveness of Nigeria's non-oil economy (Oyejide, 1990; CBN, 1986; IBRD, 1989a).

While oil earnings remained high, the economy boomed. Apart from oil earnings, Nigeria's creditworthiness (like any other oil economy's) was high, a fact which the government exploited to borrow extensively from external sources. Indeed, the World Bank until 1980 was encouraging such borrowings by developing countries – certain that they not only stimulated growth but were also secure for the lenders. Even in 1980 when the bank reversed its position in the case of most other LDCs, it remained convinced that oil prices would stay high in the 1980s, and this encouraged continued borrowing by Nigeria and other oil economies (Mosley, et al., 1990). Thus, with so much income and loans from competing Western banks and Eastern bloc countries such as the Soviet Union and

Czechoslovakia, Nigeria's economy appeared to be set for continued expansion.

However, oil price collapse from 1981, culminating in a freeze of external credits, exposed the underlying structural weaknesses of the economy. The poor state of book-keeping, however, meant that it took some years and the commissioning of studies by such external agencies as Chase Manhattan before the real state of the economy could be determined. Measures aimed at redressing the situation were begun by the Buhari government which had seized power in December 1983: (more imports control, public sector rationalisation).

In August 1985, General Buhari was overthrown by General Babangida. In his maiden speech, Babangida mentioned that the economy needed structural adjustment, though he did not elaborate. In October, his government promulgated the National Economic Emergency (NEE) Decree, which continued the austerity measures of its predecessor and in addition imposed levies on imports and factor incomes.

The NEE strategy was further articulated in the 1986 budget, but some elements of standard IMF structural adjustment policies had also been added: (a) reduction by 50% of non-statutory transfers to parastatals were reduced by 50%; (b) notice that the government would gradually divest its holdings in "non-strategic industrial and commercial enterprises" and abolish the marketing boards; and (c) a package of incentives for exports production (CBN, 1986). Conversely, there were included some policies reflecting the structuralist school of economic adjustment – notably: (a) a ban on some items such as vegetable oils and stockfish imports; (b) an adjustment of the tariff structure to make imported equipment with local equivalents more expensive. Attempts at reversing the decline of agriculture begun in 1984 were continued with the establishment of the Directorate of Food, Roads and Rural Infrastructure (DFRRI) to work in conjunction with state

governments to construct and rehabilitate rural feeder roads "in a bid to effectively mobilize rural peasants for sustained agricultural transformation" (CBN, 1986). Nigeria at this point was dangling between the two theoretically opposing schools of economic adjustment: the monetarist (associated with the International Monetary Fund (IMF) and the World Bank, emphasising the price mechanism; and the structuralist, emphasising structural bottlenecks in the socio-economic framework – such as land distribution. (Colman and Nixon, 1986).

The question by this point was not whether to adjust but how. Two factors eventually tilted the balance: firstly, Nigeria had since independence, especially with each succeeding military regime, increasingly become a right-wing economy despite a 'non-aligned' foreign policy claim (Young, 1982; Lubeck, 1987). This tendency was reinforced by the conservative ascendancy after the early 1980s in key Western countries with which Nigeria traditionally had important links – Britain, the United States, and West Germany. But Nigeria's strategy of capitalist development especially under the military has also been traditionally nationalistic. This has been reflected in various policies – notably the 1972 and 1977 indigenisation exercises (Young, 1982; Forrest, 1987). Thus, although on its own Nigeria would very likely have shifted to monetarist adjustment policies in the 1980s, past experience shows that it would have mixed such policies with structuralist measures aimed at continuing to promote its 'nationalist' capitalism.

But such leeway was eliminated by the external debt burden. By 1986, external debt was about 186.9% of export earnings (which amounted to just \$6.86 billion, about 98% from oil). Worse, arrears had been accumulating since 1981, and after the Buhari regime's attempts to clear interest arrears on established claims between 1984 and 1985, by 1986, new arrears, both from trade and unmet debt service commitment, had started piling

up. External creditors had begun seizing some assets, (notably Nigeria Airways' planes at several European airports). Apart from the World Bank, all external creditors had ceased lending after 1982. For a country assessed by the World Bank in 1979 as needing \$11b external credit annually (Europa, 1989), and about 70% import dependent, it was in a strait-jacket situation. Nigeria's creditworthiness had sunk to a point that creditors would only negotiate after an IMF endorsement had been obtained.

Negotiations with the IMF had begun in 1982 when the then civilian government approached it for a \$2.4b loan (later increased to \$3b, with the US dollar's depreciation). Although the public in a debate rejected the idea of a deal with the IMF in 1985, the new Babangida government continued negotiations with the fund to obtain the necessary endorsement. By June 1986, the two main IMF conditions which Nigeria had been rejecting – that is, devaluation of the naira and trade liberalisation – were agreed upon by the government. Following this, the government announced its own Structural Adjustment Programme (SAP) publicly committing itself to achieving its goals within two years.

Four objectives were ascribed to the programme: to;

- a) restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;
- b) achieve fiscal and balance of payments stability over the period;
- c) lay the basis for a sustainable non-inflationary or minimum inflationary growth;
- d) lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector (CBN, 1986, p.10).

To these ends, a three-prong strategy was enunciated:

- a) the adoption of a realistic exchange rate policy coupled with the liberalisation of the external trade and payments system;
- b) adoption of appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative controls;
- c) further rationalisation and restructuring of public expenditure and custom tariffs (CBN, 1986).

Although paraded to the public as 'home grown' and the sacrifice Nigerians had agreed to make by rejecting an IMF loan, the policies which the government announced were standard IMF and World Bank adjustment measures (See Mosley, 1990; UNECA, 1989; IMF, 1987).

As any IMF-backed programme, the exchange rate was made the cornerstone of Nigeria's. But instead of outright devaluation, the 'auction' system was adopted.

Broadly, in 1986 when this package of policies was formally introduced, the Nigerian economy was not only insolvent but also structurally very weak. There were shortages of many basic commodities, salary arrears and labour unrest. The gross domestic product (GDP) had just reversed the previous year's 1.2% appreciation and had declined by 3.3%. Intra and inter-sectorial linkages were very weak. More specifically, the sectorial picture was as follows:

The public sector was bloated with excess manpower despite the 1984 to mid-1985 rationalisation. The utilities in particular – notably the National Electric Power Authority (NEPA) and the Nigerian Telecommunications Limited (NITEL), were notoriously inefficient. Bureaucratic controls on the economy (especially with respect to trade and investment) were restrictively elaborate. The financial sector was inefficient, agriculture had only just reversed persistent declines.

The TNC-dominated industrial sector was at least 70% import dependent, despite agreements in the 1970s on a 10-15 year programme of backward integration. The sector also exhibited all five World Bank-IMF determinants of need for industrial adjustment (Meier and Steel, 1987; quoted in Stein, 1989). These are:

- (a) over-expansion of industrial capacity versus low industrial share of GDP (in 1986, this was 9.6%).
- (b) over-extension of public ownership. Such public ownership was necessary for the development of especially intermediate industries. But many such projects were uncompleted, and most of the completed ones were inefficiently run (including partnerships with TNCs outside the petroleum sector.)
- (c) over-investment in import substituting industries relative to domestic demand and foreign exchange-earning capabilities.
- (d) over-investment in final-stage consumer goods versus investment in raw material processing; intermediate and capital goods industries needed to increase linkages with the rest of the economy.
- (e) excessively high import and capital components in production costs relative to the economy's foreign exchange capabilities.

The corrupt import licensing system was grinding on disbursing more licenses than there was foreign exchange, to middlemen and those who could bribe. Capital flight, from the public and private sectors was high; and while the *Wall Street Journal's* estimate of \$10b between 1976 and 1986 (Lubeck, 1992) might be questionable, it does give indication that the amounts were substantial.

Chapter Four

Design and Implementation

4.1 Design

The entire Structural Adjustment Programme (SAP) was designed to last for two years, July 1986 to June 1988. The major features of the programme design were:

- (a) There had been no prior stabilisation programme;
- (b) Both stabilisation and structural adjustment policies were designed to be simultaneous;
- (c) Most policies were introduced within the first six months.

Of the six typical stabilisation-cum-structural adjustment policies were:

- (i) Devaluation and exchange rate policy;
- (ii) Trade liberalisation;
- (iii) Lifting of price controls on goods, services and factor inputs;
- (iv) Financial sector deregulation;
- (v) Privatisation and the commercialisation of public enterprises;
- (vi) Public expenditure cuts (Rodrik, 1990; UNECA, 1989); the first four were introduced within three months.

The pace in terms of range and magnitude of instituting the policies was required by: (a) pressures from creditors, and particularly the IMF and World Bank; (b) the need to move decidedly to establish the government's credibility. As Rodrik (1990, p.943) points out, "credibility and sustainability will often require ambitious reform: extracting the desired response from the private sector (for example) in the presence of credibility problems and capital irreversibility will typically require going further than would have been called for otherwise."

The first measure to be implemented was trade and payments liberalisation, followed by financial deregulation. Apart from direct cuts in public expenditures, real public sector reforms (notably privatisation and commercialisation) began in 1988, belying initial public schedule of a programme lasting two years.

Also, the transmission mechanism for the policies was only partially instituted in the scheduled two years. While the private sector transmission mechanism was instituted through financial sector deregulation, the public sector's namely civil service reforms were not begun until 1989.

4.2 Implementation

4.2.1 Trade and Payments Liberalisation – Domestic and External

Domestic

This was done right at the inception of the programme in July, 1986. First, the six agricultural commodity boards established between the late 1950s and late 1970s were abolished, and with them were the guaranteed minimum prices of their respective commodities. The boards were: (a) the Nigerian Rubber Board; (b) the Nigerian Palm Produce Board (palm kernel and palm oil); (c) the Nigerian Groundnut Board (covering sheanuts, groundnuts and soya beans); (d) the Nigerian Cocoa Board (dealing with coffee and cocoa); (e) the Nigerian Cotton Board; and (f) the Nigerian Grains Board (covering wheat, paddy rice, millet and guinea corn). Substantially higher prices ensued in the first three years for most of the commodities, with the best performers the internationally traded ones and those with high local demand. The prices of cocoa, coffee, cotton, ginger (both split and peeled), groundnuts and soya beans for the remaining part of 1986 averaged ₦4,000, ₦5,500, ₦3,650, ₦1,200, ₦2,000, ₦2,075, and ₦1,750 per tonne respectively, compared with (then abolished) official prices of ₦1,600, ₦1,450,

₦950, ₦800, ₦750, and ₦500 respectively, (CBN, 1986). The prices of paddy rice, millet, yam, groundnuts, and beans respectively, rose by 8%, 30.5%, 16.6%, 13.9% and 0.1%. Conversely, those for cassava tuber, grains, milled rice, maize and guinea corn declined by 3.4%, 17.7%, 2.9%, 10.2% and 24.1% respectively. Thus, export crop farmers especially benefited from the naira's depreciation and earned more, although international prices were falling and Nigeria's dollar all commodities price index actually declined 23.3%. (CBN, 1986).

A problem ensued: there was no buffer to stabilise national supplies. This gave rise to other problems. First, with the "uncertainty created by the abolition of the ... boards which hitherto purchased excess crops from the producers", there came "increasing incidence of restriction on inter-state trade" (op.cit.). Thus, although overall output increased, by the end of 1986, shortages of staples were being experienced in some states while others had surplus supplies with lower prices. Secondly, following the ban on importation of wheat and barley in 1986 (in a bid to conserve foreign exchange), increased backward integration by the food industry resulted in increased competition (especially for grains) between domestic households and industrial users. Higher prices ensued from year to year, with rural areas sometimes worse affected. In 1988, for example, staples prices rose by between 58.7% and 167.4%. In rural areas they rose by 52-209% as against 1.5-70% in urban areas. Third, although farmers initially enjoyed higher incomes, by 1990 with no more guaranteed prices their incomes were falling despite higher retail prices (*Business Concord*, 2 July, 1991).

In reaction, the Trade and Tourism Ministry embarked from 1990 on efforts to encourage farmers, dealers and processors to form commodity associations. Progress was, however, faster in respect to export (traded) than to domestically used (non-traded) commodities. Also, arrangements were being completed by end-1991 to enable the private sector set up inter-state commodity exchanges to be monitored by the Central Bank (CBN). In the

interim, the Federal Government and the states had increased their buffer operations, and in 1989, the exportation of staples was banned. In addition, government gave the Nigerian Stored Products Research Institute (NSPRI) a grant to design and fabricate for private use, on-farm storage facilities.

External

In addition to the abolition of the boards, two things were done to liberalise external trade. First, the import licensing system in operation since 1968 was abolished with the introduction of the foreign exchange auction in September 1986. In effect, trade between Nigeria and outsiders was to be done on a cash and carry basis, i.e. with payment effected within the normal 90 days. Import licences ceased to exist as IOUs on which trade arrears had accumulated. Any importer requiring official foreign exchange would bid through his or her bank, and if successful would buy foreign currency and pay for his or her own purchases. Second, export licences were abolished from 1986. Until 1989 when the exportation of staples was banned, virtually anything could be exported. All that was required of an exporter was that he or she repatriated his/her earnings within 90 days, either in a domiciliary account or as raw materials. From 1989, the exporter could retain 100% of his or her foreign currency earnings, up from 75% in 1986. Although a wide variety of commodities are being exported from Nigeria, cocoa has re-emerged as the main non-oil export, and is thus a barometer of the effects of the implementation of external trade liberalisation.

Case Study: Cocoa

With the liberalisation of agricultural marketing and given cocoa's highly traded international status, many TNCs and other speculators found in cocoa exports an avenue not only for foreign exchange earning for their own use, but also as a means of capital

repatriation. Thus, firms like John Holt, a subsidiary of Lonrho; Berec; Afro-Continental (of Israeli origin); and Inlaks, which were already involved in many other economic activities, went into cocoa exports. Intense competition ensued among Nigerians, TNCs and foreign speculators (*Business Concord*, various; Deutsch, 1990). A domestic price war followed. By the end of the 1986/87 season, cocoa price (alongside those for cotton and groundnuts) had more than doubled from the end of 1986 level – which was itself double the mid-1986 price. Cocoa traded at an average price of ₦7,500 per tonne. But quality was sacrificed, with some speculators exporting wet beans. Nigeria's cocoa, as a result, lost its premium on the international market, regaining it only when the government stepped up the activities of its produce inspectors during the 1987/88 season. Another stabilising influence was the Cocoa Association of Nigeria (CAN), a traders' pressure group which emerged in late 1986.

These factors notwithstanding, prices stayed high, buoyed by competition and the naira's depreciation, and ignoring the fact that in 1988 the international price of cocoa stood at its lowest for about 14 years. Many farmers brought more land into cultivation and by the 1990/91 season, production had increased from about 80,000 tonnes to around 200,000 tonnes. The 1988/89 season was the high point for prices, which averaged between ₦18,000 and ₦24,000. Farmers and middlemen often reneged on contracts just as in the pre-marketing board days, to take advantage of current higher prices. Many farmers became rich and while some saved, others engaged in conspicuous consumption and were caught off-guard in the 1989/90 season when price dropped sharply, closing at average of ₦3,500. For once since the inception of liberalisation, domestic prices did reflect the international price. What brought this about was the abolition by the CBN in May 1989 of naira loans secured on foreign guarantees, foreign currency deposits (including domestic domiciliary accounts) or any other foreign assets. The

major source of financing, banking, was thus closed to speculators. In addition, as in the great bust of the 1930s, many speculators with forward contracts incurred huge losses as current prices tumbled.

Given this situation, and worried in particular by persistent declines in cocoa's dollar index (19.5% in 1988, and 39% in 1989) in addition to the previous season's temporary loss of international premium, the government banned the exportation of raw cocoa (and certain other commodities) from January 1991, giving a one-year notice for the prohibition. This policy initiative in fact represented an overall modification of exports strategy – and a shift from primary produce to manufactured exports. Thus, although a combination of domestic and international pressures apparently made the government later rescind the ban, the machinery to ensure substantial domestic processing, notably dedicated external credits (see below) has been firmly put into place. By the end of 1990, six new cocoa processing plants with combined capacity of 90,000 tons per annum were ready, while the three existing ones had been overhauled. At least five others were nearing completion (*Business Concord*, various, 1991). All these are privately owned. Cadbury Nigeria, a TNC, for example, had demonstrated commitment by completing a giant ₦56m plant.

Thus, whereas at inception the government was encouraging any exports because of the virtually non-existent exports base outside of oil, having stimulated interest with liberalisation, it was steering away from the export of raw commodities and into manufactures. Consequently, although various relevant incentives for manufactured exports already existed, more radical ones were added in 1991. One was the Manufacturing-in-Bond Scheme. This enabled manufacturers to import duty-free raw materials, including banned ones (see Appendix 1), for exports production; such imports though, had to be backed by a bond issued by “a first class” bank guaranteeing that “all the products would be exported”, and only on proof of exportation and repatriation of foreign exchange would the performance bond be

discharged. A second measure was the introduction of export processing zones (EPZs). Three such zones were mapped out: at Lagos, Abuja and Calabar. Work had begun on the Calabar zone, and was expected to be opened by mid-1992. Thirdly, the Nigerian Export Bank (NEXIM) was established in January 1991, offering six major facilities: trade finance, project finance, treasury operations, export advisory service, market information and market risks guarantees. Under trade finance operations was the Rediscounting and Refinancing Facility (RRF), which was created in 1990 to assist banks to provide exports pre-and-post shipment finance at preferential rates for non-oil exports. By December 1991, 75 banks were operating under the RRF scheme. Under project financed came the Foreign Input Facility (FIF), which provided non-oil exporters quick foreign exchange to import raw materials and equipment. In 1991 this was provided with a \$270m export stimulation loan from the African Development Bank (ADB) (CBN, 1991). Although raw commodity exports – cocoa, rubber, cotton and shrimps in that order – took up all the ₦2.099b disbursed in 1991 under the RRF, this merely reflected the existing dominant export profile. FIF on the other hand is geared exclusively to aid manufactures exports. Cocoa processing, textiles and industrial fishing respectively, accounted for \$29.2m, \$18.5m and \$14.6m, the entire \$99.3m disbursed by end-1991.

Other efforts to stimulate and liberalise trade included the re-organisation of the Nigerian Exports Promotion Council (NEPC) in 1989 into an autonomous body. Until then, it was under the Federal Ministry of Trade. The NEPC is statutorily charged with identifying companies and products for export markets. To facilitate its work, the council in 1991 established state committees in the then existing 21 states of the federation. Externally, it established two trade centres in Brussels (Belgium) and Abidjan (Cote d'Ivoire) as well as commercial desks in New York, London, Warsaw, Jeddah and Geneva. These offices were to provide logistical support to manufacturing exporters as well as

link foreign investors with Nigerian companies. In 1991, the NEPC began organising solo exhibitions, holding four in different African countries and one in Europe. On the domestic front, alongside its state committees, it began holding workshops and seminars to retrain its officials and enlighten exporters on procedures, documentation and incentives.

All these were in addition to such schemes as the Duty Drawback (DDS) – under which duties paid on imported inputs into export manufactures are refunded – and the Export Expansion Grant Fund (EEGF), which supports exporters of semi and manufactured products: these were established in 1985 and 1987 respectively.

Thirdly, on the side of imports, at the inception of the policy, the number of banned items was reduced from 74 to 16, as shown in Appendix I (CBN, 1986). Tariffs were fixed at between 5% and 60%. Also, imports worth \$5,000 and below were freed from pre-shipment inspection. There followed an influx of goods, some frivolous like confectioneries, and some falsely declared with loss of duties to the government. Some like subsidised batteries and steel products from the Far East, gave a battering to local industries. The government was slow in responding, apparently wanting its new tariff structure introduced in 1988 to last its scheduled seven years. By December 1990, battery producer Berec, for example, had been forced to close in Lagos and its headquarters relocated to its second factory in Kaduna. In 1991 the government at last responded by: (a) raising tariffs to 100-200% on affected imports; (b) reducing the value of goods exempt from pre-shipment inspection to \$1,000; and (c) subjecting all containerised imports irrespective of value and source of financing to pre-shipment inspection.

In sum, implementation of this policy has undergone two major phases. In phase one, comprising the first two years, there was apparently complete faith in market forces. Initially it was apparently believed that the market was capable of regulating itself and was in effect trusted as capable of stimulating and sustaining the transition from primary commodity exports to manufactures. But four external and three domestic factors prompted modification. The external

factors were: (a) an artificially buoyed domestic market (notably of cocoa) because of speculation and capital flight; (b) the eventual collapse of that market; (c) the temporary loss of Nigeria's prized cocoa premium; and (d) the persistent declines of international commodity prices especially cocoa's (See table 4.1). On the domestic front, the three key factors were: (a) the skewed profile of national supplies, which caused shortages in some states; (b) the sharply rising prices, which were worse in the rural areas as market forces dictated that food dealers concentrate on urban areas; (c) falling farmers' income after the initial price euphoria.

Thus, in late 1989 began a new phase of institution building and generally more active state direction (though not control) of especially exports, to ensure 'better' regulation and better returns. A separate Ministry of Trade with secondary responsibilities for tourism was created in 1989 to chart the course as shown above.

Table 4.1: Changes in World (Dollar) Prices of Nigeria's Major Agricultural Commodities

Commodity	1986	1987	1988	1989	1990
All commodities	-23.3	14.7	0.3	-12.4	-11.9
Cocoa	-7.4	-7.6	-19.5	-39.0	-3.1
Coffee	30.2	-23.0	6.6	-20.0	-22.3
Cotton	-11.2	54.6	6.7	-11.8	21.8
Groundnut oil	-	-	16.3	31.5	26.1
Palm kernel	-52.1	28.9	40.5	-2.1	-23.6
Soya beans	-44.9	20.6	39.4	-19.8	-26.0
Rubber	-15.6	12.6	33.4	2.2	-6.5
Palm oil	6.3	19.4	35.1	-24.2	-20.0

Source: CBN, various.

Note - indicates decline.

4.2.2 Devaluation and Exchange Rate Policy

In consonance with the 'pricist' approach of the IMF-World Bank guided structural adjustment, exchange rate devaluation was deemed a cornerstone government policy. This, it was argued, would boost non-oil exports, redress the bias against agriculture, reduce demand for foreign exchange, and in the process reduce pressure on the balance of payments, thus enabling the country to build up external reserves (CBN, 1986; IBRD, 1989a; and Little, Scitovsky and Scott, 1970).

On 29 September, 1986, there began a systematic devaluation of the naira with the inauguration of a weekly auction. As Table 4.2 shows, the naira had been gradually devalued since 1983. But on that day it was, within the 30 minute duration of the bidding session, devalued by 66.0%.

A two-tier market was created. One was the auction tagged the Second-tier Foreign Exchange Market (SFEM) through which all commercial transactions were channelled. Customers submitted their bids to their banks, the sole authorised dealers. Banks then made their bids to the CBN. Successful bids were determined on the basis of different averages – marginal, mean, etc. – at the CBN's discretion. Available foreign exchange was then sold to successful banks according to their categories.

The placement of each bank in a category was based on its assets, number of customers, age, etc. Initially, there were three categories, but as the number of banks grew, these were increased to six. Each successful bank then on-sold the foreign currency to each successful customer, at a price determined at the auction plus a margin fixed by the CBN. Banks also did inter-bank transactions based on autonomously-sourced funds which came from exports and other sources. Its rate was envisaged that over time these would replace the CBN as the major source of foreign exchange (FGN, 1986; CBN, 1986).

The first-tier market comprised mostly non-commercial transactions such as contributions to international organisations;

transfers to overseas missions; and external debt servicing. It was slowly depreciated and in July 1987 merged into the auction, which was renamed the Foreign Exchange Market (FEM).

At the first bidding session, ₦4.6124 exchanged for \$1. By the end of 1986, the CBN identified two major problems: (a) the rising cost of especially raw material imports; and (b) the rising cost of transport and construction equipment. These by implication meant rising cost of industrial and agricultural production, transportation and construction. However, although the devaluation caused industrial operational costs to rise by 5.5% nationally, a CBN business survey in the Lagos area showed that "the free market system in foreign exchange sales facilitated the procurement of [production] inputs." Also, (a) local sourcing increased by 31.1% nationally; (b) there was gradual elimination of the problems resulting from exchange control and import licensing; (c) there was an increased autonomous inflow of foreign exchange; and (d) there were indications that distortions in production, prices and consumption pattern were being eliminated as farm-gate prices rose due largely to increased industrial use of local raw materials and exports.

It was early yet for such optimism as the naira has depreciated by an average of 29% annually since then (see Table 4.2). Three other key problems have developed. First, there have been difficulties in making banks operate within legal limits. Contrary to SFEM Decree 26 and subsequent CBN directives, many banks have resorted to malpractices, including higher than stated selling rates, false returns to the CBN, misrepresentation of customers bids, sale of SFEM-procured funds on the inter-bank market, and diversion of SFEM funds to the black market (*Business Concord*, various; CBN, 1991). Consequently, whereas by end-1986 some banks were too illiquid to fund their participation in the weekly auction; by end-1987, the supply-demand gap had widened considerably, to stand at \$434.2m for the year, causing the CBN to intervene at 14th of the 30 sessions.

Table 4.2 : Exchange Rate (N:\$1)

Year	Amount of Naira	Depreciation %
1983	0.59	
1984	0.8081	-26.99
1985	0.98	-17.5
1986	3.3166	-70.45
1987	4.1413	-19.9
1988	5.3530	-22.7
1989	7.6221	-29.8
1990	8.7000	-15.0
1991	9.93	-19.4

Source: CBN (various)

Average annual depreciation since 1986 = 29.5%.

Also, unrealistic bidding by banks caused the first major modification of the market in April 1987. Thereafter, 'Dutch Auction' was adopted: banks were now debited at their successful bid rates whereas until then they were debited at the auction's marginal rate plus a levy of 0.5% (which was now raised to 1.0%). There were six such major modifications to the market's operation in the review period. These included introduction of daily auction in January 1989 and re-introduction of the Dutch Auction in December 1990. The CBN also routinely suspended some erring banks from the market. In 1991, 62 banks were penalised with either fines or suspension of from one week to four months. But malpractices continued and partly informed the decision by December 1991 to stop routine official sales of foreign exchange by the CBN, leaving the market almost completely to autonomous inflows.¹

¹ This was effected in March, 1992.

The second key problem has been funding. As external debt servicing continues to increase (see below) and oil earnings decline, the amount available for domestic sales has followed suit, in part causing the large supply gap. Thus, the CBN's capability to intervene has been severely curtailed and supply remains lower than overall economic activity demands, regardless of speculation.

Third is the difference between the official exchange rate and the parallel market rate. This has been a sore point with the IMF and World Bank which see the parallel market rate as the realistic one. The point, though, is that many Nigerians prefer the informal parallel market because of ease of delivery. Evidence that the parallel market has a life of its own lies in the fact that despite the naira's persistent depreciation, the premium between the two markets has remained (see Table 4.3). In practice, the parallel market appears to take its cue from the FEM.

Table 4.3 : FEM-Parallel Market Premium%

Year	1986	1987	1988	1989	1990	1991
Premium	238	11	56.9	24	n.a	n.a

Source: CBN, various.

Fourth, expansionary activities within the public sector have put pressure on the exchange rate, as we shall show below.

In 1986, the naira was generally deemed overvalued. By the end of 1991, it was generally deemed undervalued. Manufacturers in particular were complaining vocally because of attendant rises in cost of production. But this appeared to be one area in which the government seemed bent on allowing market forces to rule although it had indicated its wish to see the naira's slide end. Besides, as Mosley (1990) points out, devaluation by its non-specific nature is one of the politically less expensive policies

to implement. Yet the fulfilment of such a wish is hamstrung in the free market framework by inadequate supplies, rising demand in response to various schemes, aimed at boosting exports and absence of a naira stabilisation fund.

4.2.3 Financial Sector Deregulation

The financial system though perhaps the most developed in black Africa after South Africa's, was in 1986 thinly spread geographically in the range of activities. First, entry was difficult. At the inception of deregulation, 29 commercial and 12 merchant banks existed. The creation of a new bank was rare and applications were few. In 1986, for example, out of nine applications for a commercial banking licence, one was granted. Out of nine applications for merchant banking licence, none was granted. Only one commercial bank, Societe Generale, and two merchant banks were wholly privately owned. The Federal and State Governments were either the majority or sole shareholder in the rest. Despite this ownership pattern, the government failed to get banks to meet its development objectives by channelling cheap credit to its priority sectors: agriculture, housing, small-scale industries and manufacturing. As a result, banks rarely met sectorial stipulations, although they habitually burst credit ceilings. They lent mostly to support merchandise trade, which generated quick returns. Even government-owned and specialised banks – the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Cooperative Bank (NACB), the Federal Mortgage Bank of Nigeria and the Nigerian Industrial Development Bank (NIDB) – generally failed their respective constituencies (CBN, 1986). Since the Federal and State Governments were actually the largest beneficiary of bank credit, a situation had developed where many state office holders and their proteges had come to look on bank credit as “national cake” to be shared without repaying. As deregulation later revealed, this made many seemingly viable banks more or less insolvent.

Second, the capital market was underutilised. Government stocks accounted for about 60% of the transactions on the Nigerian Stock Exchange (NSE). The rest were those of TNCs.

Third, there was no coherent picture of the financial system. The exact size of the entire system was subject of estimates. It was also common for a borrower to pledge the same asset as collateral for loans with different banks and other institutions. Insurance companies rarely rendered returns; in 1986, for example, only 22 of the 87 insurance firms rendered any.

Fourth, most financial operators were concentrated in Lagos. Although there were on aggregate 61,000 people per bank branch across the country as a whole, in Lagos, the figure was probably one third of that while in most other parts it was close to twice. The 42 merchant and commercial banks had a total of only 1,394 branches, despite the 11-year-old rural banking scheme. Although a second floor of the NSE existed in Kaduna, it was snubbed by most stockbroking firms, which were based in Lagos. Consequently, that floor operated about once a week and very thinly, despite a growing industrial presence there. The situation was the same with insurance companies. Even those financial institutions owned by state governments operated mostly in Lagos, while their home state operations were mostly in the service of their state governments.

Fifth, services were very poor. The financial sector institutions rarely made efforts to mobilise private savings, concentrating instead on idle government deposits and those of TNCs. Lending followed the same pattern. By 1986, the banks were so liquid that they were rejecting private deposits. Yet total formal sector savings were just 10% of GDP (IBRD, 1987).

The net result of all these was a thriving informal financial system onto whose resources most of those in dire need of credit – farmers, small-scale entrepreneurs and low-medium income aspiring house owners – were thrown. This system is generally deemed to offer higher returns for money owners, but at considerably higher

risks than the formal system. Conversely, with interest rates around 50%, and with repayment terms of a week to six months, borrowers in this informal market are placed under severe pressure, and sometimes lose all they have.

The first step in financial sector deregulation was to ease entry in practical terms. Seven new banks opened in 1987. In response more applications came in: 36 compared with eight in 1986. By 1988 the new applications had become a flow: 45 new applications were received, 17 were granted licences and 16 commenced business. By December 1991, a total of 119 banks (excluding the four development banks) were in operation, 79 of them licensed since 1986. There were now 65 commercial banks and 54 merchant banks. (See Tables 4.4-4.7). There would have been more had the government not halted further licensing in July 1991.

Table 4.4 : Growth of Banks

Year	Total	Commercial	Merchant	Branches
1986	42	30	12	1,394
1987	50	34	16	1,516
1988	66	42	24	1,711
1989	81	47	34	1,912
1990	100	58	48	2,013
1991 (June)	119	65	54	2,107

Source: CBN (various).

Table 4.5 : Growth of Stockbroking Firms

Year	Number
1986	22
1987	33
1988	43
1989	61
1990	80
1991	110

Source: CBN (various).

Table 4.6: Growth of Banks

Year	New Banks			New Branches
	Total	Merchant	Commercial	
1986	1	-	1	71
1987	8	4	4	122
1988	16	8	8	195
1989	16	10	6	201
1990	25	14	11	102
June 1991	12	5	7	94
TOTAL	78	41	37	785

Source: CBN (various).

Table 4.7 : Growth of Stockbroking Firms

Year	New Firms
1986	3
1987	10
1988	10
1989	18
1990	19
1991	30
TOTAL	90

Source: CBN (various)

The apparent bias towards the opening up of new merchant banks perhaps reflected a desire to see more competition in long-term lending. Bank branches increased to 2,107 of which 2,023 were commercial bank branches; and the number of persons per bank branch dropped to 42,003. On the capital market, the NSE opened three more floors in Onitsha, Port Harcourt and Ibadan. Stockbroking firms had increased to 110 by the end of 1991. The number of insurance companies had also increased to 105 by July 1991. Most of the new banks and companies were privately owned.

Second, there had been a deepening of the sector with the introduction of non-traditional forms of operators:

- (a) **Bureaux de Change:** These were small foreign exchange operators licensed from 1989 to "widen the breadth of, and improve accessibility to, the foreign exchange market" (CBN, 1990). There was also an unstated aim that they would compete with the parallel market, driving it out of existence. In that first year, 52 bureaux were licensed and commenced operation. By the end of 1991, there were 102.
- (b) **Unit Trusts:** These normally bunch small investors' funds into significant capital market investments. They were introduced to give very small investors access to capital market investments. The Unit Trust scheme was introduced in 1990. The first, Abacus Unit Trust, took off with UBA Trustees Limited as trustees and Abacus Merchant Bank as managers. By the end of 1991, there were 10 such trusts and public subscription ranged from 20 to 80 per cent. The low subscription prompted the Securities and Exchange Commission (SEC), the capital market's apex regulatory body, to slow down licensing of more trusts.
- (c) **Community Banks:** These, as the name implies, are community-based but operate as conventional banks. Their capital base at ₦250,000 was only a fraction of the ₦40m and ₦50m required for commercial and merchant banks, respectively. Ownership structure is basically the same as a

conventional bank's, with a maximum of 5% shares per person. According to the CBN (1990), "their role ... would be to provide effective services for the economies of the rural areas as well as micro-enterprises in the urban centres." Though privately owned, the government, through the Community Bank Implementation Committee (CBIC) housed in the CBN, makes available loanable funds and technical support. The first commercial bank took off in Kaduna State in December 1990. By the end of 1991, there were 66 all over the country and at least 300 applications. With the Commercial Bank Scheme, the Rural Banking Scheme begun in 1976 was abandoned.

There was also a deepening of the sector's activities. For example, although the legal backing for this came only in 1991, commercial banks were allowed from 1989 to directly own assets in industries subject to a limit of 33%. As Alawode (1990) points out, banks have since enjoyed expanded powers in assets and liabilities acquisition. They have become active in insurance brokerage, equipment leasing, among other activities. In consequence, there is little of the traditional difference between commercial and merchant banks. This line is further blurred by the trend since 1990, by big commercial banks especially, to create merchant banking arms, unit trust companies and other financial intermediaries as subsidiaries. While the financial sector as a whole has become more diversified, banking has not been particularly so.

The insurance industry has also experienced structural changes. Boosted in particular by the naira's depreciation, new private re-insurance companies have been licensed – as at December 1991, seven such firms had been licensed, whereas only two had existed prior to deregulation: the Nigeria Re-insurance (owned wholly by the Federal Government) and Africa Re-insurance (owned by the Organisation of African Unity). Previously most re-insurance had been done abroad, By the end of 1991, about 50% was being done locally (*Business Concord*,

2nd July, 1991).

Within a year, the results of financial deregulation were apparent. Foremost among these was the unprecedented savings mobilisation. Banking services were also substantially improved. But deregulation also highlighted a lot of imperfections in the financial sector, partly institutional inadequacies but also inadequacies in the legal framework. The government's reaction was slow to emerge, but crystallised after 1988.

That year the third strand of financial deregulation strategy – institutional capacity building – began in earnest with the establishment of the Nigerian Deposit Insurance Corporation (NDIC) through Decree No.22. The NDIC is owned 60-40 by the Federal Government and the CBN. Patterned after the United States' Federal Deposit Insurance Corporation (FDIC), the NDIC is charged with protecting depositors both by helping to prevent bank failure and when bank failure occurs. Each commercial or merchant bank pays to it, 15/16 per cent of its total deposit liabilities as an annual premium. Until then, there had been no laid-down procedure for customer protection in the event of a bank failure, despite several failures by indigenous banks in the 1950s (IBRD, 1989b). Only a combination of compromises, laxity in supervision, controlled entry ensured no bank failed.

In 1989, its first year of operation, the NDIC undertook a survey which confirmed widely held suspicions about the banking system: (a) many banks were operating below solvency, with negative shareholders' funds totalling ₦763m; (b) 23 banks had not met statutory paid-up capital requirement; (c) classified debts amounted to ₦9.4b, representing 40.8% of total assets and 28% of shareholders' funds; (d) many banks were experiencing serious management problems, large-scale fraud and had weak internal control systems. (NDIC, 1989).

Its findings tallied with the CBN's (1989): that some of the 32 banks it examined during the year "continued to experience problems of poor quality of management staff, inadequate capital structure, and violation of the conditions under which banking

licences were issued." False book-keeping was also common.

In the wider financial system, loopholes were openly manipulated by private operators. As the naira continued to depreciate, demand for credit by both the public and private sectors increased thus creating room for intermediaries. The number of finance companies multiplied, some set up by banks, others by those still waiting for banking licences. There was no regulatory institution for these companies. There were widespread fears of what would happen; for as Alawode (1990) notes, some finance companies were engaged in other businesses, and thus spreading those risks on deposits. Besides, some had no manpower experienced in finance and credit. Oblivious of their risks, depositors were attracted by higher interest rates and borrowers by ease of access to loans.

Since some of the companies were out-competing banks, the latter began to instigate pressures for the former to be regulated. Although the pressures culminated in the closure of a company in Port Harcourt and the detention of its operators, the government was embarrassed to find there was no law under which to prosecute. This to some extent was also the case with the bureaux de change. Although the CBN was charged by the government with recommending them for licensing, examining them and even fining those found to have defrauded customers, (CBN, 1989) it had no such explicit powers.

In sum, while the deregulated financial system was evolving rapidly, its legal framework remained mainly the 1969 Banking Act. Piecemeal reform such as the SEC Decree 1988 which put all capital market operators under the SEC had limited impact SEC itself was already under the CBN. With government's announcement in 1987 of its intention to grant the CBN autonomy, the latter from 1988 began to exercise more marked authority. But it often found itself at loggerheads with the Federal Ministry of Finance (FMF), its supervisory ministry, though they sometimes, did manage to work in tandem. Thus, in 1989, they jointly unleashed possibly the most fundamental measures on the reform of the banking

industry, mainly in response to the problems thrown up by deregulation. First, in May, the CBN directed all financial institutions to cease granting naira loans on the security of foreign guarantees (see section 4.2.1). Within the week, the Federal Ministry of Finance directed all government establishments, commercial and non-commercial to immediately transfer all their deposits from banks to the CBN. This knocked a key prop from underneath most banks, and some are yet to recover. In September, the CBN directed banks to adopt the uniform definition in reporting laid down by the Nigerian Accounting Standards Board (NASB) which was a modification of international standards. Also, from June 19, only banks with "adequately funded" current accounts were to be allowed to participate in the FEM. These measures forced bank executives from their offices in hurried efforts to comb rural areas and market places for deposits. Saturday banking was another result. Yet another was that with profits threatened, bank directors and staff, though still earning relatively high salaries, were now set 'deposit targets'. Thus ended some three decades of 'armchair banking'. In 1990, the CBN introduced more regulatory reforms, this time aimed at "enhancing the capital base of banks and promoting more professional approach to ... lending and provisioning for non-performing credits" (CBN, 1990). These reforms, it explained, were prompted by, among other factors, "the rapid expansion of the banking industry and increased risk of failure, the problems of liquidity or insolvency in some institutions and the significant amounts of problem loans in the industry as a whole." In March 1990, it implemented the risk weighted measure of capital adequacy, as recommended by the Basle Committee of the Bank for International Settlements; banks were now required to maintain minimum capital funds of 7.25% of their total risk weighted assets. Also, at least 50% of each bank's capital had to be paid-up capital and reserves, as against then existing ratio of adjusted capital to total loans and advances outstanding. Banks, according to this new formula, had to classify assets into five categories according to the perceived

risk and explicit account taken of off-balance sheet items.

In November, the CBN introduced a set of "prudential guidelines", which in conjunction with the Statement of Accounting Standards (SAS) introduced in 1989, spelt out *inter alia*, the criteria for classifying non-performing loans and for minimum provisions for such loans. The prudential guidelines were preceded by increase of banks minimum paid-up capital from ₦6m and ₦10m to ₦12m and ₦20m for merchant and commercial banks respectively. This was further increased in 1991 to ₦40m and ₦50m, respectively.

Particularly as a result of the new accounting standards, many hitherto high-flying banks, including the three biggest, saw their profits virtually wiped out as they now had to make provision for all the non-performing loans they had been carrying as profitable (in some cases for decades). The First Bank of Nigeria arguably the country's biggest declared a loss. The CBN eventually relented and allowed provision over four years, but some banks, though declaring losses, had cleared all such provisions and most others had provided to the tune of about 75% (*Business Concord*, various, 1991).

The 1991 increase in capital base underlined that the expansion of the banking system had been largely premature. While many older banks had surpassed such bases (some more than twice over), many of the new banks had problems meeting the new bases. By the end of 1991, seven banks had obtained permission from the SEC to raise money from the capital market through public offers of their shares. Some others had begun negotiations towards mergers (*Business Concord*, various, 1991; CBN, 1991; *Tell* 15 June, 1992).

Also, the Mortgage Institutions Decree was promulgated in 1991. This allowed the licensing of mortgage finance institutions with the FMBN as the apex mortgage institution, though under CBN supervision. By the end of 1991, 10 such mortgage companies had been licensed and most of these had begun operations. A new insurance decree was also promulgated to replace the previous one in 1976.

In 1991, the review of the financial system was more or less completed, with the promulgation in September of the Central Bank

Decree 24 and the Banks and Other Financial Institutions Decree 25. Jointly, the two decrees made the CBN in all legal ramifications the apex body of the financial system, with powers of access to any information it wanted. In addition to strengthening its then existing powers – e.g. control of ailing institutions and winding-up of failed ones – the two decrees brought under the CBN's direct and ultimate supervision all financial operators, even those in the informal sector "but whose impact on the economy has become increasingly significant" (CBN, 1991). By the end of 1991, 558 existing finance companies had filed applications for licences.

The most fundamental aspect of the new framework, entrenched particularly in the former decree, was the CBN's unequivocal autonomy from the Federal Ministry of Finance. With this decree, the CBN became patterned after the US Federal Reserve Board.

By December 1991, the financial system had been substantially deregulated, modernised and internationalised, with services ranging from 24 hour cashpoints to electronic transfers. Most of the existing weaknesses of the financial sector had been exposed and dealt with, and savings mobilisation had begun in earnest with community banks competing with the hitherto city-bound banks which, without threats from the CBN as under the rural banking scheme, were furiously competing in branch networks. Boardroom fights continued in a few banks, most of them newly licensed, but under the watch of the CBN.²

Three phases can thus be identified in the implementation of this policy: phase one, between July 1986 and 1988, when the banks were spoon-fed with deregulation benefits with little responsibility exerted; phase two, during 1988-89, when institutional capacity was built; and phase three, during 1990-91 when a legal framework was developed and the benefits of deregulation counter-balanced with responsibilities.

4.2.4 Pricing

² One bank, Fidelity Union Merchant Bank was so paralysed in 1992, but the CBN and NDIC took over the management to maintain confidence (*Newswatch*, 29 June, 1992).

Central to the neo-classical perspective is the price ratio of two factors: credit and labour (Little et al., 1970; IMF, 1987). Thus from 1986, credit and labour costs were gradually deregulated. Simultaneously with the introduction of foreign exchange auction there occurred the beginning of interest rate deregulation. Although the 9.5% interest on savings deposits was retained, the 8.5-10% range of interest on time deposits was abolished. Instead, the banks were directed to negotiate mutually acceptable rates with their customers subject to a floor of 8.5% for deposits and a ceiling of 15% for loans. By the end of 1986, deposit rates averaged 13%. In January 1987, the floors on savings and time deposits were raised to 11% and 12% respectively. Sectoral categories for lending were reduced from four to two equals: high priority sectors comprising agriculture and manufacturing, and others.

In August 1987, the credit market was completely deregulated. The only signal now was the CBN minimum rediscount rate (MRR), the rate at which the CBN lent to banks. This was raised from 11% to 15%. With the lending ceiling abolished, interest rates rose to around 16½%. The CBN (1987) noted that although borrowings actually rose, these were mostly to service existing loans. In practice, the new rates "were sufficiently prohibitive to discourage new investment spending, particularly in the small and medium scale business sector which was considered to be a base for the country's new development and growth strategy under (SAP)". Accordingly, the CBN in December reduced its MRR by 2.75% to 12.75% and banks adjusted theirs accordingly: fixed deposits 12-14.75% from 10.75-16.75% and lending rates from 11-22.50% to 14.75-20.5% in 1988.

However, following the reflationary measures adopted in 1988, there quickly developed excess liquidity in the economy. In the mop-up that followed, in 1989 liquidity and reserve ratios were raised, the withdrawal of public deposits from banks to the CBN were ordered (see above), and the MRR was raised in January to 13.25%, with interest rates also rising sharply. Lending rates

rose more sharply and the prime lending-deposit rate gap widened to as much as 12%. By November, lending rates averaged 34% while deposit rates ranged between 16% and 23%. In response, that month the CBN and the banks, reflecting the new attitude of moral persuasion as against controls, reached an accord that: (a) the spread between the two rates should not exceed 7.5%; (b) the maximum margin between each bank's prime and highest lending rates should be 4%; (c) interbank rates should be at least 1% below each bank's joint lending rate (CBN, 1989). The accord failed: 20 out of 35 commercial banks that made returns on interest rates exceeded the 7.5% margin. But excess liquidity continued due largely to the continued government deficit and the CBN in 1990 continued its tight monetary measures with 'stabilisation securities' through which it withdrew an estimated ₦1b-3b excess liquidity from the banking system. Interest rates shot up further, with three key features: (a) "the rates did not decline to levels that could be considered commensurate with the rapid growth of domestic liquidity and the downward movement of the inflation rate, pointing to some element of imperfection in the banking system." (CBN, 1990). (b) The spread between the average savings deposit and prime lending rates varied sharply from bank to bank. (c) Real interest rates for the first time moved from negative to positive (op. cit.).

Pressures for lower interest rates intensified. In response, the government in its 1991 budget, in a move the CBN had to hurriedly defend, announced a ceiling of 21% on lending rates. This threw up three problems: (a) Banks reneged on existing savings contracts, unilaterally reviewing interest rates while allowing existing loans on old terms. (b) There began a two-tier formal credit market. More banks now had two sets of books, one to meet the pegged interest rate structure, the other for their real transactions which were at higher rates. (c) Many banks diverted to finance companies relatively cheap deposits for mostly short-term lending at about 10% a month (*Business Concord*, various, 1991; MAN, 1992). Thus, while banks claimed their liquidity had dried up and thus could not lend to especially the high priority sectors, less preferred sectors (notably commerce with a quick turnover) were enjoying an over-supply of

capital from the finance companies. Like foreign exchange, domestic credit became speculative. In this scenario, finance houses of many shades sprang up in various parts of the country (see section 4.2.3).

In the case of labour, gradually from 1986, government began lowering its cost. This began with the naira's devaluation, which lowered the ₦125 minimum wage to about \$35 per month. The freeze on wages imposed in 1985 was lifted in 1988 with a return to collective bargaining. As expected, a lot of industrial unrest followed, backing agitations for wage increase. In 1990, with Decree 48, the government increased the minimum wage from ₦125 to ₦250 (about \$25) effective from 1991. But in the 1991 budget the government announced that the minimum wage was now 'indicative', each employer would negotiate and pay according to his or her ability. This actually was a formal acknowledgement of the reality in most sectors, formal and informal. Labour unrest ensued but in the six years of SAP, a lot of muscle has been taken away from organised labour.

Other areas of "appropriate" pricing include: (a) fertilizer, whose price has been raised twice and by December 1991 was selling at ₦60 per bag as against ₦10 in 1986. (b) The prices of petroleum products were raised, in 1989, 1990 and 1991, and those of the popular ones: kerosene and other fuels and lubricants have risen by between 43% and 250% since 1986. (c) Electricity costs were raised overnight in 1988 by an average of 150% for domestic consumers and 800% for some industrial consumers. (d) Telecommunications prices have been raised twice and have generally risen by an average of 600% (CBN various; *Business Concord*, various). Although all these products are supplied by the public sector, by 1991 the respective responsible parastatals – e.g. the Nigerian Telecommunications Limited (NITEL) and the Nigerian Electric Power Authority (NEPA) – had been commercialised, and were eager to make profits. Following an outcry from the private sector, the government in 1990 set up a body to monitor and regulate the commercialised parastatals' price increases. But little was done to reverse the already enacted increases. Many manufacturing firms have since reacted by utilising

gas instead of the erratic NEPA electricity. Some have set up their own telecommunications network.

In the case of the private sector, the Price Control Board was abolished in 1986, and only air fares were still subject to government approval.³ With the abolition of marketing boards in 1986 ceased government guarantee to fixed agricultural produce prices.

4.2.5 Privatisation and Commercialisation

This was formally instituted in 1988 through Decree 25, which listed 145 (out of a total of 600 public enterprises) for either commercialisation or privatisation, based on "the social service content of the goods or services produced or rendered by the affected enterprises" (Zayyad, 1991). On this continuum, 110 enterprises were listed for partial or full privatisation, while the remaining 35 were for partial or full commercialisation (see tables 4.8 and 4.9). The broad objectives of the programme were:

to improve the efficiency of public enterprises, to reduce the dependence of public enterprises on the treasury for the funding of their operations, and to increase the participation of Nigerian citizens in economic activities through share ownership of productive investments. (op.cit.)

The decree defines commercialisation as "the re-organisation of enterprises wholly or partly owned by the Federal Military Government in which such commercialised enterprises shall operate as profit-making commercial ventures, and without subventions from the ... government." It defines privatisation as "the relinquishment of part or all of the equity and other interests held by the ... government or its agency in enterprises whether wholly or partly owned by the Federal Military Government..." (FGN, 1988).

A fully commercialised enterprise was expected to be self

³ Air fares were freed in March, 1992.

sufficient in both its recurrent and capital expenditure needs. A partially commercialised one, though expected to operate more efficiently and to generate profit, would continue to receive grants for capital projects. Commercialised enterprises were thus able to set their rates, prices and charges; capitalize assets; borrow money from the capital market without government guarantees; and sue and be sued in their corporate names. In the case of privatisation, Zayyad (1991) points out that it was,

a way of stimulating broad-based participation of Nigerian individuals directly in productive activities through shareholding ... of developing the ... capital market ... and (of decentralizing) decision-making to a larger number of economic agents thereby gaining the advantages of risk spreading and risk diversification ... This shift in focus by government further recognizes the growing sophistication of Nigerians who have accumulated wealth and entrepreneurial skills since independence ... (and) are now better prepared and equipped to take the risks of productive investments.

He points out two more advantages:

privatisation will relieve government of the necessity to be the all-encompassing agent of development, therefore allowing it to focus on those areas where its intervention is critical, and the channelling of scarce public resources to areas of higher priority such as infrastructure...

The decree charged the implementation of the policy to the Technical Committee on Privatisation and Commercialisation (TCPC). Chaired by Zayyad, the committee had seven other members drawn mostly from the private sector. The TCPC operated from its specially established secretariat independent of the civil service and its chairman reported directly to the President. The TCPC implementation structure is as given in Figure 4.1.

Sixty-three sub-committees were used with some 500 members drawn from mostly the private sector. This approach served the twin purpose of allowing wide participation in the policy's implementation, and the TCPC in turn access to a large pool of manpower. The programme was implemented entirely with indigenous personnel. By 1991, it had become a model for other African countries (such as Ghana and the Gambia) to which the TCPC provided technical assistance (op.cit.).

Figure 4.1

Chairman			
	Sub-Committees: (63)	used mostly "where of strategic importance, multifaceted or simply organised."	
Financial institutions: Lead team of experts to undertake detailed technical financial, organisational and management appraisals	Technical Advisory Groups (TAGS)	Financial Advisers	Merchant banks/ accounting firms: prepare detailed briefs on capital restructuring
	Other Professionals:	issuing houses, estate agents, lawyers, etc.	

(Based on Zayyad (1991).

Three main methods were used for privatisation:

(a) **Public offer:** For this, section 6 of the decree directs that "All shares of enterprises to be privatised shall be offered for sale (on) the Nigerian capital market ... by public issues except when the Federal Military Government, on the advice of the (TCPC) decides that the shares of any ... enterprise should be sold by private placements." By 1991, 19 of such offers, among them 13 insurance companies, and two oil companies, involving 132 million shares worth \$184m, had been sold and 373,790 new shareholders emerged across all states and all income groups (op.cit.), as the original decree mandates.

Table 4.8: Privatisation

Sector	Number of Companies	Type
Development banks	4	partial privatisation
Oil marketing companies	3	"
Steel rolling mills	3	"
Air and sea travel	2	"
Fertilizer companies	2	"
Paper mills	3	"
Sugar companies	3	"
Cement companies	5	"
Hotels and tourism	3	full privatisation
Textile companies	3	"
Transportation companies	4	"
Vehicle assembly plants	6	"
Merchant banks	4	"
Commercial banks	8	"
Food and beverages companies	6	"
Agriculture and livestock production	18	"
Salt companies	2	"
Wood and furniture companies	2	"
Insurance companies	14	"
Film production and distribution companies	2	"
Flour mills	1	"
Cattle ranchers	2	"
Construction and engineering companies	4	"
Dairy companies	2	"
Others	4	"
Total number of enterprises to be privatised	110	

Source: Zayyad, (1991).

Table 4.9: Commercialisation

Sector	Number of Companies	Type
River Basin Development Nigerian Railway Corporation	11	partial commercialisation
Nigerian Airport Authority	1	Auth.
National Electric Power Authority	1	"
Nigerian Security Printing and Minting Co.Ltd.	1	"
National Provident Fund	1	"
Ajaokuta Steel Co.Ltd.	1	"
Delta Steel Co.Ltd.	1	"
Nigerian Machine Tools Ltd.	1	"
Federal Housing Authority	1	"
Federal Radio Corp'n	1	"
Kainji Lake Nat'l Park	1	"
Nigerian Television Auth	1	"
News Agency of Nigeria	1	"
Nigerian Tele-communications Ltd. (NITEL)	1	"
Nigerian National Petroleum Corporation	1	full commercialisation
Associated Ores Mining Co. Ltd. Nigerian Mining Corp'n	1	"
Nigerian Coal Corp'n	1	"
National Insurance Corporation of Nigeria	1	"
Nigeria Reinsurance Corp'n	1	"
National Properties Ltd	1	"
Tafawa Balewa Square Management Committee	1	"
Nigerian Ports Authority	1	"
Total number of enterprises to be commercialised	35	

Source: Zayyad, (1991).

(b) **Private sale:** In the states where most privatisation fell under this category,⁴ the exercise was marked by controversy and allegations of malpractices. Government enquiries subsequently substantiated some allegations – notably in Cross River and Bendel states – involving sales of agricultural estates at below valuation prices and without proper bidding. Also, the sale of Cocoa Industries Limited belonging to three Yoruba states⁷ – Oyo, Ondo and Ogun – was until the end of 1991 a matter of litigation, after the Federal Government had stepped in to reverse the controversial divestment. The states privatisation-cum-commercialisation programmes were, however, not the responsibility of the TCPC.

(c) **Mergers and assets sales:** These mechanisms were intended to be used for enterprises whose “future outlook is hopeless”, and 17 enterprises had been so adjudged by the TCPC (Zayyad, 1991). No merger had been carried out by the end of 1991. But the assets of the Nigerian Shrimps Company Limited and the Nigerian National Fish Company Limited were sold for ₦118.2m. Also, some assets of the 11 River Basin Development Authorities (RBDAs) were also put on the market.

While the TCPC seemed meticulous in its work, it was often criticised as being too slow, as evidenced by its having privatised less than 20% of the targeted enterprises by December 1991. In the case of commercialisation, which formally took effect as soon as the decree was promulgated in 1988, only towards the end of 1991 did government begin to sign performance contracts with the affected enterprises, starting with the National Insurance Corporation of Nigeria (NICON).

The TCPC on its part has identified 10 problems (Zayyad, 1991):

- a) Political decision-making: even the military government required two years of debate to promulgate the decree.

⁴ Only one out of the 21 states, Ondo, made any public offer. Some of its holdings in Owena Bank Limited and Okitipupa Oil Palm Company Limited were so privatised in 1989.

It is yet to authorise the privatisation of banks. As Zayyad points out, "privatisation is an anathema to many people."

- (b) Inadequacies of the capital market, which though the most developed in black Africa and adjudged second of the newly emerging ones by the International Finance Corporation (IFC) in 1989, 1990 and 1991 (*Business Concord*, 2 July, 1991), nevertheless lacks operators with relevant experience. The TCPC thus began with the more experienced firms, which "helped to set standards for subsequent issues."
- (c) Bottle-necks in the delivery system: ill-equipped registrar's offices, which caused delays in processing applications for shares.
- (d) Problems of ensuring adequate publicity in the case of share sales.
- (e) Socio-political constraints, especially from those opposed on ideological grounds or because like labour, their material interests were seen to be threatened.
- (f) Opposition from the bureaucracy because of threats to its authority.
- (g) Inadequate record keeping especially by the Ministry of Finance Incorporated (MOFI), an arm of the Federal Ministry of Finance which is the primary institution in charge of government investments. Its problems have stemmed mainly from other ministries and departments, which undertook investments without passing on details. The first task of the TCPC was "to try to assemble complete and accurate information" about such investments: the equity involved and the loans and grants which had been made.

- (h) The geopolitical spread: The response from the northern states was poor throughout the period in the case of the public offers but very active in the case of private placement, possibly reflecting the mainly feudal socio-cultural characteristics of the region.
- (i) Access to credit: In January 1989 the CBN directed banks to grant credit for the purchase of shares and exempted these transactions from credit ceilings. But the response by the banks was poor. This "has tended to dampen enthusiasm, particularly among the working class whose earnings are hardly sufficient to meet their normal needs let alone have surplus to invest." Formal sector employers were, however, more responsive by granting loans to their employees.
- (j) Institutional investors were sometimes frustrated by the TCPC's emphasis on small investors.

An equally fundamental problem was control of the managements and boards of the privatised enterprises on public offer; notably those from which government had completely divested its shares. The shareholders were too fractionalised to keep in check especially boards with foreign partners who now owned controlling shares of 40-60%. Thus, in 1990, the TCPC introduced the 'Golden Share Mechanism'; this is a non-financial control system which allowed it to have the decisive say on strategic issues in such enterprises.

In 1991, the government in conjunction with it and through the NSE set up regional shareholders' associations to mobilise shareholders to effectively monitor their boards. This was in realisation of the weakness of the privately organised Shareholders Solidarity Association, which operated mainly from Lagos. By December 1991 most regional associations had been weaned away from the NSE, and were functioning autonomously.

4.6 Public Expenditure Cuts

The contraction of public expenditure began in 1982. As a structural adjustment policy, it has been implemented broadly thus:

- (a) Total expenditure was allowed to rise in nominal terms, while falling in real terms in 1988 and 1989.
- (b) Capital expenditure rose faster than recurrent expenditures except in 1987 and 1988.
- (c) Except in 1987, 'transfers', comprising mostly debt servicing commitments, steadily rose by a yearly average of 99.5%. Gradually, these dominated spending and in 1991 accounted for 68.13% of total expenditure and 142.8% of Federal Government revenue.
- (d) Domestic spending fell sharply after 1988. Even defence suffered nominal cuts in recurrent expenditure in 1988 and real cuts every year except 1987. On the capital expenditure side, defence spending, however, rose every year except in 1990, when it fell in nominal terms, and 1989, when it fell in real terms.
- (e) Capital expenditure on economic services (mainly infrastructural) fell half the period – 1988, 1990 and 1991 – nominally and in real terms. The recurrent expenditure under these headings fell nominally only in 1991, and in real terms in 1988, 1989 and 1991.
- (f) Total expenditure on social and community services fell in nominal and real terms every year except 1988 and 1989. In real terms capital expenditure fell every year except in 1988 and in nominal terms in 1986, 1987 and 1991. Recurrent expenditure on social and community services fell nominally every year except 1988 and 1989. (See tables 4.10a-4.10d).

- (g) The public deficit steadily increased (see the following tables), a problem which I will return to in Chapter Six.

Table 4.10a - 4.10d: Public Expenditure Pattern 1986-1991

Table 4.10a: Expenditure and Deficit Growth

Year	Total Expenditure ₦ billion	% of GDP	Deficit ₦ billion	% of GDP
1986	1.7	n.a.	8.25	10.3
1987	22.09 (+35.8%)	n.a.	5.89	4.2
1988	27.75(+26%)	n.a.	12.2	8.5
1989	41.028(+47.8%)	21.2	14.35	7.9
1990	61.15(+49%)	22.9	21.7	8.1
1991	67.53(+10.4%)	23.6	35.31	12.4

Table 4.10b: Debt Service

Year	Debt Service ₦ billion	Share of Total Expenditure %	Share of External Debt %
1986	-	-	-
1987	7.5	33.94	16.8
1988	11.4	41.3	-
1989	19.31	47.1	39.2
1990	39.5	64.7	78.0
1991	46.01(+16.4%)	68.13	76.79

In 1991, for example, the government envisaged not only a ₦100m surplus but also a complete abstinence from borrowing on the domestic money market. In the event, not only did revenue decrease by 18.4% (due mostly to lower oil prices), but expenditure rose by 10.4%. Of the ₦67.53b spent, 68.4% went on debt servicing. The debt service-revenue ratio increased to 142.8%. Of the ₦46b spent on debt service, external indebtedness claimed

₦35.334b, or 76.79%. Non-debt expenditure fell further, both nominally and in real terms. For the third year, capital expenditure rose faster than recurrent expenditure. Recurrent expenditure rose from 5.6% to ₦38.24b, of which transfer payments claimed 71.4%. While outlay on administration increased by 6.3% and their share rose from 18.1% to 18.2%, both outlays and shares of economic, social and community services declined sharply. Respective outlays declined from ₦1.614b to ₦1.3034b; and from ₦3.396b to ₦2.677b (that is by 19.2% and 21.2%). Respective shares declined from 4.4% to 3.4% and from 9.4% to 7%. In the case of capital expenditure, transfer payments claimed 72.7%. Outlay on administration rose marginally from ₦2.92b to ₦3.345b, but its share of the total fell marginally from 11.7% to 11.4%. For the second year, nominal expenditures on economic, social and community services dropped and for the fourth year their shares dropped. Outlays respectively declined by 39.8% and 28.8%, while their shares respectively fell from 14% to 10.7%; and from 8.4% to 5.1%. Thus, although expenditure as a ratio of GDP was at its highest in the six years, at 23.6%, domestic expenditure, both capital and recurrent, actually shrank in both absolute and real terms.

Table 4.10c: Capital Expenditure (₹ billion)

	1986	1987	1988	1989	1990	1991
Total	9.08 (+19.2%)	6.4 (-29.8%)	8.34 (+30.9%)	15.03 (+80.3%)	24.9 (+65.8%)	29.3 (+17.5%)
Administration	0.265 (-42.4%)	1.816 (+585.9%)	1.9 (+4.5%)	2.62 (+37.9%)	2.92 (+11.5%)	3.345 (+14.6%)
Defence	0.07 (-75.2%)	0.182 (+158.4%)	0.38 (+108.7%)	0.538 (+42.9%)	0.524 (-2.6%)	0.877 (+67.3%)
Economic Services	1.099 (+23.2%)	2.16 (+96.4%)	2.13 (-1.4%)	3.93 (+63.5%)	3.48 (-11.2%)	3.145 (-9.8%)
Social & Community Services	0.655 (-43.2%)	0.619 (-5.5%)	1.726 (+178.8%)	1.845 (6.9%)	2.1 (+13.6%)	1.492 (-28.8%)
Transfers (Mainly Debt Service)	7.1 (+38.2%)	1.777 (-74.8%)	2.59 (+45.5%)	6.645 (+175.8%)	16.43 (+147.2%)	21.3 (+29.7%)
Internal Debt	n.a.	0.119	0.134(+13%)	0.13(-3.3%)	0.23(+75.0%)	0.18(-21.1%)
External Debt	n.a.	1.21	1.97(+63%)	5.904(+299.4%)	15.49(+162.4%)	19.42(+25.3%)
Rate of Inflation	5.4%	10.2%	38.3%	50.5%	7.4%	13.0%

Source: CBN (various)

Note:

1. Administration comprises general administration, defence and internal security
2. Economic services comprise agriculture and water resources, manufacturing, mining and quarrying, transport and communication, special projects and others.
3. Social and community services comprise education, health, housing and others.
4. Transfers comprise mainly loan repayments, most of these external.

Table 4.10d: Recurrent Expenditure (₹ billion)

	1986	1987	1988	1989	1990	1991
Total	7.7 (+6.7%)	15.65 (+103.3%)	19.41 (+33.9%)	25.99 (+33.9%)	36.2 (+39.3%)	38.24 (+5.6%)
Administration	2.7 (+1.4%)	6.05 (+126.6%)	5.78 (-4.4%)	6.3 (+85.0%)	6.54 (+4.3%)	6.95 (+4.3%)
Defence	0.733 (-33.4%)	1.973 (+169.3%)	1.34 (-32.1%)	1.68 (+25.4%)	1.76 (+4.8%)	1.834 (+4.2%)
Economic Services	0.514 (+62.8%)	1.092 (+112.7%)	1.22 (+11.7%)	1.419 (+16.2%)	1.614 (-13.7%)	1.303 (-19.2%)
Social & Community Services	0.862 (-23.9%)	0.469 (-45.6%)	2.114 (+350.8%)	4.23 (+100%)	3.396 (+19.7%)	2.677 (-21.2%)
Transfers (Mainly debt service)	3.645 (+16.5%)	8.038 (+120.5%)	10.3 (+28.1%)	14.1 (+36.7%)	24.7 (75.3%)	27.31 (+10.7%)

Internal Debt	2.5(+29.8%)	3.8(+54.4%)	4.2(+20.2)	6.01(+43.1%)	8.5(+4.7%)	10.5(+2.4%)
External Debt	0.53(-45.6%)	2.4(+343%)	5.0(+112.8%)	7.3(+44.2%)	15.4(+111.6%)	15.9(+3.6%)
Rate of Inflation	5.4%	10.2%	38.3%	50.5%	7.4%	13.0%

Source: CBN (various)

Note:

1. Administration comprises general administration, defence and internal security.
2. Economic services comprise agriculture, construction, transport, communications and others.
3. Social and community services comprise education, health and others.
4. Transfers comprise mostly public debt charges (interest), but also includes pensions and gratuities and others.

The ₦35.31b deficit which ensued showed a rise of 62.8%, and at 12.4% of GDP was the highest in the six years, and also in the country's history. Consequently, government's domestic borrowing increased by 82.9%, all of which came from the CBN, mostly through money creation. Domestic sources accounted for 93% of the financing. Draw-down on stabilisation funds and external loans made up the balance.

4.3 Socio-Political Framework of Implementation

In 1985, the new Babangida government threw open to the public the debate on whether to accept an IMF loan. Nigerians resoundingly said 'no', different sections of the community pledged they would sacrifice to restore the economy.

When the government announced the adjustment policies as "home-grown" it carefully guarded the IMF-World Bank role in the shaping of the programme from public scrutiny. As the policies emerged, and the role of IMF and World Bank became more visible, against a background of policies whose implementation helped bring about a rapid decline of living standards (e.g., through the withdrawal of subsidies), questions started to be raised about the suitability of the policies.

In May 1988, riots broke out throughout the country, triggered off by the second increase in petroleum prices at the insistence of the IMF and the World Bank. The government responded with great force and several people were killed. Although some palliative measures were offered after such incidents of public opposition (see Chapter Six), the government generally brooked no questions about the policies. It always insisted "there is no alternative to SAP" Attempts to work out alternatives were consistently brutally suppressed.

In 1988, the Nigeria Labour Congress (NLC), in conjunction with some other prominent Nigerians, sought to hold a conference to discuss alternatives. Potential participants and the NLC

leadership, among them revered 80 year old veteran labour leader Michael Imoudu, were arrested by lorry loads of security men. Two leading bank chief executives, Messrs Oladele Olashore of First Bank and Ibrahim Ayagi of Continental Merchant Bank were sacked in 1987 for criticising the interest and exchange rates policy respectively.

As labour agitation continued, the government, in 1988, in addition to at various times arresting and detaining labour leaders, dissolved the executive of the NLC and appointed an administrator to run its affairs for 12 months. Thereafter, a government-backed executive was elected and labour generally became 'responsible'. The National Association of Nigerian Students (NANS) was banned and driven underground for criticising the adjustment programme (see Chapter 4 for the impact on education).

4.4 Conclusions on Design and Implementation

- (a) Partly because of the seriousness of the debt crisis, which reduced the regime's bargaining position, and partly due to the military's own right wing convictions, most policies were vigorously implemented.
- (b) No particular bias was shown in implementing either stabilisation or structural adjustment policies, contrary to the findings by Mosley et al., (1991) across 30 countries that "the political odds are stacked much more heavily against the implementation of stabilisation". Subsidies have been brutally withdrawn, the marketing boards and import licensing were the first casualties. This could be because Nigeria was being ruled by military dictatorship.
- (c) In the case of both stabilisation and structural adjustment policies, the military occasionally retreated – not necessarily out of political sensitivity but out of a traditional bias towards the

business community. Thus, in the year when labour pricing was completely deregulated, the government pegged interest rates.

- (d) The assertion by Hinchcliffe (1990) among others that the funding of education increased from 1987 is wrong. As a social and community service, education funding like similar services dropped consistently in both real and absolute terms. For instance, it fell by 20.2% (from $\text{N}3.012\text{b}$) in 1989 to $\text{N}2.0428\text{b}$ in 1990 and by a further 47.7% in 1991 to $\text{N}1.256\text{b}$ in terms of recurrent expenditure. Its share of recurrent expenditure fell from 11.6% in 1989 to 6.6% in 1990 and 5.3% in 1991. Capital expenditure on education, which rose from 7.5% in 1990, fell by 28.7% in 1991, while its share of capital expenditure also fell from 2.6% in 1989 to 1.7% in 1990 and 1% in 1991.

Chapter Five

External Support

As the World Bank (IBRD, various) persistently points out, external support from both multilateral agencies and developed economies is mandatory for the success of structural adjustment policies. For Nigeria, six areas are identifiable for such support. These as articulated by the government and illustrated by the size of the economy, past experience and studies, are: *Financing, Access to Markets, Technical Assistance and Training, Aid/Grant, New Investment, Debt Relief*. These are discussed in further detail below.

5.1 Financing

As at 1983, Nigeria was estimated by the World Bank to need \$11 billion in external financing annually (Europa, 1989). This need has deepened with dwindling export earnings (see Table 5.1) Conversely, however, since 1982 when oil prices underwent sharp declines and the Third World debt crisis erupted, the external financing has shrunk.

Table 5.1: Export Earnings (\$ billion)

Year	Amount
1986	6.6
1987	7.365
1988	7.39
1989	9.0
1990	13.671
1991	12.264

Source: CBN (various).

Prior to the crisis of the three sources of loans - multilateral, the international capital market (i.e. the commercial banks) and bilateral - commercial banks had a dominant role and this is why as at 1986, commercial bank loans accounted for 56.6% of total indebtedness. This was unlike other sub-Saharan African countries, but like the big Latin American debtors. The World Bank group accounted for 12.2%, bilateral loans 28.2%, and trade arrears 3%. Since the crisis, commercial banks have not disbursed any new money, although further loans to the tune of \$320 million were twice agreed (in 1986 and 1987).

Bilateral financing was the second most important source of external capital in the period under review. The key sources were Japan and Germany, followed by Britain. Between 1987 and 1989, Japan provided about \$200m through its Organisation for Economic Cooperation Fund (OECD) and Britain about \$120m through its Import Stimulation Grant (CBN, various).

The most important source of external capital, of course, was multilateral, namely the World Bank group. During the period, its three arms - the International Bank for Reconstruction and Development (IBRD), the IFC and International Development Agency (IDA) - jointly provided \$4.126b. It was followed by the African Development Bank (ADB), from which Nigeria, although a major shareholder had rarely borrowed until 1987; the ADB provided \$1.209b. (See Table 5.2).

5.2 Access to Markets

Although Nigeria has the largest West African market at its doorstep, its total dominance of the market is maintained mostly through unrecorded trade varieties (i.e., smuggling). Hence, it has been recording deficits for most of the 11-year existence of the West African Clearing House (CBN, various). Besides, trade within the zone would not generate the hard currencies needed to pay for Western imports and to service debts. As at 1986, Nigeria had little besides oil to export outside the sub-region, and equally little institutional capacity to support an export drive (see Chapter Four).

Table 5.2: New Financing (US \$million)

Year	Source	Amount	Use	Total
1986	IBRD	312.9	Partly for FEM	312.9
1987	IBRD	629	agriculture, urban and rural development, etc.	680.2
	IFC	20	private sector	
	ADB	31.2	urban water project	
1988	IBRD	300	urban development, education, transport, SMEs private sector	322.9
	IFC	22.9		
1989	IBRD	1,100	Structural adjustment support, urban renewal, SMEs, agriculture and rural development	1,493.3
	IFC	14.4	private sector	
	ADB	27.8	rural development, SMEs water supply	
1990	IBRD	500	rural and urban infrastructure, agriculture, social services	1,026.2
	IFC	6.2	private sector	
	IDA	120	universities	
	ADB	400	agriculture, health and utilities	
1991	IBRD	540	primary education, health and water supply	1,435
			Oso condensate, agriculture	
	IFC	95.1	SMEs	
	IDA	300	primary education, population programme, agriculture	
	ADB	500	agriculture, utilities, industry	
TOTAL				5,270.6

Source: CBN (various).

Note: Disbursements may vary.

This is a key reason for establishment opposition to the naira's devaluation (Buhari, 1984). Gradually, a trade in non-oil exports, mostly textiles and primary commodities, was being built up. While Nigeria's primary commodities had their traditional European markets (notably in Britain), new markets had to be found for the burgeoning textiles exports. Europe appeared promising, and the US more so, particularly for the traditional tie and dye textiles. But the US government in 1990 imposed quota restrictions on Nigerian textiles. Nigeria interpreted this as the US retaliation for its ban in 1986 on imported wheat, rice and other grains, about which US farmers had complained. Some other markets are being developed for both textiles and other commodities, especially manufactures. Europe was on the whole been receptive mainly because the quantities as yet posed no threat to its products and fell considerably below the allowance permitted under the Lome Conventions – the pacts between the then European Economic Community (EEC), now European Union (EU), and the African, Caribbean and Pacific (ACP) states. Japan on its part was actively encouraging trade links, especially Nigerian furniture exports through its external trade office (JETRO) in Lagos (*Business Concord*, 2 July, 1991). Germany was gradually proving a market for traditional arts, marketed mainly through African-oriented German organisations.

5.3 Technical Assistance and Training

Nigeria is deemed by the World Bank to be manpower sufficient (*Business Concord*, 30 April, 1991). But as the bank points out, much of this manpower lacks technical experience and modern entrepreneurial capability. Support to increase such capacity was largely multilateral. The multilateral sources are the IFC, United Nations Development Programme (UNDP), and UN Industrial Development Organisation (UNIDO). The three funded seminars and workshops. UNIDO also helped prepare the master plan for the export processing zones, notably, the Calabar EPZ, while the IFC also advised private entrepreneurs whose projects it funded,

in 1991, IFC special technical team visited Nigeria to advise on the privatisation programme as well as appraise the on-going Liquefied Natural Gas (LNG) project (CBN, 1991).

There was also the German Investment Fund that begun in 1990. Apart from providing revolving loans to small entrepreneurs, it also provided them with technical training. The exact mode of this training and the number of Germans involved were for some time an obstacle to the project until the Germans agreed to cut down their personnel from six to three in a project which began with DM10m (*Business Concord*, various, 1990).

5.4 Aid/Grant

Although Nigeria resumed receiving Official Development Aid (ODA) in 1986 – \$60m or 0.1% of GNP – the highest level of aid during the review period was 1.1% of GNP in 1989. In 1990 it was down to 0.7% (IBRD 1987-92). Nigeria never actively campaigned for aid. Indeed, throughout the six-year period, it was giving out aid, for example, \$30m in 1987, \$70m in 1989 and \$14m in 1990. Much of the aid came from Japan, Britain and France.

5.5 New Investment

This was one of the two key areas in which Nigeria actively campaigned for support, and it was a key motivation for the institution of the structural adjustment policies. Consequently, various institutions were created, laws enacted and measures adopted which were geared precisely to attract foreign investment. These were besides general incentives to investors. Since it was not short of local investors, Nigeria's Direct Foreign Investment (DFI) drive emphasised areas of local weaknesses: manufacturing, non-oil mining, and hotel and tourism, all on medium/large-scale, and with high technology content and high financial commitment. These new priorities were illustrated in the following measures:

First, the Nigerian Enterprises Promotions Decree of 1972, amended 1976, was repealed. Its replacement, the Nigeria Enterprises Promotion Decree 54, 1989, allowed foreigners to invest in all but 40 enterprises. Even in these 40, a foreigner could still

invest but with a minimum of ₦20 million (at that time \$2.6m). Hitherto, there was no such waiver and the other enterprises were classified into two schedules: Schedule I under which foreigners could own 40% of shares and Schedule II under which foreigners could own 60% of shares. Entry into both schedules was regulated by the Nigerian Enterprises Promotions Board. The 1989 decree abolished that board. It also abolished the two schedules and allowed foreigners 100% ownership of new enterprises.

Also, the purchase of shares on the stock exchange, hitherto closed to foreigners, was legalised by the Nigerian Enterprises Promotion (Issue of Non-Voting Equity Shares) Decree 34 of 1987. Such shares are, however, non-voting.

Third, to eliminate bureaucratic bottlenecks, a one-stop investment agency, the Industrial Development Co-ordination Committee (IDCC), was established by Decree 36 of 1988. Instead of going to various ministries and departments for various approvals, the investor simply filed his papers with this body (composed of relevant ministers – including those of finance, industry and internal affairs – and the CBN), which met every month-end.

Fourth, the Companies and Allied Matters Decree 32 of 1990 was enacted to bring all corporate proceedings into line with international practice. In addition, an independent Corporate Affairs Commission (CAC) was established, and the companies registry decentralised to make it possible to register companies in the states instead of only in the federal capital. [By the end of 1991, an EPZ was about to take-off in Calabar].

By 1988 the investment inflow was limited. Rather, the liberalisation loopholes were being manipulated to assist capital flight (see previous chapter). This disappointment was shared by, among others, the World Bank, which nonetheless in 1989 made Nigeria's reforms its showcase. The bank pointed out/acknowledged that despite liberalisation (including relaxing of restrictions on DFI), "in contrast to the programme effectiveness in improving efficiency, it has not yet led to a recovery of private investment – the key to

future growth" (IBRD, 1989a, p.48). The dominant explanation then, was that Nigeria had not marketed its reforms sufficiently. Thus began a round of advertisements in Western media: *Euromoney*, the *Financial Times*, the *Economist*, *Time* and *Newsweek*. There were also exhibitions and the opening of commercial desks and trade centres in different parts of the world. General Babangida also undertook visits to Germany, Britain, France and the United States.

Support was provided by UNIDO and UNDP, which in 1991 short-listed about 2,000 Nigerian projects with a view to attracting foreign participation. Support also came from the West Africa Committee, a group representing about 1,500 Western medium-scale companies doing business in West Africa. The committee, in conjunction with the Confederation of British Industry, in November 1990 held a two-day Nigeria Investment Promotion Conference in London. Locally, such non-governmental bodies as the Enabling Environment Forum (EEF) comprising government officials, government agencies, corporate bodies, private individuals, and NGOs were also active.

Between March 1989 when it began work and November 1990, the IDCC had approved 289 business permits (Yahaya, 1990). By March 1991, the committee had approved 96 applications for approved status – in principle for the inflow of about ₦437 million (about \$43.7m) worth of foreign investment (Yahaya, 1991). How many of these actually began operation is unclear. Clearer, though, are:

- (a) The balance of Western investments would have considerably changed by December 1991. British investment, which traditionally dominated the Nigerian scene, was by 1988 thinning out. Though at the time still 60% of total DFI, it had fallen from ₦4.35b in 1987 to ₦3.2b in 1988, (Yahaya, 1990). With devaluation, the fall has been larger. First, although British trade delegations had been visiting, they appeared more interested in taking

absolute control of existing companies in which they owned 40-60% (with the rest being owned by Nigerians). Second, some British companies have by-passed Nigeria's laws to sell their shares offshore, especially to rich Nigerians and Asians, a situation which provoked new measures from the SEC and NSE in 1991 (*Business Concord*, 9 April and 1 October, 1991). Third, while British companies were clearly divesting, Japanese, German, South Korean, US and French companies had intensified their activities. In 1991, General Motors, for example, in conjunction with UAC of Nigeria, opened a car manufacturing plant. Japan's Mitsubishi was preparing to. South Korea's Daewoo was already there. Three US banks which had earlier divested were also preparing to return.

- (b) Actual DFI had risen only nominally, from ₦9.9b in 1987 to ₦10.3b in 1988. With devaluation taken into account (29.8%) it declined.

Another source of investment has been the Debt Conversion Programme (DCP) introduced in 1989. By mid-1991, \$334.9m (₦2.6b) had been disbursed in tranches to converters for investment in approved and monitored projects. Manufacturing took 38.69% of this followed by hotel and tourism with 15.33% (see Table 5.3). It is, however, unclear if these investments were part of the inflow reported by the IDCC.

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Table 5.3: Converted Debts Investment

Sector	Amount (₦ million)
Agriculture	333.6
Manufacturing	992.5
Building and Construction	190.9
Gifts and Grants	392.8
Hotel and Tourism	393.2
Services	1.2
Debt for Debt	261.1
TOTAL	2,565.3

Source: CBN (1991).

Greater success was apparently recorded in oil-related DFI. This can be measured thus: (a) The existing oil companies, which had 40% DFI, intensified their exploration activities, which had implied ploughing back some of their profits. Between 1986 and 1990 the number of exploratory and appraisal development wells increased from 73 to 103. In 1991, this rose to 112, but in that year indigenous companies were licensed to drill oil, and it is unclear how many of the new wells they accounted for. (b) British Petroleum (BP), banned from Nigeria in 1976 following its illegal oil sales to South Africa, was allowed to return in 1991 and immediately began operations. This was an avenue for foreign investment as well as a political move to assuage international pressures being mounted by Britain. (c) More significant because it illustrates not only investment inflow but also new financing and access to Western markets was the Liquidified Natural Gas (LNG) project. In preparation since 1975, the project's execution began in earnest in 1988. At a capital cost of \$2.4b, it is owned 60% by the Nigerian National Petroleum Corporation (NNPC), 20% by Shell, 10% by Agip and 10% by Elf. By end-1991, all memoranda of understanding had been signed, with buyers located either in Europe or the United States (CBN, 1989, 1991). Although sales were to begin in 1995, most of the production had been sold out for the first 10 years. Four out of the

six ships required had also been purchased, (CBN, 1991).

Given the global importance of oil and gas, both as an investment area and as commodities, it is arguable if oil-related DFI would not have been independent of the policies. Even prior to the policies, oil-related DFI was very active and British Petroleum (BP), for example, was pressurising to return to Nigeria. Also, the LNG project was delayed for so long not for lack of markets or financing, but because Nigeria wanted majority shares and this required a lot of logistics on its part.

5.6 Debt Relief

Each year brought a fresh round of negotiations and agreements with different creditor groups (see Table 5.4), followed in the case of the Paris Club with negotiations and agreements with individual countries. All these agreements must be preceded by one with the IMF evidenced by its endorsement or stand-by facility. In the six years of Nigeria's structural adjustment efforts, all that was achieved was rescheduling, mainly of some principal sums as they fell due. This, although reducing the absolute amount immediately repayable, did not reduce the debt burden. Rather, the burden steadily increased, as was seen in Chapter Four and is further shown by Table 5.5. The debt service ratio crept up from 25% in 1987, the first full year of the policies, to 36% in 1991. The debt-export ratio went from 186.9% in 1986 to 336.77% in 1991. The total outstanding external debt almost doubled from \$18.63b in 1986 to \$33.364b. Yet, as Table 5.2 shows, only about \$5.33b worth of new loans were undertaken. In addition was official development assistance totalling \$0.835b. Making allowance for whatever limitations might exist in the case of calculations based on CBN data, \$1b could be added to the newly borrowed funds to total \$7.17b. Thus, of the \$14.73b, in increased indebtedness during the period, less than 50% came from new borrowing. The rest was caused by: (a) rising interest rates as most of the earlier debts were at floating Euromarket rates; (b) capitalised unpaid interest charges

on rescheduled debt obligations and quiet defaults; (c) depreciation of the US dollar in which oil sales – constituting about 95% of export earnings – are denominated.

While countries such as Mexico and Poland enjoyed the benefits of 30-50% debt reduction – reversal of capital flight, ability to raise money from international bond and equity markets, revived capital inflows following substantially improved investor confidence, declining real interest rates (Bank of England, 1991; IBRD, 1991), – Nigeria enjoyed little debt relief. In the six years, only \$106.4m was cancelled by the US and Canadian governments, 0.31% of the end of 1991 debt stock.

Up to 1990, President Babangida often declared that his administration would not leave any more debt than it met when it took power. He was probably confident of debt relief. By the end of 1991, presented with a debt service bill for 1992 of \$5.565b, 53.4% of expected earnings, he declared: "The nation cannot survive or engage in any other development activities if she does not maintain the policy of not committing more than 30% of export earnings to debt service" (FGN, 1991c). Whether such a policy would hold in 1992 is doubtful, because in 1991, for example, although earnings were 4.3% lower than budgetary projection, debt service overshot projection by 3.5%.

Three main reasons can be adduced for this. First, Nigeria did not have the backing of a big power. Unlike Mexico, Nigeria does not share a strategic border with the US. Unlike Poland, Nigeria does not constitute an ideological battle zone over which the triumph of capitalism against communism had to be secured. Unlike Egypt, Nigeria is not a key Western card in the volatile Middle East politics. As the Bank of England has pointed out (1991):

The agreements were ... influenced by political considerations. Ensuring the success of Poland's reform efforts is clearly important for the political and economic liberalisation of Eastern Europe. It was argued that a strong and Western-oriented economy in Egypt would contribute to political stability in the Middle East.

The only international power Nigeria could rely on is Britain, both as the former colonial master and as Nigeria's dominant trading partner since Independence (see Appendix 2). But Britain's free market approach in many spheres during the 1980s meant the absence of much in the form of concrete support.

A second factor is Nigeria's foreign policy, especially over Southern Africa. The latter, until around 1989, saw Western governments arrayed against Nigeria.

Third, there was the problem of inadequate domestic accountability, which was aggravated by the lack of open pluralism. In the first half of 1991 for example, the ₦19b public deficit was blamed by the government largely on debt servicing. But an examination of the CBN figures shows that only about ₦5.6b could have been so incurred in addition to what was budgeted. The financial costs of involvement in the West African Peace Keeping Force, ECOMOG, in Liberia were and remain a closely guarded secret. International sympathy could also have been hurt by the presence of a military government, but this is doubtful given Western support for such dictators as Chile's General Augusto Pinochet and South Korea's General Chun Doo Park.

Structural adjustment policies were embarked upon in 1986 with a lot of optimism, much of which was based on anticipated external support. Five months into the programme, the CBN (1986) optimistically stated: "The adoption of the SAP thus increased the country's creditworthiness by reducing the debt service burden and by facilitating increased capital inflow." Such optimism has proved largely unfounded, as shown above. Indeed, in 1990 alone, as even the World Bank has admitted, there was a negative official transfer of \$1.653b out of Nigeria (IBRD, 1992).

Table 5.4: Nigeria's Creditors

Creditor Type	Amount (\$ billion)
Multilateral	3.65
Paris Club (governments)	17.793
London Club (ICM)	5.99
Promissory Notes	4.479
Others	1.454
TOTAL	33.36

Source: CBN, 1991.

Table 5.5 : Nigeria's Debt Burden

Year	Debt (\$ billion)	Debt-Export %	Debt Service (\$ billion)	Debt Service- Export %
1986	18.034	186.9	1.9044	29.4
1987	23.4451	333.3	0.863	25.2555
1988	28.4004	371.43	1.9531	25.5434
1989	31.424	404.94	2.1727	27.998
1990	33.099	353.652	3.7466	27.5485
1991	33.364	336.772	3.574	36.07

Source: Compiled from CBN figures.

Chapter Six

Impact (I)

As suggested by Mosley et al., (1991), there are three approaches to impact analysis: “(1) What was expected to happen during that period (the ‘plan target’); (2) what happened in a previous period; and (3) some estimate of what would have happened in the absence of the influence being assessed.” All are susceptible to extraneous influences but the last two appear to make excessive reliance on imagining what might have been. In this work, the first option, the before-after approach, was utilised. Although some scholars including Mosley et al., criticise it as “arbitrary” and incapable of predicting extraneous events with any reliability, it is the least reliant on imagined circumstances.

Since the policies had no socio-political objectives at inception, the assessment is done in two parts. Part one which is the rest of this chapter is based on the policies’ stated objectives. In recognition, however, that these policies have operated not in a vacuum but in a socio-political context. Part two is devoted to assessing their socio-political impact. Unlike traditional impact analysis, the present assessment recognises bi-directional impact between the policies and pre-existing economic environment, and the huge debt burden on one hand, and between the policies and the socio-political environment on the other.

Economic Impact

Broadly, the policies the government put in place aimed at simultaneous stabilisation and structural adjustment. This was articulated in terms of four major objectives (CBN, 1986). The impact of the policies based on these objectives was as follows:

Objective (1) “To restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports.”

This can be assessed using four indices: Manufacturing Performance, Agricultural Production, Sectoral Linkages and Revenue Base. These are discussed below.

(a) Manufacturing Performance

This is measured by industrial capacity utilisation, manufacturing share of GDP, and local sourcing.

(i) Industrial capacity utilisation

In 1986, this averaged 36.4%. As Table 6.1 shows, throughout the six years, it had stayed at under 42%. In 1991, it averaged 39.4%. But these averages mark sectorial differences. The best performing sub-sectors have been textiles, which in 1991, for example, recorded 144.2% capacity utilisation, and the food, beverages and tobacco sub-sector which in 1991 recorded 58% capacity utilisation. On the other hand, motor assembly plants have consistently performed poorly. In 1991, they recorded the least capacity utilisation, 19.6%. As the CBN (1991) explains, there is one major reason for the different performances: "As in previous years, industrial groups that were able to source increasing proportions of their raw materials locally achieved higher rates of capacity utilization of 50% and above." Of concern, however, is that among the poor performers are such basic industries as industrial chemicals, fabricated metal products, glass and glass products.

Table 6.1: Manufacturing Performance

Year	Capacity Utilisation %	Share of GDP % (1984=100)
1986	36.4	9.42
1987	40.4	9.66
1988	41.5	8.7
1989	41.6	8.1
1990	39.0	8.2
1991	39.4	8.3

Source: CBN (Various).

(ii) Manufacturing share of GDP

In 1986, this was 9.4%; by 1991 it was just 8.3% (Table 5.1). On the whole, the manufacturing sector remained beset with the same problems it faced at the outset of the programme in 1986. These are identified by the CBN and the Manufacturers Association of Nigeria (MAN) as:

- (a) high production costs, which have been rising at the rate of 20% yearly (21.1% in 1991) mostly due to the naira's depreciation;
- (b) the rising cost of capital (due to interest rates);
- (c) the continuing weak demand, due to declining domestic purchasing power; and
- (d) the continued high dependence on imported inputs.

Although sales turnover steadily increased, (e.g. by 27.2% in 1991), this, as both agreed, was due largely to high price mark-up, not increased volume. Research and development (R & D) expenditure fell by 22.4% in 1991 and accounted for just 1.4% of total industrial turnover (as against 2.8% in 1990)¹. This is despite increased tax incentives to boost R & D. A CBN 1991 survey, with a 66.9% response rate, showed that 60% of manufacturing companies were less optimistic about prospects in the short to medium-term, citing the above problems (CBN, 1991).

This aggregate pessimism, however, masked variations. While firms like the vehicle assembly plants were persistently pessimistic, other TNCs like Cadbury, PZ, Dunlop, expressed their optimism by making increased investments ranging from ₦56m (for Cadbury's malting plant) to ₦800m (for PZ's new cosmetic and toiletry factories).

¹ However, even oil companies (though forced by the government through the NNPC) now have some of their R & D done locally by notably geology departments of universities (e.g. the University of Port Harcourt in the case of Shell).

It also masked the emergence of new indigenous manufacturing firms ranging from pharmaceuticals to iron and steel. Oyejide's (1990) assertion that these "have not grown sufficiently rapidly to make up for the losses sustained by the older, highly import-intensive industrial activities..." is unduly pessimistic. His pessimism may only have substance to the extent that most of them are not members of MAN (which remains dominated by Western TNCs). Most of them have technical links with the Far East, notably Japan, Taiwan and South Korea, and generally maintain a low profile, operating mainly from the Eastern Onitsha-Nnewi-Aba commercial axis. Some of these firms, however, are very small, operating from small sheds or one-room factories, and have utilised automobile and other scrap materials to fabricate automobile spare parts, etc. (*Business Concord*, 9 July, 1991).

(iii) Backward integration

As indicated above, this generally increased slowly. In 1986, the value of imported inputs was 63.4% and the value of locally-sourced inputs rose 31.1%. The equivalent figures for subsequent years are not available in the literature reviewed. But the above illustrates the differing sectoral levels. Some companies, both indigenous and TNCs, were integrating rapidly backwards through both physical and R & D investments. Cadbury's plant, for example, malts local grains and cocoa for its use in place of the banned imported barley malt. Alongside, in this drive for local resourcing are Nestle Foods, Guinness and Nigerian Breweries. Among the high performing textiles firms, Afprint, for example, invested heavily in new plants to process its cotton, grown on its farms spread across the country.

Scrap materials of various kinds and grades, hitherto public eyesores, became highly prized industrial raw materials.

(b) Agricultural Production

(i) Output

Agricultural output rose throughout the period, except in 1987 (see Table 6.2). This was been caused by trade liberalisation and

improved rural infrastructure (see Chapter Two). Output, which increased by 6.6% in 1986, rose by an average of 4.7% throughout the period under review.

(ii) Share of GDP

Significantly conflicting data are presented by the World Bank and the CBN. The former's show a decrease from 41% of GDP in 1986 to 36% in 1990 (IBRD, various). The CBN's show an appreciation from 24.7% in 1986 to 30.3% in 1991 (see Table 6.2).

(c) Sectorial Linkages

These have improved as many industries, especially food, leather and footwear, now utilise a good deal of local agricultural products. Also, following the effective privatisation of research and technical services of educational and research institutions, there is a lot more commercial interaction among them on one hand, and agricultural and industrial operators on the other. Some food factories were modified for their locally sourced raw materials by academic teams. The Jos breweries, for example, were modified by the Federal Institute for Industrial Research, Oshodi (FIIRO).

Table 6.2: Nigeria's Agricultural Production

Year	Output %	Share of GDP %	
		CBN	World Bank
1986	6.6	24.69	(41)*
1987	-1.8	30.1	(30)
1988	5.5	39.1	(34)
1989	4.6	31.3	(31)
1990	7.7	30.1	(36)
1991	5.5	30.3	

Source: CBN (Various)

* World Bank (various)

Consequently, in virtually all manufacturing sub-sectors, there now exist groups of local raw material suppliers. Some have formed strong associations with the relevant industries. Most educational and research institutions on their part have formed limited liability companies to provide consultancy services.

However, the financial sector remains increasingly remote from other sectors. In its search for large and quick profits, that sector increasingly marginalised the priority sectors: agriculture, manufacturing, and SMEs in its lending (see Chapter Two).

(d) Revenue Base

In 1986, non-oil federally-collected domestic revenue accounted for 41.9% of the total. This was, however, an unusual year as oil price collapsed to an average of \$14.85 per barrel and the volume of production declined by 1 million barrels a day, causing oil earnings to drop by 18.6%. Most of the non-oil revenue in 1986 came from levies on imports and factor incomes introduced the previous year. On the external front, oil accounted for 81% of the \$6.765b (CBN, 1986) aggregate official foreign exchange inflow and 97.18% of the \$6.599b (IBRD, 1987) export earnings. Yearly variations from this pattern were slight (see Table 6.3), the lowest share of oil in exports earnings was 91% in 1988.

In terms of domestic revenue, 1987 when the imports and factor income levies were abolished, is more representative than 1986. The oil sector accounted for 75.8% of gross revenue. This pattern was also maintained for most of the period.

Additional taxation such as the excess profit tax that was introduced in 1987, drew so much protest from manufacturers in particular that it was abolished in 1991. Another tax, a withholding tax on savings, was poorly complied with many of the targets broke their accounts into units of below ₦50,000, the minimum set for taxation. Significant efforts were also made to increase customs

Table 6.3: Nigeria's Public Revenue Base (₦ billion)

Year	Gross Revenue	Non-oil	Oil	Total Exports	Oil	Non-oil
1986	12.302	4.195 (24.2%)	4.811 (75.8%)	8.9205	(95.04%)	(7.1%)
1987	25.0998	6.073 (23.3%)	19.027 (76.7%)	30.2399	28.739 (91.2%)	1.5 (8.8%)
1988	27.311	6.377 (17.8%)	20.9338 (82.2%)	31.192	29.293 (95.0%)	2.72 (5.0%)
1989	50.272	8.9377 (20.2%)	41.334 (79.8%)	57.971	55.017 (97.03%)	2.95 (2.06%)
1990	68.571	13.857 (21.9%)	54.713 (78.1%)	109.886	106.626 (96.152%)	2.95 (3.85%)
1991	88.159	19.326	68.832	121.534	116.857	4.68

Source: CBN (Various).

revenue and integrate some parts of the informal sector into the revenue system (e.g., by the licensing of bureaux de change). All these efforts to diversify the taxation base and increase tax revenue yielded only a 3% increase in the non-oil contribution.

Most domestic revenue still came from Petroleum Profit Tax (PPT), followed closely by receipts from rent, royalties and NNPC earnings, all of which comprise domestic oil sector revenue.

This broad view, however, masked gradual diversification. Domestically, customs and excise duties rose throughout the period. Although as Table 6.4a shows, its share of gross revenue fluctuated between 11.8% in 1989 and 15.6% in 1988, its performance was generally better than in 1986, when its 14.05% share came largely from import surcharges. Its performance thereafter indicated more efficiency in the machinery in collecting normal duties. This is particularly notable considering the generally low volume of imports,

Table 6.4a : Domestic Revenue (₦ billion) (% of total)

Year	PPT	NNPC Earnings, Royalties	Customs	Corporate Tax	Others	Total
1986	4.81	3.002 (24.4)	1.73 (14.1)	n.a.	0.434 (3.5)	12.3
1987	12.5 (49.8)	6.24 (24.9)	3.54 (14.11)	1.23 (4.9)	0.41 (1.6)	25.1
1988	12.49	8.44	4.26 (15.6)	1.57 (5.77)	0.54 (1.99)	27.3
1989	24.16 (48.1)	17.17 (34.1)	5.95 (11.8)	1.977 (3.94)	1.01 (2.01)	50.3
1990	26.91 (40.3)	27.78 (41.6)	8.72 (13.0)	3.41 (6.3)	1.72 (3.15)	54.69
1991	38.62 (56.1)	30.22 (34.3)	12.46 (14.1)	3.83 (4.3)	3.04 (3.5)	88.16

Source: CBN (various).

Table 6.4b: Tax Buoyancy: Total Tax Revenue/GDP %

1986	n.a.
1987	n.a.
1988	12.8
1989	16.6
1990	16.8
1991	n.a.

Source: CBN (various).

an average of \$5b a year, except during 1990 (when the economy was buoyed by the Gulf crisis). On the external front, although cocoa remained the dominant non-oil export, accounting for between 35.3% in 1989 and 56.5% in 1987, its dominance actually began to taper off in 1989 (see Table 6.5). However, up till 1989, the balance was mostly accounted for by other raw commodities, notably rubber and palm kernels. But for 1991, the CBN reported "significant increases in the exports of non-traditional exports". These included exports of fish and shrimps, cashew nuts and spices

Table 6.5: Cocoa performance

Year	Earnings, ₦ billion	Share of non-oil
1986	371	39.1%
1987	0.847	56.5
1988	1.476	53.5%
1989	1.043	35.3%
1990	1.209	37.08%
1991	1.746	37.3%

whose values increased by 24.3%, 147.8% and 717.9% over their respective levels in the previous year. Significant contributions also came from cotton and yarn, textiles and chemicals, the value of which increased by 40.5%, 123.7% and 102.3% over their respective levels in 1990 (CBN, 1991).

This first objective was fairly achieved in the six years, much of it after the first two years.

Objective (2). *"Achieve fiscal and balance of payments viability over the period."*

As seen in Chapter Four, the deficit steadily increased (see Table 6.6), due mainly to external debt service, which in 1991 was at 109.6% of revenue.

Table 6.6: Deficit

Year	Deficit/GDP %
1986	10.3
1987	4.2
1988	8.5
1989	7.9
1990	8.1
1991	12.4

Externally, the balance of payments (BOP) position remained mixed. External reserves were steadily built up, except in 1988 when they hit a low level of \$933m (or 1.3 months imports), worse even than in 1986, when they could command 2.5 months imports. In 1991 they stood at \$5.8billion. Conversely, real BOP showed no particular trend (see Table 6.7). In 1987, it slightly reversed the 1986 deficit, only to swing back into a large deficit in 1988. In 1989 this was reversed into a huge surplus, which almost doubled in 1990. But in 1991, the surplus was depleted by 71.68%. A breakdown shows that the capital account deficit steadily worsened, except in 1991, when it halved from the previous year's record \$6.13b. But even the \$2.77billion deficit in 1991 was twice what it was in 1986. The CBN (various) attributes this worsening of the capital account to: (a) increasing debt repayment, (b) a reduction in DFI, and (c) an increased outflow of short-term capital. The 1991 decrease it attributes to a "decline in scheduled debt amortisation and substantial increase in gross short-term capital inflow." The current account performed similarly. It declined until 1989, when it achieved a "turnarounds" with a \$1.12billion surplus. This was quadrupled the following year, due mainly to increased oil earnings. In 1991, this was depleted by 75.4%, falling to \$1.277 billion. A possible explanation for the healthy external reserves in the face of uninspiring overall balance of payments was the pressures coming from the IMF and World Bank.

On the balance, this objective was not achieved. In both categories, external debt service seemed largely responsible, followed by instability of the oil market, the poor performance of non-oil exports and capital flight.

Table 6.7: Balance of Payments Viability (\$ Billion)

Year	BOP	Current Account	Capital Account	External Reserves*
1986	-0.56	-2.14	-1.36	1.35*
1987	0.398	-0.74	-4.19	1.498*
1988	-0.51	-0.215	-4.1	-.933*
1989	1.185	1.12	-4.10	2.041*
1990	2.124	5.2	-6.13	4.129*
1991	0.60	1.28	-2.77	5.85

Source: CBN (various)

* IBRD (various)

Table 6.8: Growth Pattern

Year	GDP Growth	Inflation Rate %	Exchange Rate%	Interest Rate %	GDP/\$b
1986	2.1	5.4	3.3166(-70.45%)	15%	49.11
1987	1.7	10.2	4.1413(-19.9%)	about 16.5	24.39
1988	4.1	38.3	5.3530(-22.7%)	14.75-20.5	29.37
1989	5.2	50.5	7.6221(-29.8%)	19-25	28.92
1990	8.3	7.4	9.0001(-15%)	35%	34.76
1991	4.4	13.0	9.93(-19.4%)	35%	

Source: IBRD (various); CBN (various).

Objective (3). "Lay the basis for a sustainable non-inflationary or minimum inflationary growth"

As Table 6.8 shows: (a) The 1986 GDP of \$1.277 billion was never reattained, the closest to this mark was \$34.76 billion achieved in 1990. (b) GDP performance still reflected a continuing high dependence on oil. The best year 1990, with 8.3% growth, also recorded the highest oil sales. Although manufacturing and agriculture recorded growths of 4-8.3% during the period, theirs remained well behind oil's average of 18%. (c) Inflation consistently remained far ahead of growth. The best year, 1990, stands out; only in this year was the inflation rate 1.1% below GDP growth. In other years, the inflation rate was between 200% and 971% above GDP growth.

Anyanwu (1992) identifies six sources for the high inflation rate: the Debt Conversion Programme (DCP), the FEM, the removal of subsidies, the privatisation and commercialisation of parastatals, the trade liberalisation which has allowed exportation of most items, and interest rate deregulation. The CBN yearly surveys identify most of these too. But the key factor stressed by the bank has been the fiscal deficit. For 1991, for example, it explains: "The sharp increase in the inflation rate was attributable largely to high fiscal deficits which resulted in excess liquidity in the economy. Consequently, the naira further depreciated with concomitant increases in production and transportation costs" (CBN, 1991). In fact, however, three fundamental causes can be found for the high rate of inflation: (a) The fiscal deficit. (b) The poorly prepared commercialisation of the public utilities, which, incapacitated by poor infrastructure from utilising economies of scale for profitability, have instead exercised their monopolies to increase prices by between 400% and 2,000% since 1986 (see Chapter four). (c) The naira's persistent depreciation. Since 1986, as Table 6.8 shows, it has depreciated by an average of 29.6% yearly. This, apart from the large deficit, stems mainly from the inadequate supply of foreign exchange. In 1990, for example, of the \$20.196b demanded by

banks, only \$2.5b or 12.4% was supplied on the FEM. At the same time, liberalisation has prevented a fixed exchange rate, as such a situation would warrant (See UNECA, 1989; Rodrik, 1990). For an economy about 70% import dependent, the high inflation rate has been inevitable. Other relevant factors are: (a) high interest rates fuelled by government's deficit-induced heavy borrowing from the banks; and (b) the abolition of marketing boards.

In effect, the alignment of the three key rates – interest, exchange and inflation – which was needed to lay the basis for non-inflationary or minimal inflationary growth did not occur.

Objective (4). "Lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector."

First, privatisation reduced the dominance of unproductive public sector investments. For example, the RBDAs, which had failed to induce agricultural growth were substantially stripped of their roles. Commercialisation stang some other parastatals into a greater revenue drive. Where monopolies were broken up such as domestic airline industry, the ensuing competition served as a catalyst for efficiency.

However, the overall efficiency of the public sector remained poor. This is despite the civil service reforms undertaken between 1987 and 1990. Falling real wages and lack of job security in the face of persistent rationalisation helped reduce productivity. Above this, the observation by Mosley et al., (1991) of systemic public sector interests at odds with reforms in their sample 30 countries applies to Nigeria. As Zayyad (1991) also notes, many in the sector opposed the curtailment of the benefits they hitherto enjoyed and the capacity for influence that the policies engendered. Consequently, the policy transmission mechanism remains encumbered with constraints.

The attempts at intensification of the growth potential of the private sector were mixed. Encouragement from the government

through new institutions (see Chapter Four) and credit outlets such as the National Economic Reconstruction Fund (NERFUND), established to fund wholly indigenous enterprises which sourced at least 40% of raw materials locally, unleashed a lot of private industrial initiative. The financial deregulation also boosted this with many economic regions and interest groups owning banks, which enhanced access to credit. But the potential gains actually realised were limited by among other factors, high interest rates, the high cost of imported components and raw materials, and poor infrastructure. The high cost of imports was particularly debilitating. In some cases – as in the cement and sanitary product sector, and pulp and paper products groups – although imported raw materials constitute 1-5% of total content, these sometimes amounted to 200% of the cost of local raw materials. As a result, foreign financing such as procured for SMEs remained under utilised. As at December 1991, only \$21.1m of the \$270m World Bank SME loan agreed in 1989 had been disbursed. The key problem was interest rate, which was not concessional.

Infrastructure was persistently identified by the World Bank (IBRD 1989a, 1991) as a major disincentive to investment during the period. For instance, the bank (IBRD 1991) points out that:

In Nigeria the costs of weak infrastructure for manufacturing is very high. Every firm of more than fifty employees that was surveyed had its own stand-by generator despite being connected to the power grid; altogether firms had invested an average of \$130,000 each in their own power supplies. They also invest in private bore-holes because of the unreliable water supply, and employ messenger motorcycles or radio transmitters because telephones and postal services do not work. The cost of such private facilities ranged between 10 and 25% of the value of all the firms' equipment. This clearly reduces the productivity of each firm - but the effects can be broader. Weak infrastructure can alter the character of a country's development. The (ERR) Economic Rate of Return evidence from the World Bank's and IFC's projects provides evidence that public investments matter. The productivity of projects in agriculture and industry increases significantly as the share of overall

public investments in GDP grows - ... as the share of public investment in GDP is raised from 5 to 10%.

This view was widely shared within and outside Nigeria (see also UNECA, 1989; Rodrick, 1990). Infrastructure steadily deteriorated in part because with the growing debt burden, Nigeria's investment in infrastructure (economic services) steadily declined.

Another constraint on realising the private sector potential was the pattern of financial sector lending. While gross domestic savings rose on average 15.8% a year (see Table 6.9), the lending pattern was increasingly short-term. Merchant banks for example, traditionally geared towards medium/long-term lending, were disbursing on average 20% of their total credit on medium/long term basis, as against the officially prescribed target of 50% (CBN, various). Overall, also, the traditional discrimination against agricultural financing was not reversed. During the period, the financial sector provided farmers on average only 2% of their financial needs. The Federal Office of Statistics (FOS) found in a 1991 survey that of the ₦2.2 billion farm credit obtained by 10 million households in 1990, only ₦50m came from banks. The rest came from religious organisations, co-operative societies, 'periodic contributions' and 'future buyers'. The situation, said the FOS, was the same or worse in 1986-89 (FOS, 1991).

Yet another constraint was declining agricultural incomes. There was a strong possibility by end-1991 that this might reverse the recovery in agriculture, more so as there was still no replacement for the marketing boards as a price guarantee mechanism. A danger was that if agricultural growth was reversed, manufacturing industry's backward integration could be undermined and food prices could further rise, causing real wages to decline some more. [This scenario was subsequently played out]. Such an environment cannot be said to intensify the growth potential of the private sector.

This objective was thus only partly attained. Indeed, as Table 6.9 shows, savings overtook investment after 1987, and in 1990 was twice the latter. This suggests that capital is not as problematic as the macro-economic framework.

Table 6.9: Gross Domestic Savings and Investment Rises (%)

Year	Savings	Investment
1986	10	12
1987	20	16
1988	15	13
1989	21	13
1990	29	15
1991	n.a.	n.a.

Source: World Bank (various).

As pointed out earlier, the impact is not unidirectional. Economically impacting on the policies were: (a) TNC dominance of the modern sector (see Biersteker, 1987; Lubeck, 1987 and 1992). As widely acknowledged by development scholars, TNC's profit driven global motives are often at variance with host countries' development drive. (See, for example, Colman and Nixon, 1986).

This has always applied in Nigeria (Forrest, 1987; Biersteker, 1987), but more so in the review period. Many TNCs responded to the new policies by divesting or cutting down on production, rather than integrate backwards. Notable examples were the automobile assembly plants; Peugeot and Volkswagen.² Also, at a time when official exports are being encouraged, rather than undergo proper customs documentation, many TNCs prefer informal sales (smuggling) of their goods. As a consequence, while Nigeria's trade with the rest of West Africa continues to record deficit at the West African Clearing House (WACH), (CBN, 1991), beverages, textiles, beers and other Nigerian products made mainly by TNCs dominate markets and households across West Africa. This has

² Volkswagen of Germany sold its shares to a Nigerian entrepreneur, Chief Moshood Abiola, in 1992.

been boosted by the naira's devaluation against the French franc-supported cfa franc and most other of the sub-region's currencies. The SAP, as Stein (1990) notes, underplays the role of TNCs, "Yet, MNCs have contributed to the type of investment in industry the agencies have been criticising." (b) The absence of a capital goods sector and intermediate industries has also been important, although efforts to provide these (especially the latter) began in the late 1970s (see Chapter 1). Without these basic industries, intermediate raw materials continue to absorb about 64% of available foreign exchange (CBN, various). All machines are imported, raising questions of appropriate technology as well as foreign exchange availability. Furthermore, in the absence of new equipment, it is doubtful whether the declared capacity utilisation by industries is still reflective of their true situations. Many installed capacities may have shrunk with decay and lack of replacement.

Chapter Seven

Impact (II) – Socio-Political

7.1 Political Impact

The most dominant political impact was a substantial loss of sovereignty to the IMF and World Bank. The state's capacity to take decisions which would be internally implemented for internal development and overall domestic well-being was curtailed by the need for continuous approval of policies and their implementation by the Washington institutions on which new financing and progress in debt negotiations had become more dependent than ever before. This tallied with observations in other SAP implementing countries (see, for instance, Chossudovsky 1992).

The rest of the political impact assessment is based substantially on Herbst's (1990) analysis of the impact of structural adjustment on African politics which largely holds in the case of Nigeria. He makes three key points:

- (a) Public sector rationalisation and liberalisation will leave the state with less means of patronage at its disposal. It might thus become less flexible in dealing with political crises, resorting more frequently to repression "with the attendant risk that significant segments of the population will become even more alienated."
- (b) Political power will become less centralised, like economic institutions, and "governments will want to extend administrative structures to the new rural groups that will benefit from official (economic) policies."
- (c) Political parties will thus become important in reaching the diverse groups, as against formerly easily-reached state clients.

In the Nigerian Case:

- (a) The abolition of import licensing cut off a major means of state control of pressure groups and opinion leaders. However, the

short-term effect of this was mitigated by the replacement of import licensing with prolific bank licensing. In the medium to long-term, as more banks emerged, and were exposed to real competition, the political vacuum left by the demise of import licensing became increasingly felt.

- (b) The effects of privatisation were two-fold. In the case of public offers, state patronage was neutralised. But the state exercised short-term influence in the case of private placements in the states especially (See Chapter Four). Thus, in the short-term at least, the state could exercise its patronage even as part of reforms, contrary to Herbst's assertion.
- (c) The opening up of rural areas and general reversal of urban bias renewed the relevance of the rural areas to national politics. In response, about 200 new local councils were created (about 200 more), and more powers have been devolved to them. To back up their autonomy, the councils now obtained their shares of federal revenue directly, and no longer through the states.
- (d) Although the two political parties, the Social Democratic Party (SDP) and the National Republican Convention (NRC) were created by the military for the civilians as part of their controlled transition programme, against the background of points (a)-(c), the parties became more important than in the immediate past. Five years into the programme, no individuals could be said to control either party and many hitherto heavyweight figures lost elections in their constituencies.

On the other hand, two major political factors affected the adjustment policies:

- (a) The elaborately staged transition programme was quite costly. Although the government refused to give the precise figure, it has been variously estimated at \$3-5b. The government funded the parties because it said it did not want "money bags" to "hijack" them. It built offices for the two at national, state levels and in all 500 local councils. This was in addition to funding the National Electoral Commission (NEC).
- (b) Nigeria was also the dominant partner in the West African force (ECOMOG) in Liberia. The government again left the cost to

speculation. But the ECOWAS Secretariat admitted that Nigeria bore about 70% of the cost of what was in 1992 a two-year-old intervention. Both these commitments were undoubtedly important sources of the domestic and external deficits.

- (c) Nigeria, despite its difficulties, continued to give out aid in various forms, possibly in furtherance of its status as the 'giant of Africa' and as an OPEC member (see Chapter Five).

7.2. Social Impact

Per capita income fell from \$610 in 1986 to \$290 in 1990 (IBRD, various). This, as an aggregate figure, does not reflect the hardship experienced by the majority of the population:

a. Unemployment and Job Insecurity

Both increased although strangely, the FOS reported falling unemployment rate since 1988 (see Table 7.1). Besides, even using the FOS' figures, the aggregates mark key differentials. First, urban unemployment rose faster, following rationalisation by both the public and modern private sectors (see Table 7.1). Second, unemployment particularly affected lower-grade professionals and executive workers. This might in part be because measures targeted on the unemployed were aimed mostly at young school leavers and informal sector operators. These include the National Directorate of Employment (NDE) aimed at the former; and the People's Bank of Nigeria (PBN), established in 1989 to provide small loans to small groups of artisans and traders.

This neglect of the retrenched urban workers was substantially a reflection of the lack of effective union response to rationalisation. Although Bangura (1989) does have a point when he notes that "Unions have been more effective in defending threatened gains such as allowances, bonuses and salaries than in stopping retrenchment, it is important to recognise that all this occurred against the background of state intolerance of labour militancy and

systematic corruption of union leaders (see Chapter Four). Furthermore, Bangura identifies two main limitations to workers' resistance: (a) the reserve labour force, most ununionised and ready to work for lower wages and fewer benefits, (b) the increased use of casual labour.

Table 7.1 : Unemployment Growth

Year	Unemployment rate %		
	Composite	Urban	Rural
1986	5.3	10.0	4.1
1987	7.4	12.1	6.2
1988	5.3	7.8	4.8
1989	4.5	8.1	3.7
1990	3.2	4.8	2.8
1991	2.9	4.4	2.6

Source: CBN (various).

However, while Bangura's points generally hold, the Nigerian Labour Congress (NLC) also internally failed to transform itself to meet the current challenges. It appeared scarcely to worry about its retrenched members.

In the rural sector, the labour structure, as Bonat and Abdullahi (1989) assert, changed. More farmers became employees rather than remaining peasants, as land alienation increased due to: (a) acquisition by TNCs and big farmers; and (b) rising cost of inputs, which forced small farmers to sell off their land. Many of these, alongside retrenched urban workers, turned to parading urban streets seeking alms.

b. Prices and Income Distribution (Class Structure)

As seen in the previous chapter, inflation rate during the period averaged 20% yearly. Beyond this, inflation demonstrated two

fundamental social characteristics. First, it had its worst effects on items of mass consumption, thus particularly penalising low and middle income groups. For instance, food prices rose by a yearly average of 21.78% (see Table 7.2). Following this, income distribution became more skewed. The middle class was virtually wiped out. The ensuing class structure which still obtains is similar to that observed about Latin America by George (1989). The per capita income estimate by notably, the World Bank did not reflect the impoverishment of the majority of the population.

Table 7.2 : Composite Inflation Rate

Components	1986	1987	1988	1989	1990	1991
All Items	5.4	10.7	38.3	53.1	7.4	13.0
Food	0.1	9.1	52.2	53.8	3.7	11.9
Drinks	10.9	9.0	4.9	71.2	26.1	14.2
Tobacco & Kola nuts	22.6	16.0	8.1	46.8	26.1	14.2
Accommodation, Fuel and Light	40.6	4.1	5.5	30.5	13.8	9.9
Household goods	30.8	49.2	3.0	62.3	12.9	25.3
Clothing & Footwear	15.4	11.8	10.6	49.7	25.6	23.2
Transport	18.2	41.1	15.7	63.6	17.7	8.0
Medical Care and Health Services	n.a.	n.a.	n.a.	24.4	24.8	20.9
Recreation, Enter- tainment, Education and Cultural Services	n.a.	n.a.	n.a.	37.7	15.3	16.7
Other Services	36.3	23.0	7.4	22.0	19.4	24.1

Source: CBN (various).

Second, the inflation rate showed no distinct discernment between urban and rural areas. Half the period, it was generally higher in either (see Tables 7.3 and 7.4). An exception has been food, whose rural prices went from a negative inflation rate to rise faster than did urban prices in 1987 and 1988, following the disruption of rural supplies in the aftermath of the abolition of marketing boards (see Chapter Four). Rural food prices also rose faster in 1990, for reasons that are not understood.

Table 7.3 : Urban CPI

Components	1986	1987	1988	1989	1990	1991
All Items	10.1	7.0	27.1	53.1	8.0	17.8
Food	7.6	5.4	38.3	53.8	3.4	18.0
Drinks	13.8	4.4	12.6	71.2	20.4	21.2
Tobacco & Kola nuts	7.8	8.8	10.7	71.2	20.4	21.1
Accommodation, Fuel and Light	5.2	5.8	6.5	46.8	15.9	14.1
Household Goods	29.2	11.7	7.2	27.2	46.6	20.3
Clothing & Footwear	23.7	12.6	13.7	68.1	33.4	21.4
Transport	23.3	4.9	5.9	91.9	19.0	9.1
Medical Care and Health Services	n.a.	n.a.	n.a.	32.2	25.0	31.4
Recreation, Enter- tainment, Education and Cultural Services	n.a.	n.a.	n.a.	52.9	17.3	25.8
Other Services	9.7	5.8	7.9	56.5	10.7	26.1

Source: CBN (various).

Table 7.4 : Rural CPI

Components	1986	1987	1988	1989	1990	1991
All Items	4.7	10.7	39.3	50.0	7.4	10.9
Food	-1.1	9.1	53.7	52.4	3.7	10.7
Drinks	10.6	9.0	4.1	52.0	27.1	13.0
Tobacco & Kola nuts	22.7	16.0	7.8	52.0	27.1	13.0
Accommodation, Fuel and Light	48.2	4.1	-7.4	31.0	13.4	8.8
Household Goods	31.0	19.2	2.5	61.9	12.2	26.2
Clothing & Footwear	14.6	11.8	10.3	50.7	24.4	23.5
Transport	17.6	41.1	16.5	45.6	16.7	6.8
Medical Care and Health Services	n.a.	n.a.	n.a.	21.6	24.6	18.0
Recreation, Enter- tainment, Education and Cultural Services	n.a.	n.a.	n.a.	32.8	14.6	13.5
Other Services	39.0	23.0	7.4	2.7	21.6	23.6

Source: CBN (various).

c. Nutrition, Health, Education Status and Access

As shown in Chapter Four, public spending on these services declined during the period and as Tables 7.2 to 7.4 show, their costs rose sharply throughout:

(i) Nutrition

As Table 7.2 shows, food prices rose by an average of 27.9% in the five full years of the structural adjustment policies compared with 0.1% in 1986. With the income structure above, although daily calorie per capita went from 2,146 in 1986 to 2,200 in 1991, these aggregates marked a high-level of malnutrition in the population.

(ii) Health

The CBN's 1991 assessment sums up the state of health care during the entire period: "high cost of drugs, inadequate medical facilities, especially in rural areas, and the brain drain syndrome involving persistent loss of experienced medical personnel to foreign countries." The class structure is reflected here: more of the poor turned to traditional medicare while the rich utilise expensive but well equipped private hospitals at home or abroad.

(iii) Education

Primary education, which demands fewer resources and was a focus of government policy, flourished in the period. Enrolment rose and the pupil-teacher ratio fell from 43 in 1986 to 39 in 1991. The only major problem facing primary education, as Hinchcliffe (1990) points out, was the high cost of materials due to the naira's depreciation. Although most were printed locally, most inputs were being imported. Secondary schools fared about the same time as well. Polytechnics which were also a focus of education policy had substantial capital and recurrent funding, the latter especially. But they still suffered from handicaps similar to the universities', notably shortage of foreign exchange for the import of equipment and journal subscriptions.

Worst off, however, were the universities. Their funding contracted sharply during the period, and from 1990, General Babangida began “donating” money to favoured universities on an *ad hoc* basis. Hinchcliffe (1990) also points out that the authorities appeared to intend structural changes aimed both at diversifying the forms of financing and at reducing the operating costs, particularly in non-academic areas. On the whole, the universities’ infrastructures decayed substantially. Many capital projects began in the early 1980s remained uncompleted, equipment meant to be installed therein were allowed to deteriorate. Many lecturers joined in the brain drain bandwagon. The authorities were intolerant of students unionism, and academic activism. The Academic Staff Union of Universities (ASUU) and the National Association of Nigerian Students (NANS) got banned. But both the students and their lecturers continued to agitate in response to the squalor they found themselves functioning in, although each time the authorities would respond with a heavy hand. Students and teachers strikes became more common. In response, many of the rich withdrew their children from local universities and sent them abroad. At the same time, with costs rising sharply (see Table 7.2), more people could no longer sponsor their wards. Also, as employment prospects for graduands became dimmer, more potential students opted to go into private business. Thus, as UNECA (1989) notes of the entire sub-Saharan Africa,

From the point of view of long-term development, the reduction in public expenditures on education, both in absolute and relative terms, necessitated by stabilization and structural adjustment programmes, has meant a reversal of the process, initiated in the early 1960s, of heavy investment in human resources development as the foundation for bringing about structural transformation...

But it was not all negative. As shown above, universities began vigorously to market their services and there developed stronger linkages among, and between them and other sectors. Also, local journals were being given more serious attention and new ones were

being developed in areas where none existed. Significant funding also came in the last two years from rich private citizens, some of whom were rewarded with honorary doctorate degrees or given the privilege of endowing chairs. There were growing fears though of this turning into a debilitating cash-for-honorary-degree circus.

In sum, however, not only did nutrition, health and education decline in status, access to them had also become more restricted.

d. Transportation cost

These have risen on average by 22.9% yearly (see Table 7.2), due mainly to the high import dependence of the automobile industry (see Chapter Four). Many commercial vehicles broke down and could not be replaced. Many of those on the road constituted hazards, large crowd could be found at bus-stops almost round the clock. Palliatives included free entry for completely knocked down parts (CKDs), low duties on passenger vehicles, special foreign exchange allocation for such imports and a government funded mass transit programme which generated more scandals than positive impact. But the fundamental problems remained.

e. Gender and Age Distribution of Effects

The impact on gender varied across regions and households, reflecting pre-existing socio-cultural differences and structures. Some, however, pervaded the whole society. The four ways in which adjustment in sub-Saharan Africa can have a gender bias identified by Elson (1989) serves as a guide here. These are changes in:

- (i) real income and levels of employment (for employees);
- (ii) prices of important purchases, especially food;
- (iii) public expenditure, particularly on social services, including the possible introduction or increase of user charges; and
- (iv) working conditions: hours/intensity, job security, fringe benefits and legal status.

- (1) Elson asserts that as unemployment rises, there may have been a shift in bias against married women, who may be perceived as incapable of putting in 100% of themselves into new jobs. On the whole, however, in Nigeria, the degree of anti-female bias in employment and remuneration was not very noticeable, and the impact of the SAP reforms in this sphere might require a very detailed study. Indeed, some companies, especially banks and finance houses, deliberately sought attractive female workers to enhance their marketing in the new competitive environment.
- (2) Rising food prices altered many households' overall nutritional consumption. At the risk of being proved wrong by detailed research, the writer would estimate that most households, including male-headed ones increased expenditures on food, contrary to Elson's point. But such increases could not cope with the inflation rate in many instances, and women often sacrificed their nutritional needs for their children, in particular. Generally, sacrifices came from both spouses and many men cut down on their out-of-home expenditures.
- (3) Falling public expenditure on health in particular affected women especially. The resulting high maternity fees, etc. meant low income child bearing age women get less medical attention than they need.
- (4) Changes in working conditions affected men and women alike.

Indeed, some men became more understanding, and began sharing household chores as maids became unaffordable to many.

On the whole, the impact along gender lines was not distinct. More distinct was the impact on households generally. Negatively, households' essential expenditures rose sharply and many could no longer afford to feed themselves properly, let alone get good medicare or good education for their children. Some parents lost their jobs. Those still working had less time to spend with their family. Some marriages were unable to stand the strain, while some

grew stronger. More fundamentally, more couples were striving after small families of two or three children. For good or bad, the extended family system came under unprecedented strain.

Children and the aged particularly suffered. Many babies were underfed, especially in the days before they could accept semi-solid foods. Many aged people also had to come out of retirement to struggle for scarce jobs. They often lost out to younger job applicants. Public and private sector rationalisation was undoubtedly anti-age. In the public sector, 35-years of service was now deemed the maximum, regardless of biological age. Many retrenched workers had not even served that long. It also became mandatory to retire at 55 instead of the former 65.

On the other hand, impacting socially on the policies was notably the extended family system which though threatened by hardship, also mitigated such hardship.

f. Impact on the Environment

The World Bank (1992) reports that "by making it more profitable to clear land to grow ... cotton in Nigeria, exchange rate depreciations have intensified pressures for deforestation where ownership of forests is not well defined." The bank, the only source on this matter, did not elaborate.

In sum, the economic impact has been mixed, the political impact fluid in view of Nigeria's purported transition at the time to civilian rule, and the social impact severe.

The sacrifice came mainly from the middle and low income groups. Unlike Chile, Sri Lanka, or Thailand, where, as even the IMF reports, concrete programmes were implemented to guarantee a threshold on living standards for the majority, Nigeria had no such. In Chile, for instance, the

reduction of the wage bill facilitated the maintenance of non-wage outlays in ... health, education, and other social services benefiting the poorest segment of the population. For example, while reducing real expenditure on health by cutting real wages of civil servants in health services and the programmes benefiting upper-income groups, the government expanded a feeding

programme benefiting the lowest income groups, thus protecting human assets - the sole asset of the core poverty group. (IMF, 1988).

In Sri Lanka, although food and kerosene prices were generally increased, the government maintained its stamp programmes for the poor as compensatory measures (op.cit.). In Thailand, real wages actually increased during the programme, partly because of compensatory measures and the timing of policy implementation. For example, "the increase in excise rates on petroleum products was implemented when the prices were falling; thus, in spite of the increase in excises, the consumer prices of petroleum products actually fell during the programme period" (op.cit.). In the latter case, it can be argued that adjustment policies were in response to internal imbalances, not external, as has been true of Nigeria. But the same cannot be said of Chile, let alone Sri Lanka.

Development scholars have pondered at length on why vulnerable groups have been so neglected during adjustment in sub-Saharan Africa (been particularly cruel to vulnerable groups), as against what obtained in Latin America and even in the more recent experiences of Eastern Europe. A number of people have proffered some explanations. The dominant view is captured by Green (1989) who argues that the vulnerable groups in Africa have been so neglected because they "have had limited ability to influence ... policy or to take advantage of it ... and (because) the margins above misery were negligible and above survival narrow to start with."

This explanation, however, does not quite apply. The first point is neutralised by Chile which like Nigeria, was under a military dictator, General Augusto Pinochet, at the time of the IMF assessment and indeed the reforms. The second point is simply knocked out by the fact that most Nigerians lived well prior to SAP.

It is not even just a matter of inadequate resources, as the experience of Sri Lanka has shown. It seems more a matter of the right-wing dominated Nigerian military's attitude towards the poorer segments of the population. Palliatives were offered after each round

of riots: in May 1987, 1988, 1990 and 1991. These were been largely ephemeral in nature and not impressive in implementation. For example, the People's Bank set up in response to the 1989 riots was turned over to state appointees, who in a major scandal misappropriated about 95% of the bank's resources. The target groups, on the other hand, ensured 99% repayment of the little they got. Also, the mass transit programme set up in response to the 1987 riots went basically the same way. Buses were purchased carelessly, and many were soon after abandoned for lack of spare parts for repairs. The richer segments manipulated loopholes to corner temporary reductions or suspension of tariffs and of special foreign exchange allocation for imported passenger vehicles to import sometimes luxury cars. The TNC vehicle assembly plants reluctant to integrate backwards also took advantage of such measures to import CKDs. Other so-called relief measures were actually divisive donations by the government to pressure groups. Such was a ₦100m donation in 1991 to the NLC, a step which further paralysed the congress as different factions quarrelled over how the money should be utilised.

Six years is long enough to assess fundamental policies such as the World Bank and IMF-supported structural adjustment ones undertaken by Nigeria. It is evident from above that while the stated objectives were largely not being visibly achieved, some fundamental restructuring nonetheless occurred in Nigeria's economic framework. On the other hand, the social fabric and living standards visibly wilted

Politically, the real test of the impact was post-1992, the "final" deadline the military set itself to return power to civilians. In the event, this deadline, as the 1990 one before, was again deemed unrealistic by the military and real tumult began in the political system. The civil society was by now too divided, alienated and depleted by the seven years of the BWIs reforms to coherently stand up to the military.

Simultaneously, the reforms themselves, without a popular base, became unsustainable and petered out because:

- (a) Babangida had by mid-1992 become totally consumed by his ambition for indefinite rule.
- (b) The broad-based support needed to sustain reforms was killed by the alienating posture of SAP and its sponsors towards the domestic stakeholders.

Chapter Eight

Free Market: A Critique

In most economic circles, free trade and free market are used interchangeably. So it is in this book. Modern free market doctrine owes much of its intellectual origin to Adam Smith, a British social philosopher who lived in the 18th century when Britain's industrial revolution was maturing. It is therefore worth returning to his original work to determine whether the free market claims of those who largely determine global economic policies are indeed true to their claimed origins.

Smith's free market ideas were enunciated in his 1776 book entitled *An Enquiry into the Wealth of Nations*. This book covers both a country's journey to economic turnaround and how it should conduct its trade thereafter. His central argument is that free trade benefits a nation better than controlled trade because it allows individuals and by implication countries to specialise in what amounts to division of labour on the individual level and comparative advantage on countries' level. He premises this on what could be summed up as eight key assertions presented below with comments in some cases:

Assertion One: Every nation's needs and wants are originally financed by its annual labour. Such wants and needs consist of "either in the immediate produce of that labour, or in what is purchased with that produce from other nations". (p. 1)

Assertion Two: Every nation will be better or worse supplied with its wants and needs depending on the number of those who are to consume such supplies. In effect, the amount of a nation's produce or what it purchases with its produce is directly proportional to its population.

Comment: It is clear that although Smith, the Rev. Thomas Malthus' contemporary, was one of the first to intellectualise about population,

he was more concerned here about aggregate national supplies, not with distribution. Hence, he did not take into account the possibility of severe deprivation in the midst of plenty.

Assertion Three: The proportion of consumers (population) to a nation's original supplies is regulated by two different circumstances: (a) "the skill, dexterity, and judgement with which its labour is generally applied;" (b) "... the proportions between the number of those who are employed in useful labour, and that of those who are not so employed ..." (p.1)

According to him, "Whatever be the soil, climate or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon" the above two circumstances. However, of the two, the skill, dexterity and judgement with which labour is generally applied is more important in his view.

Comment – It appears that Smith here is concerned not about dependency ratio per se, but how effectively the active population is employed. It can be deduced that he considered effective deployment of labour more important than population in absolute terms. This deduction is given more substance in the next assertion.

Assertion Four: "The number of useful and productive labourers ... is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed." (p.1)

Comment: In other words, while the availability of capital is a key determinant of how productively labour is utilised, it is not the sole determinant. Equally important is the manner in which it is employed.

Assertion Five: "Nations tolerably well advanced as to skill, dexterity, and judgement in the application of labour, have followed very different plans in the general conduct or direction of it; and those plans have not all been equally favourable to the greatness of its produce. The policy of some nations has given extraordinary encouragement to the industry of the country; that of others to the

industry of towns. Scarce any nation has dealt equally and impartially with every sort of industry" (p. 1-2). Each nation deploys its labour according to its needs.

Comment: Each nation, he is clearly stating, not only deploys its labour according to its needs but follows a development strategy that best meets its own needs.

Assertion Six: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labour. The division of labour, however, so far as it can be introduced, occasions in every art, a proportionable increase of the productive powers of labour" (p.3).

Division of labour, he argues, is the prime determinant of the productivity of labour. This it does in three ways: First, by reducing a person's business to one simple operation which is his sole employment, division of labour "necessarily increases very much such a person's dexterity. Second, the time commonly lost is saved. Third, invention of machines which have facilitated and abridged labour owes much to division of labour. "Men are much more likely to discover easier and readier methods of attaining any object towards that single object than when it is dissipated among a great variety of things" (p.5).

But his division of labour postulations are a lot more robust than often simplistically presented. For one, Smith sounds three major notes of caution. First, he did not believe that division of labour was a deliberate creation by man. Second, he maintains that division of labour is necessarily a long slow process developed from within:

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. (Rather), it is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another (p.6).

Third, he noted that division of labour is limited by the extent of the market.

Smith then goes on to explain that with division of labour, every person must depend on others' labour for most of his needs, wants and desires. Consequently, a person is rich or poor according to the quantity of what he can produce or which he can purchase. Smith thus chose to see labour, not money, as "the real measure of the exchangeable value of all commodities" (p.13). According to him, the value of any commodity to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him or her to purchase or command.

Assertion Seven: "A nation evolves into concentrating on what it produces best and most efficiently, which it exchanges for what it needs but other nations produce more efficiently and by so doing maximises its resources."

In this, Smith extrapolates division of labour at the individual level to the level of nations and states with his resultant theory of comparative advantage. But just as he argues that individual division of labour occurs naturally, Smith maintains that a society's comparative advantage should occur naturally.

He illustrates this with four points discussed in a-d below:

- a) The general industry of a society depends on the amount of its capital.

No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is likely to be more advantageous to the society than that into which it would have gone of its own accord... Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command... But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society (p. 193).

Smith thus equates individual advantages and ambition with society's. His explanation is two-fold. First, "every individual endeavours to

employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary profits of stock" (p193).

Comment: It would appear that Smith assumed every individual's loyalty to his society as given. He could be excused for writing in the 18th century when colonies were emerging. He probably had not seen them as the artificial imperial creations they were, and thus that many born in such entities might reject them and feel no sense of duty such as he assumed.

Second, "every individual who employs his capital in the support of domestic industry necessarily endeavours so to direct that industry that its produce may be of the greatest possible value." By pursuing his own interest, says Smith, the individual frequently and automatically promotes that of his society. This leads him to argue that:

The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council, or senate whatever and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

"To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or hurtful regulation. (p. 194).

He argues that it amounts to misapplication of capital if a commodity which can be imported more cheaply than it can be produced locally is not imported but its market is restricted to domestic production. Were such a commodity imported, he asserts, only a part of the capital used for its domestic production would have been expended on it and the remaining would have gone into more production of commodity (ies) in which the country has comparative advantage, i.e. those that it can produce more cheaply than other countries.

Comment - Smith clearly did not consider the permanent impact of colonialism: destruction of colonies' industrial bases and business classes; enthronement of international finance capital with proceeds of colonial exploitation; monopoly of technology; all of which have sustained a fixed comparative advantage situation, not as they occurred naturally the way he envisaged for all countries, but mostly as created by imperialist powers, and sustained by the ensuing economic system. This scenario which will be further articulated later, mandates that the statesman do a lot more than allow private capital to totally dictate its pace.

b) If investment is regulated, some manufactures may sometimes be acquired sooner than could otherwise have been.

Comment: An example could easily be drawn here in the premature extensive production of consumer goods in many Third-World countries under the regime of Import Substituting Industrialisation (ISI).

c) "Some countries' natural advantages in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them" (p.195).

Comment: This clearly does not hold in the post-Industrial Revolution Era, and certainly not in the 20th century with spectacular technological advances, as later sections will show.

d) It might be useless regulating the importation of bulky items such as cows, or salt because even if comparatively another country produces them much cheaper, the cost of transportation, their delicate natures and their relatively lower prices compared to other goods make it unattractive for the country with the comparative advantage to intensify their exportation or even for local merchants to be interested in such imports.

Comment: It so happens that in the closing days of the 20th century this postulation of Smith's holds true for most exports of less developed countries (LDCs), which the BWIs are asking these countries to intensify

Assertion Eight: Just as in individual division of labour, there are specific situations where “it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry” (p197). One is when a particular industry is necessary for the defence of a country. The defence of Great Britain, according to him, depends on the number of its sailors and shipping. “The Act of Navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases by absolute prohibition and in others by heavy burdens upon the shipping of foreign countries” (p. 197). This Great Britain did as follows:

- a) Only ships wholly owned and upwards of 75% manned by British subjects were allowed to trade to British establishments and plantations or be employed in trade along its coast. The penalty was forfeiture of ship and cargo.
- b) Import into Britain not carried by the above category of ships could only be carried by ships wholly owned and over 75% manned by citizens of the exporting country. Even then such cargoes were subject to “double aliens duty”. Smith points out that this “entirely excluded” the Dutch, Europe’s then dominant shippers, from Britain’s marine trading.
- c) Most bulky articles were prohibited from being imported even in British ships from anywhere other than the producing country. The penalty was the same as (a). This, says Smith, was probably also intended against Holland which was “the great emporium for all European goods, and by this regulation British ships were hindered from loading in Holland the goods of any other European country” (p.197)
- d) All salt fish, whale-fins, whale-bone, oil, and blubber, not caught by British ships were subjected to double aliens’ duty. The Dutch, were also the target being “the only fishers in Europe that attempted to supply foreign nations with fish. By this regulation, a very heavy burden was laid upon their supplying Great Britain” (p.197).

Comment: – Strangely, while acknowledging that this regulation might have been informed by the state of animosity between England and Holland; and that this Act was unfavourable to foreign commerce, or to “the growth of that opulence which can arise from it”, Smith defends the Act as being “as wise, however, as if they had all been dictated by the most deliberate wisdom” (p.197). This is one of the points on which the philosopher betrayed the patriotic underpinnings of much of his arguments.

He, however, continues that a country “will be most likely to buy cheap, when by the most perfect freedom of trade it encourages all nations to bring to it goods which it has occasion to purchase, and for the same reason, it will be most likely to sell dear, when its markets are filled with the greatest number of buyers.”

Comment: – This seems the crux on which the BWIs and their G7 dominant shareholders: US, Germany, Japan, France, Britain, Italy and Canada have chosen to peg SAP, conveniently forgetting how they arranged their economic affairs for turnaround and still substantially do. Yet this point of Smith’s is in the main, simplistic

Smith seems to have ignored two basic things: (a) Trade on a country’s coast is merely a symptom of already concluded trade. In the present world at least, commodities are usually not hawked by ships from country to country, but delivered by them on contracts, except perhaps toxic waste and the like. Thus, the question of the greatest number of sellers literally translating into the greatest number of buyers does not arise. In Nigeria’s buoyant days, in 1981, for instance, imports amounted to \$26 billion. But on their return journeys, most ships delivering the imports carried no cargoes for there were virtually nothing outside oil to export. This has generally been the case even under SAP. Besides, the cartel-like structure of international shipping allows ships to make charges which cover their returning empty if the situation arises. Also, foreign exchange is needed by the country buying from “the greatest number” to finance such purchases and Smith appears to have assumed on this point that all countries are equally endowed at any point in time with expendable foreign exchange.

b) Not every ship comes from a country or plies a route involving a country which requires the importing country's own export produce. It is thus instructive that with the Act of Navigation, Smith's Great Britain "lays no burden upon foreign ships that come to export the produce of British industry. Even the ancient aliens' duty, which used to be paid upon all goods exported as well as imported, has by several subsequent acts, been taken off from the greater part of articles of exportation".

c) When local produce is taxed, an equal tax should be imposed on import. But in Smith's Britain, such taxes were usually heavier on the imports.

Besides this general case of "defence", Smith puts forward two other cases "in which it may sometimes be a matter of deliberation". One is "how far it is proper to continue the free importation of certain foreign goods". The other is "how far, or in what manner, it may be proper to restore that free importation after it has been for some time interrupted ..." (pp. 199-200)

The first concerns mainly when a nation restricts its imports from another either with high duties or outright prohibition. "Revenge in this case naturally dictates retaliation" (p. 191). He reports that, for example, in 1667, France imposed very high duties on some foreign manufactures. Holland retaliated in 1671 by prohibiting the importation of French wines, brandy and other manufactures. This helped occasion the war of 1672. The peace of Nimeguen in 1678 moderated some French duties in favour of Holland which in response removed its prohibition. He gives similar examples involving France and England.

An argument of Smith's here is particularly striking.

When our neighbours prohibit some manufactures of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably, but some other manufactures of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home market. Those workmen, however, who suffered by our

neighbour's prohibition will not be benefited by ours. On the contrary, they and almost all the other classes of our citizens will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favour of that particular class of workmen who were injured by our neighbours' prohibition, but of some other class (p.200).

An example here would be Nigeria's ban on wheat importation in 1987 which affected notably United States and European suppliers. The US retaliated by restricting Nigeria's textiles from 1998. Although not exactly as Smith reasoned, Nigerians for whom wheat products notably bread had become staple, paid dearly as the products' prices were more than quadrupled by end-1991 (The ban was gradually lifted from 1992, but prices stayed high). Wheat farmers got unprecedented attention but they were few compared with the entire populace which suffered the high prices. Conversely, US farmers suffered heavily, but it is doubtful if the rest of the US public suffered much from the restriction on Nigeria's textiles.

The second case is when

particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were all those high duties and prohibitions taken away at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of existence. The disorder which this would occasion might no doubt be very considerable (p.200).

This warning which applied greatly to Nigeria in 1986 was roughly ignored by the Washington institutions and the negative consequences including massive job losses are still multiplying.

In sum, Smith amply explains with illustrations and examples that although his theoretical free trade could be desirable, it was not the practice anywhere. Not even in his country Britain, upon which

he based the theory and from which he drew both those examples which negated his theory and those he claimed indicated the potential benefits of free trade.

Quite important on the whole is the fact that Smith displayed in his book tremendous honesty which his disciples in and outside the IMF and World Bank including Baroness Margaret Thatcher who helped dictate and enthrone SAP in Nigeria did not and have not. Indeed, even within his theoretical perspective, as seen above, Smith generously acknowledges four very fundamental limitations of free market, which must be upheld. Ironically, these basic limitations are part of the core of the version of structural adjustment being implemented by debt distressed Third World countries at the insistent instance of the developed countries through the IMF and the World Bank group.

Even in areas where he expected free trade to replace restrictions, Smith gave conditions. He categorically states:

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceania or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the numbers of forces with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers in the same manner as the latter enflame their workmen to attack with violence and outrage the proposers of any such regulation, to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. (p.201)

Smith clearly looked at free trade as operating not in a vacuum or some laboratory, but within the confines of any normal society. Within

such confines, the need to balance different interests to ensure that the market framework is beneficial to the particular society rather than tearing it apart, becomes evident. Thus, free trade though utopically desirable must be tempered by, apart from external factors which he amply explains but perhaps more fundamentally, the domestic situation

Indeed, despite his apparent vilification of British manufacturers as selfish monopolists, Smith recognises some genuine difficulties of manufacturers in the face of free trade.

The undertaker of a great manufacture, who, by the home markets being suddenly laid open to the competition of foreigners, should be obliged to abandon his trade, would no doubt suffer very considerably. That part of his capital which had usually been employed in purchasing materials and in paying his workmen might, without much difficulty, perhaps find another employment. But that part of it which was fixed in workhouses, and in the instrument of trade, could scarce be disposed of without considerable loss. The equitable regard, therefore, to his interest requires that changes of this kind should never be introduced suddenly, but slowly, gradually, and after a very long warning. (p.201)

Guided essentially by the Adam Smith philosophy, Mrs Thatcher set about deregulating the modern British economy in the 1980s. But beneath her tough public posture and absolutist free market rhetorics was a careful consideration of possible domestic reaction and artful balancing of competing local business interests.

By the end of her 11-year premiership, the British state had divested only 50% of its holdings which as at 1979 amounted to one seventh of total investment. Shares in most strategic industries were privatised in waves and in most, the government still held a "Special Share" as at 1990. Such companies include British Telecom, British Gas, British Airways, British Airports Authority, British Steel, the Water Plcs. (Her Majesty's Treasury, 1990). Explains the treasury (1990):

In certain cases there is a clear need to protect a business from unwelcome takeover, for example, on national security grounds, or as a temporary measure to provide an opportunity for management to adjust to the private sector. To this end the government retains, or has held, special shares in a number of privatised companies... Although the Government generally favours a free market in shares, where the strategic indications of the company's business warrants such an instrument, a timeless special share may be necessary...

To further keep such companies in check and moderate inherent excesses in the free market system such as non-social prices, especially in the case of monopolies: BT, the water companies, electricity companies, the government strengthened existing anti-trust and price moderating agencies. These include the Monopolies and Mergers Commission. In addition, the government created new bodies to regulate monopolies' activities in respect of consumers. Thus, Office of Water (Ofwat), Office of Telecommunications (OfTel), Office of Electricity (Ofgem) and Office of Gas (Ofgas) were established to statutorily regulate the activities of the respective monopolies and utilities. These companies' prices as obtained since then are not as dictated by the invisible hand of demand and supply interaction. They are to an extent, social (intervention) prices, approved by the respective offices.

Secondly, even as part of the entire divestment process, Mrs. Thatcher's government gave subsidies to some companies to buy from it some of the companies it was selling.

Thirdly, recognising the weakness of Britain's manufacturing industry, Mrs. Thatcher's government undertook systematic enticement of foreign investors, among them Japanese and North Americans. Some paid back handsomely. For example, the Japanese as at 1993 accounted for about 20% of British car manufacture, with attendant multiplier effects. Some turned sour. For example, North American John De Lorean car manufacturing company received about £80 million and then flopped spectacularly.

This modern experience of Britain is clearly different from those of Third World countries. Yet Britain is often presented as a free

market model. It is clearly not. Not even in the Adam Smith original sense. Nor is any of the members of Group of Seven (G7) industrialised countries: Britain, the United States, Japan, Germany, France, Italy and Canada. Nor is any of the newly industrialising countries.

Some neo-classical writers like Little, Scitovsky and Scott (1970) claim that these countries made their achievements on the basis of absolutist free market to which they ascribe various advantages. Feeding on such arguments, the World Bank and IMF in the 1980s foisted absolutist or extremist free market, its version of SAP on Third World countries. But as Mosley et al (1991) point out, the IMF and World Bank's position especially in the 1980s was merely an abeyance to the dominance of the extreme right-wing ideology in world affairs at the time, symbolised by the rhetoric of Mrs. Thatcher and Mr. Ronald Reagan, the US President at the time. Mosley et al argue that this position had no bearing on researches conducted by even the World Bank. Many ongoing and rigorous researches have shown that no country in this or any other area has developed on the basis of free market. Some of these studies will be quoted in the next chapter as part of development case studies.

Chapter Nine

Development Case Studies

One has only to look into history, remote past and recent, to realise that none of the countries which dominate the IMF and World Bank, and certainly none of the pre-Smith empires, thrived on extremist free market philosophy.

To illustrate this are four brief case studies: Germany, Britain, Japan and South Korea. Each of the countries chosen represents an era. Britain, the home of the Industrial Revolution, has possibly the longest unbroken history of economic development of all contemporary countries. Japan, despite its recent difficulties, is an economic wonder of the 20th century, having risen from the humiliation of first a defeated imperial power and then a World War II loser to become within the same century, the world's largest creditor, the second largest economy and second biggest manufacturer. Germany is similar to Japan having rebuilt itself from self-inflicted ruins of World War II back into an economic power but this time not only as Europe's leading economic power, but also the world's third largest economy. South Korea, unlike others, is a 20th century creation. It is a very recent economic phenomenon, having begun its development strives in the 1960s, about the same time as many Third-World countries especially in Africa gained political independence. South Korea's economic success is categorical, with its multi-national corporations competing from the 1980s, favourably with those of the seven most industrialised countries.

9.1 GERMANY

Gross Domestic Product:	\$1.95 Trillion
GDP per head:	\$24,120
Population:	80.9 million
Inflation:	4.6%

- 1992 figures

Introduction

Germany lay in ruins in the aftermath of World War II. Its currency, the Deutschmark was worthless, its infrastructure totally destroyed. It had no economy. And it had virtually no political independence as the victorious allied forces led by the United States and Russia were in control. Echenberg et al (1982) capture the situation in 1945: "(Germany's economy) lay almost in complete ruin. Allied bombs had destroyed industrial centres, roads, bridges, and railroads. Farm production was so low that the people faced starvation. Supplies of fuel. Power and water were nearly cut off."

But within ten years, the West German economy was not only back on stream, it had become the second largest in Europe after France's. Manufacturing, for instance, grew at more than 10% per annum in the 1950s, and more than 7% in the 1960s. Not only was West Germany able to achieve a second take-off from the post World War II ruin. It has remained strong. It is this strength which allowed it to achieve re-unification with the East without losing growth completely, despite the messiness of the former East German economy. Rather, the re-unified Germany remains the biggest economy in Europe with \$1.95 trillion GDP.

Germany is also the third largest economy in the world closely following Japan. It is similarly the world's third largest manufacturer, third largest exporter, etc. These achievements have been aided by some measure of market management although the redoubtable bundesbank (the Central Bank) has always ensured that free market applies where necessary: in allocation of resources, notably capital.

Echenberg et al identify three features of market management towards Germany's "economic miracle". These are the Marshal Plan, large numbers of highly skilled German refugees from communist Europe and membership of the European Community (EC), progenitor of the European Union. But there is a fourth: the tripartite collaboration by labour, the private sector and government

9.1.1 The Marshal Plan

The normal argument in economics and business is that capital gravitates to where there is already a concentration of capital, which signifies favourable conditions namely, ease of repatriation, reasonable profits and stability of overall socio-political and economic environment.

In 1945, there was in the real sense no economy in Germany, let alone such conditions as would attract foreign capital and congeal domestic investment. The Marshal Plan filled that vacuum for West Germany (and to a lesser extent, other European countries including Britain, Italy, France, Austria). Gimbel, (1976) notes that:

Although the European countries had already received over \$5 billion in loans and grants following the war, this aid had been swallowed up to meet sudden emergencies and no programme of reconstruction had yet been undertaken. A massive programme of aid, coupled with the reconstruction of capital equipment, was needed before the European states could provide for their own needs and once again become viable trading partners of the United States.

Recognising this and the resultant vulnerability of Germany and other European countries to communism, then United States Secretary of State, General George . C. Marshal in 1947 proposed a programme of massive aids. He argued that "Europe's requirements for the next three or four years of foreign food and other essential products –principally from America, are so much greater than her present ability to pay that she must have substantial additional help or face economic, social and political deterioration of very grave character."

In April 1948, the US Congress passed the Economic Co-operation Act authorising \$5.3 billion, administered by the Economic Co-operation Administration (ECA). "The Organisation for European Economic Cooperation (OEEC), representing the recipients of aid, was given the role of presenting their joint requests for aid to the ECA and of administering expenditure of the aid received. Outright grants accounted for seven eighths of the aid, the rest was loans. Individual citizens or companies within the countries receiving aid paid for any goods received in their national currency. This was set aside as counterpart funds to be used by their own government, with ECA permission, usually for large-scale programmes of public works" (Gimbel op cit. p.369).

9.1.2 Refugees from Communist Europe

These were highly skilled in different fields and came from various parts of communist Europe. They totalled about 10 million. In addition came more than one million from other parts of Europe. These, state Echenberg et al, strengthened West Germany's labour force. West Germany thus had no need to import skilled labour at dictated exorbitant prices among other tough conditions.

9.1.3 The European Economic Community

With production doubling in the 1950s, West Germany joined five others in 1957 to form the nucleus of the European Economic Community (EEC). According to Echenberg et al, this helped strengthen the economy through increased trade. For one, the EEC-EU has since inception been a protected market even before it formally became a single market on January 1, 1993. Where most community-produced goods are traded among member countries at no or low import duties and in some cases enjoy joint community production subsidies, all non-community goods are firmly discriminated against. The few exceptions include commodities from African, Caribbean and Pacific (ACP) states based on quotas stipulated in the various Lome Conventions, and manufactures with at least 40% content EC-sourced. In this market, West Germany thrived.

9.1.4 Labour, Business and Government Pact

Labour, government and business have maintained a periodically updated pact since 1945. This is why up till now a strike in Germany is a phenomenon but in many other places, it is an ordinary bargaining tool of labour's. Whereas absolutist free market such as the World Bank promotes in Nigeria and most other African countries, treats labour as a commodity perpetually in inferior competition with capital, labour in Germany is treated as a commodity but equal to capital.

Thus, where in societies with the former approach, only working conditions and remunerations are usual subjects of contention and ensuing negotiations. in Germany these are usually secondary. The primary issue is current quality of the age-long pact. Specifically, the issue is likely to be whether labour's demand that its representation on the supervisory boards of companies be extended beyond, for instance, the current one-third or its current /outstanding demand for representation on the executive boards of companies. Negotiations and consultations go on all the time, thus curbing potentially explosive situations. Above all, labour sees itself as capital's partner. This situation makes individual organisation's and aggregate national productivity targets workers' personal goals.

Conversely, the free market's purely contractual situation naturally incites anger, a sense of helplessness which often induces frustration; all of which can only be held at bay by exceptional working conditions but can easily produce non-commitment to corporate and national goals and may from time to time induce measures of sabotage.

9.1.5 Agricultural Subsidies

Although Germany currently imports about one third of its agricultural need, after France's, its farmers are the highest recipients of subsidies under the EC Common Agricultural Policy (CAP) (*Economist*, 1992). This indicates the extent of agricultural subsidies in West Germany prior to its second take-off and eventual consolidation.

As a founding member of the EEC, West Germany's agricultural subsidies formed a key part of the CAP. The CAP is a four-prong programme aimed at ensuring for the EU surplus food at all times. It has the following elements:

- a. punitive tariffs are imposed on most imports;
- b. income from such tariffs is paid into the Agricultural Fund from which improved farming techniques are financed;
- c. from such fund are export subsidies financed, and
- d. there is a complex pricing of most agricultural goods from milk to beef within the EC, all aimed simultaneously at food accessibility and farmers' financial success.

9.2 BRITAIN

GDP:	\$1 Trillion
GDP per head:	\$17,300
Population:	57.9 million
Inflation:	4%

- 1992 figures

Introduction

This is one of the countries with very few resources. Yet, since at least the 16th century, Britain has been one of the most prosperous on aggregate. Before launching itself aggressively into colonialism, Britain had thrived mainly on agriculture. Under the agrarian system, as Cannadine (1990) amply illustrates, neither landholding nor the sale of proceeds was dictated by market forces. Rather, both were dictated by the fewer than 30,000 families in England and Wales which accounted for more than two thirds of land. The landed gentry dictated what land was available to the peasants at what rate and on what terms, and appropriated most of their produce. Most of the produce so appropriated were then sold by merchants who on their part had formed powerful cartels as Smith (1776) explains. In addition to the cartels were Corn Laws which prohibited the importation of grains into Britain.

This situation prevailed long after the beginning of the Industrial Revolution in 1750 and it paid off. The Corn Laws, for instance, were repealed only in 1916 by Sir Robert Peel's Tory administration, mainly because of widespread food shortages in the aftermath of the failure of potato in Ireland and bad harvest in England. Despite the apparent rationality of this decision, it split Peel's party and Peel himself lost his premiership (Grew and Taylor, 1985). When as a result of uprisings – political and physical – reforms became inevitable, a compromise system of subsidies was continuously negotiated and gradually instituted. For instance, the Land Act of 1881 “granted the three F's” (fair rents, fixity of tenure, and free sale), set up a judicial tribunal to adjust (i.e. reduce) ... rents, and made a small sum of money available to encourage tenants to purchase their holdings from the landlord” (Cannadine, 1990 p.63). This was more than a century after the Industrial Revolution. Long after having achieved take-off and consolidation. Britain was still instituting managed reforms in agriculture. With time, such reforms went beyond subsidised land acquisition (towards re-distribution) to include subsidies on agricultural inputs and guaranteed incomes for farmers, etc. All these were later synchronised with the subsidies in the Common Agricultural Policy (CAP) when Britain joined the EC in 1976. Such reforms allowed the gradual regeneration of the decaying rural economy. In the process, farmers were protected by the government against land price rises. Notes Cannadine (1990):

In general, by the mid 1890s, rents were probably back to where they had been in the early 1840s: by 1914, as prices gradually improved, they had risen again, but were by no means back to their high framing level. During the First World War despite the doubling and trebling of agricultural prices, and the consequent enhanced prosperity of farmers, the landowners themselves were forbidden from putting up rents, and so did not profit from this brief and prosperous period, as their predecessors had done during the Napoleonic Wars. And when rents were finally raised, after 1918, it was usually by only 15 per cent. (p.93)

Cannadine further notes that “from 1846 onwards, the prosperity of British agriculture had been dependent on high prices and low imports” (p.92).

That was the domestic market. In the case of external trade, we already saw above some of the restrictions imposed under the Navigation Act. Beyond these, as various records show (see among others, Grew and Taylor, 19), there existed high import duties on and sometimes outright prohibition of most imports. Conversely, most exports were duty-free. Grains, meat, salt, fish, virtually all the items of international trade at the time were affected by restrictions. (This is not singling out Britain as the only managed trader of the time. Indeed, although as seen earlier, it initiated many bilateral restrictions such as those against Holland, Britain sometimes had to retaliate to some other countries' initiated restrictions. Notable were France which according to Smith and others, often led to war. Portugal, for instance, prohibited with severe penalties, the importation of cocoa.)

In 1750 began the Industrial Revolution in cotton textiles making. Prior to this, people worked from home. But though called a revolution, patents were not just anybody's for the asking at a price. Not only were patents jealously guarded, manufacturers formed themselves into cartels and would neither allow new entrants nor even would one allow another in the same business to set up shop close by. Writes Smith:

The undertaker of a great manufactory is sometimes alarmed if another work of the same kind is established within twenty miles of him. The Dutch undertaker of the woollen manufacture at Abberville stipulated that no work of the same kind should be established within thirty leagues of that city (p.196).

Nor was the Industrial Revolution allowed to evolve purely according to market forces. Manufacturers, with backing from parliament, dictated wages. Workers had 12-14 hour day, no break, six days in a week. Women and children – many below 10 years of age – were paid only a fraction of men's low wages. Until early 1800s, the law forbade trade unionism. Prior to 1824, the emigration of craftsmen was prohibited; also before 1843, the exportation of machinery was prohibited by law (Lampard, 1982).

The Industrial Revolution did not mean the end of managed agrarian trade. Rather, manufactures and manufacturing joined agricultural distribution and landholding as subjects of protection.

9.2.1 Colonialism

In the case of manufactures, as the Industrial Revolution gathered momentum, Britain, poorly endowed with natural resources became very short of raw materials. There was also the need for it to expand its market away from Europe where multiple bilateral trade hostilities and comparative advantages limited its chances. Thirdly, the landed gentry were becoming less of *grandees*, due mainly to uprisings and partly to ensuing reforms. They still constituted the dominant political force though and needed to be rehabilitated. A combination of these three major factors prompted Britain into state colonialism. Although British traders had begun to challenge Portuguese, Spanish, German, Belge and French traders in Africa, the Americas and Asia around early 15th century, it was from late 18th century that they began to enjoy significant state support. Schulze-Gaevernitz (1910) points out that while Britain's national income doubled between 1865 and 1898, income "from abroad", meaning colonies, increased nine times.

Opposition to colonialism was mainly political and a lot to do with prejudice. Many leading politicians and others obviously understood the positive economic fundamentals of colonialism. Among them were Cecil Rhodes and Joseph Chamberlain. Chamberlain for example, pointed to stiff competition from German, American and Belge traders in world market and saw in colonialism a "true, wise and economical policy" (Lenin, 1916). Rhodes captured the essence when he declared:

I was in the East of London yesterday and attended a meeting of the unemployed. I listened to the wild speeches, which were just a cry for 'bread, bread!' And on my way home pondered over the scene and I became more than ever convinced of the importance of imperialism... My cherished idea is a solution for

the social problem, i.e. in order to save the 40,000,000 inhabitants of the United Kingdom from a bloody civil war, we colonial statesmen must acquire new lands to settle the surplus population. to provide new markets for the goods produced in the factories and mines. The Empire, as I have always said, is a bread and butter question. If you want to avoid civil war, you must become imperialists (Stead, 1895).

By this time, Britain's state colonialism was about a century old. But Rhodes' and Chamberlain's declarations were indications of more aggressive state involvement, not just for personal glories, but basically to redress domestic economic problems which obviously remained unsolved more than a century since the Industrial Revolution. In effect, Britain saw the need for direct state colonialism as the fundamental economic tool long after it had transcended the take-off stage with the Industrial Revolution.

Colonialism is far from free trade as we shall see shortly. In effect, it was a managed trade that saw Britain to take-off, managed trade was going to see it through the post-take-off difficulties. This time, the focus was state colonialism

How

As seen earlier, private British traders had been competing with other European traders since the 16th century and unknown to many British critics of state direct colonialism, the British traders had been repatriating their gains to help build the British economy. For instance, by 1700, Britons were the dominant traders on coasts of what later became Nigeria, in slaves. When Britain abolished slave trade in 1808, they switched their dominance to palm oil and began venturing hinterland for other raw produce. In 1851, the British government seized the port of Lagos to secure it for British traders. What later became Northern Nigeria was run until 1900 by the British Royal Niger Company which later became United African Company (UAC), progenitor of present day UAC of Nigeria Plc. In the follow-up to Chamberlain's Rhodes' and other leading British politicians' convictions about the usefulness of more intensive

imperialism, the British government declared Northern Nigeria a protectorate and in 1914 unified it with the South into Nigeria. This was apparently out of conviction that colonialism would serve the United Kingdom as a policy better if directed towards pre-stated state objectives.

In India, another example, as Crane et al (1982) summarise, by the second half of the 16th century, following Vasco Da Gama's 1498 'discovery' of the sea route to India, Portuguese, Dutch, French and English traders were warring among themselves for control.

In 1600, the British state began to intervene in favour of British traders. First, Queen Elizabeth I granted the British East India Company (BEIC) a royal charter which meant state backing for the new company. With this unqualified backing from the state, the BEIC was able to establish trading posts and forts at Bombay, Calcutta and Madras. Before the Indians knew it, the BEIC had not only gained control over much of India but had also become the leading power in India in 1757. What it could not acquire easily on its terms, it took by force. For instance, when the Indians resisted some of its coercive trade practices, the BEIC went to war, its troops led by Robert Clive defeated the Indians at the battle of Plassey. In 1774, Warren Hastings became BEIC's India's first Governor General. With this base and using Indian and British troops, the BEIC waged extensive wars to control the Far East trade, against other European and local traders over Afghanistan, Burma, Nepal and present day Punjab and Kashmir. This approach was obviously no free trade. As Crane et al point out, "The greed of the company brought poverty and bitterness to many Indians." In 1858, the British government took over direct control from BEIC, bringing all lands under the British parliament. The area was renamed British India and Indian States.

With more direct state colonialism came a deepening of imperialist economic organisation in the emerging colonies, backed politically and militarily. As Lenin (1916) notes, "Colonial possession alone

gives the monopolies complete guarantee against all contingencies in the struggle against competitors, including the case of the adversary wanting to be protected by a law establishing a state monopoly." With a combination of force, taxation, and divide and rule tactics, commoditisation was introduced in the various colonies. Although in most British colonies direct organisation of production was left to the indigenes, the British monopoly in each colony, through its agents, determined what commodity(ies) should be cultivated, on how much land, and at what price it would buy the produce. Invariably, this monopoly was in charge of importing all basic goods from the home country and distributing such in the colony. Where it met any resistance, her majesty's bureaucracy, judiciary, navy and other military and para-military services which had been extended to the colony essentially to protect the monopoly, forcefully defuse such resistance. By 1900, Britain had acquired 3.7 million square miles of territory, holding 57 million people, the most of any of the imperial powers.

Not only did the colonies provide raw materials cheaply, they produced only such as was desired by British industries at convenient prices. For example, Egypt was assigned cotton growing. In 1904, out of 2.3 million hectares of land under cultivation, 600,000 or about 25% were cultivated with cotton. In Nigeria, it was mostly groundnuts in the north, palm produce in the east and mid-west, and cocoa in the west. Most colonies' produce were tagged 'enumerated commodities' under the Navigation Act and other subsequent acts, and were thus confined to the market of the mother country. They were commodities which could not be produced at all in Britain, or were produced in too small quantities. Notes Smith (1776):

By confining them to the home market, our merchants, it was expected, would not only be enabled to buy them cheaper in plantations and consequently to sell them with a better profit at home, but to establish between the plantations and foreign countries an advantageous carrying trade, of which Great Britain was necessarily to be the centre or emporium, as the European country into which those commodities were first to be imported.

The importation of commodities of the second kind might be so managed too, it was supposed, as to interfere, not with the sale of those of the same kind which were produced at home, but with that of those which were imported from foreign country: because by means of proper duties, they might be rendered always somewhat dearer than the former and yet a good deal cheaper than the latter. By confining such commodities to the home market, therefore, it was proposed to discourage the produce, not of Great Britain, but of some foreign countries with which the balance of trade was believed to be unfavourable to Great Britain (p.250).

The few non-enumerated commodities were grains, lumber, salt, fish, sugar and rum, all produce of America and the West Indies. Even in their cases, they could only be exported directly to other countries only in British or plantation ships. In effect, only Britons could carry out that trade.

In addition, the colonies were exclusive and guaranteed markets for British manufactures, whose prices and nature were dictated by the manufacturers who also dictated those of the raw materials.

Having effectively commoditised the colonies in a manner suitable for its need, Britain then set about discouraging all attempts, pre-existing and contemporary, at manufacturing on whatever scale. Notes Smith:

The liberality of England... towards the trade of her colonies has been confined chiefly to what concerns the market for their produce, either in its rude state, or in what may be called the very first stage of manufacture. The more advanced or more refined manufacture even of the colony produce, the merchants and manufacturers of Great Britain choose to reserve to themselves, and have prevailed upon the legislature to prevent their establishment in the colonies, sometimes by high duties, and sometimes by absolute prohibitions (p.251).

In America, about the only place where some level of semi-manufacture was allowed, it was purely utilitarian.

While Great Britain encourages in America the manufacture of pig and bar iron, by exempting them from duties to which like

commodities are subjected when imported from any other country, she imposed an absolute prohibition upon the erection of steel furnaces and slit-mills in any of her American plantations. She will not suffer her colonists to work in those more refined manufactures even for their own consumption: but insists upon their purchasing of her merchants and manufacturers all goods of this kind which they have occasion for. She prohibits the exportation from the province to another by water, and even the carriage by land upon horseback or in a cart, of hats, of wools and woollen goods, of the produce of America: a regulation which effectively prevents the establishment of any manufacture of such commodities for distant sale, and confines the industry of her colonists in this way to such coarse and household manufactures as a private family commonly makes for its own use or for that of some of its neighbours in the same province (op cit. p. 251).

The practice went beyond the American colonies and was worse in some. Reports Smith:

While, for example, Muskovado sugars from the British plantations pay upon importation only 6s.4d the hundred weight: white sugars pay £1. 1s. 1d. : and refined, either double or single, in loaves £4.2s 8/20d. When those high duties were imposed, Great Britain was the sole, and she still continues to be the principal market to which the sugars of the British colonies could be exported. They amounted, therefore, to a prohibition, at first of claying or refining sugar for any foreign market, and at present of claying or refining it for the market, which takes off, perhaps, more than nine-tenths of the whole produce (p.251).

Britain was exceptional of all imperialist powers, in discouraging even elementary manufacturing in its colonies.

The manufacture of claying or refining sugar accordingly, though it has flourished in all the sugar colonies of France, has been little cultivated in any of those of England except for the market of the colonies themselves. While Grenada was in the hands of the French there was a refinery of sugar, by claying at least, upon every plantation. Since it fell into those of the English, almost all works of this kind have been given up, and there are

at present, October 1773, I am assured not above two or three remaining in the island. At present, however, by an indulgence of the custom-house, clayed or refined sugar, if reduced from loaves into powder, is commonly imported as Muskovado. (p.251)

The policy generally operated until the 1820s when in defiance of the law prohibiting export of machinery, and that prohibiting the emigration of craftsmen, hundreds of them left and some manufacturers allowed colonial settlers to visit their factories in England. Such settler on their return, and the emigrant craftsmen, gradually began to manufacture in the colonies. Also, from 1843 when the law prohibiting export of machinery was repealed, some manufacturers fleeing rising wages and cost of raw materials found it cheaper to manufacture in the colonies, mostly in North America. But most of their core activities remained in Britain to which they also repatriated their dividends (Lampard, 1982)

In its colonial strategy towards sustaining its economic development, Britain did not content itself with virgin colonies. Nor was its colonial drive entirely devoid of mutually beneficial co-operation. The clearest example of this was its colonial terms with a diminished Portugal for centuries since the 1701-14 war of the Spanish succession. As Britain's protectorate, Portugal with its colonies was protected and its positions fortified against its rivals Spain and France. In return, Britain received "commercial privileges, preferential conditions for importing goods and especially capital into Portugal and the Portuguese colonies, the right to use the ports and islands of Portugal, her telegraph cables, etc., etc" (Schilder, 1912, paraphrased in Lenin, 1916).

9.2.2 War

I will not wager between Britain and Spain, which fought wars mostly in defence of its trade ambitions. But in York Minster, North West England, I counted memorials of not less than 200 such wars, mostly referred to as expeditions. Some were referred to earlier. Others include the Benin and Opobo wars in present day Nigeria, the Boer

wars in South Africa, the Kenyan and Rhodesian expeditions, etc.

The most interesting of all Britain's trade-targeted wars and which was absent from the York Minster or perhaps there by another name is the Opium War. This war is the genesis of Britain's ownership of (lease on) Hong Kong* from China. From the 1700s, British merchants began smuggling opium from the golden triangle via Canton into China. In exchange, they obtained fine Chinese silk and other materials. By the 1800s, the Chinese government realised it had serious drugs problems on its hands, a large proportion of its youth and overall population were hooked onto the British-supplied opium. The Chinese government tried to make the British merchants discontinue the opium smuggling into China but the merchants persisted.

The Opium War thus resulted in 1839, between China and Britain (the latter which had been backing its opium merchants). China lost the war. As part of the 1842 victory Treaty of Nanching, Britain received the island of Hong Kong from China. The trade disputes continued though. But China continued to lose. In 1860, Britain took control of the Kowloon Peninsula. In 1898, in yet another dispute settlement, China leased to victorious Britain all the new territories the latter was already controlling including Hong Kong, for 99 years (Solomon, 1982). With these territories, Britain not only controlled the very lucrative port of Hong Kong but also trade along the entire Chu Chiang (Pearl River), in addition to Canton. From this vantage position, Britain effectively controlled trade in China as well, dictating prices, goods, direction, etc.

9.2.3 Contemporary Times

After the post-World War II boom, Britain's economy grew at a slower rate in most years. This was despite its having received about

* This ended in one of the great moments of 20th century in June 1997.

\$3.1 billion under the Marshal Plan (see Germany/ 9.1). By the early 1960s, as Grew and Taylor (1982) note, the British economy began to experience severe difficulties. While pure coincidence is probable, the late 1950s and early 1960s happen to be when most of Britain's remaining colonies, especially in Africa and Asia, gained their independence.

In the early 1960s, Britain's economy stopped expanding. It was borrowing more extensively from other countries and international agencies. Its financial reserves shrank, industrial growth became too slow and deficit grew sharply. In 1963, Britain which had always cherished its independent dominance of the world, opposing every past attempt at European union, attempted to join the European Community (EC) in the hope of utilising the preferential community trade terms. It was rejected. It so happens that since the early 1960s, the British economy has remained troubled, government changing hands on this account. As we saw earlier, although the Thatcher government responded with more deregulation, it was bounded deregulation. Britain has also since 1973 enjoyed the security of the EC common market, having been subsequently accepted.

In sum, neither its take-off into economic power and its maintenance of that position for more than a century, nor its contemporary search for an economic foothold can Britain or any one else attribute to free market. Britain has never practised the free market its politicians loudly claim.

9.3 JAPAN

Gross Domestic Product:	\$4 Trillion
GDP per head:	\$32,018
Population:	125 million
Inflation:	2.1%

- 1992 figures^c

9.3.1 Introduction

Because of the real danger of colonisation by the Western powers, quick acquisition of Western technology and industrial productivity was regarded as of utmost urgency. Progress in education, science, and technology was viewed, as in Germany, as an effective instrument of national progress. (Hayami and Ruttan, 1985, p. 231)

For about 200 years, Japan was drifting economically. Then in 1851, the United States of America opened it up, but as a way to then contentious trade with China. This act stirred up nationalism and there resulted a palace coup. The Shogun dynasty was overthrown and the Togugawa dynasty restored by the Samurai (civil servants cum military officers), in what is generally termed the Meiji Restoration.

The Meiji Restoration had one aim: to carve for Japan a global power bloc, what Morishima (1982) terms the Great Power Project. The architects realised there was only one way to this: economic supremacy. To them, political power could be attained and sustained only with economic might.

9.3.2 How

9.3.2.1 Massive industrialisation

Their strategy was clear: economic nationalism. In other words, only the Japanese could build up Japan's economy. But in view of the disparateness of the very low level of capital, as Morishima (1982) and Moulder (1981), among others, point out, it was deemed that Japan's capital accumulation and overall economic drive must be executed by a private sector subservient to the state. The state set about employing the best hands and then redirected capital from agriculture and commerce into industry. This it did by establishing industries: mining, steel, textiles, shipbuilding, etc., on essentially what became tagged in the 1950s as Import Substituting Industrialisation (ISI) model.

In the mid-1880s, it began the second prong of its strategy: deliberately creating an indigenous capitalist class. With its control of the banking system, the state channelled cheap credits to identified budding capitalists who were invariably friends of the dynasty. Such credits and other subsidies allowed them to set up small and medium-scale industries.

Towards the end of the 1880s, began the third prong of the strategy. The state began to privatise its investments to politically favoured individuals. What informed this was the economic nationalists' belief that market concentration and ensuing economies of scale among other benefits, were necessary for international breakthrough. Thus began a deliberate drive to build up large private companies with heavy market concentration, the *Zaibatsus*. All along, Japan's industrial drive was based on the ISI model. The beginning of this model is often associated with Latin America, notably Brazil and Argentina. But it actually began with Japan. While Japan built its industrial base, it regulated imports. Up to 1911, imports were according to state-imposed quotas. Thereafter, they were regulated with high taxes. By 1900, within 22 years, the Meiji government had achieved take-off. By 1932, Japanese steel and textiles were cutting into US and British shares in the international market.

Japan made extensive use of foreign technology. But it did not receive such on market terms. As the US and Britain now competed over its partnership, they competed over technology licensing to Japan. Japan on its part did not allow such technology transfer to be subject to only market forces or the whims of its *Zaibatsus*. The state firmly controlled such transfer and rigidly directed them to areas it deemed critical to its "power project". At the heart of this overall state control was (and still is) the Ministry of International Trade and Industry (MITI), arguably the most important state organ. MITI, among others, directed and articulated Japan's technological drive. Fransman (1989) notes that MITI intervened to influence the price and the form of imported technology, as well as how such

technology impacted on the structure of domestic industry. Peck and Tamura (1976) point out that "... there was sometimes informal designation by the MITI of a particular Japanese firm to negotiate with a specific foreign company. Beyond this, the MITI would delay its approval or make it conditional upon revisions that would lower rates" (p.548). Fransman (1989) adds that "MITI also attempted, wherever possible, to remove restrictive clauses from technology contracts such as those limiting exports, although, with the relative strength of foreign technology suppliers in the 1960s, restrictions such as these remained common" (p.629).

In the case of using technology policy to effect change in the structure of local industry, Fransman further observes that "in 1950, the MITI announced a list of 33 'desired technologies' which would be given priority in the approval of technology agreements. Most of the technologies were in the area of heavy industry, only three technologies relating to consumer goods" (p.631). In 1959, report Peck and Tamura (1976), the list was modified to include "electronic and jet aircraft items ... and techniques making processes continuous, more efficient, or automated in any industry" (p.552). Only rarely would the ministry deviate from this list. Second, MITI made its approval of any technology agreement conditional upon such meeting its specification, "first in the construction of plants of efficient scale and second, in avoiding excess capacity and the ensuing price competition (op cit.). Third, MITI carefully regulated new entry into any particular industry thus ensuring that such was "never at the expense of unused capacity or excessive competition" (op cit.).

MITI's position was strengthened in post World War II by the Foreign Capital Law *Gaishi Ho*, number 163 of May 10, 1950. "This law established the Foreign Investment Committee and mandated it to license technology, acquire stock, share patents, or enter into any kind of contract that provided them with assets in Japan." (Johnson, 1982, p. 217). Not until 1967 did Japan make any significant attempt to liberalise direct foreign investment (DFI). But even then, as Peck and Tamura (1976) note, "the extent to

which the liberalisation in fact means full direct freedom for direct investment is a matter of debate” (p.551).

By 1960, Japan had become a bigger economic power than it was before World War II. In more specific terms, MITI controls paid off significantly.

In terms of the price technology, Peck and Tamura report that

The requirement of MITI approval served to reduce competition among Japanese firms. . . the overall effect of MITI intervention in the mid-1960s was to provide Japanese firms with technology on more favourable terms than they would have been able to obtain in the more open economies of the United States or Western Europe. (p.548-550)

MITI's selectiveness suppressed undue demand for foreign technology but more importantly geared such demand towards creating the desired industrial structure. According to Peck and Tamura, “Access to imported technology was a major source of profit, and to deny such access to some industries served to tilt the pattern of investment and output towards what were regarded as basic industries.” (p.553). They thus conclude that “More important than any stated rationale for controls is their impact on the price of technology, the composition of imported technology, and the industrial structure – all areas in which the evidence suggests that government controls did make a difference.” (p.546).

9.3.2.2 Agricultural reforms

The Great Power Project did not ignore agriculture. Rather, productivity growth in agriculture, the dominant sector of the economy, was not only required to contribute to social welfare by increasing the consumers' surplus, but also was essential to finance industrialisation and various modernisation measures. (Hayami and Ruttan, 1985, p. 231).

Japan is a poorly endowed country in terms of natural resources, including land. In 1888, land per male worker was about 60 times the ration in the US. By 1980, this gap had widened to 100 times.

(op. cit p.166). However, the Meiji government in ignorance of the implication of this fundamental difference in factor endowments, set about importing large-scale machinery from the US, technical expertise from Britain and establishing sophisticated agricultural institutions along the lines of Western agriculture. It failed, but it learned quickly. It switched from its Western orientation to an itinerant instructor system.

According to Hayami and Ruttan,

In contrast with the earlier emphasis on the direct transplanting of Western technology, the itinerant instructor system was designed to diffuse the best seed varieties already in use by Japanese farmers and the most productive cultural practices used in the production of Japan's traditional staple crops, rice and barley (p.233). The Government's major contributions were land reforms from feudal holdings, research, extension services, and general infrastructure including irrigation.

The success of agricultural productivity growth in the Meiji period was achieved by a re-orientation of agricultural development policy towards the development of a technology suited to the resource endowment situation of Japan. Effective interaction between farmers and scientists were deliberately encouraged as part of the process of screening, adapting, and diffusing the best indigenous technology... Through the dialectic interaction among farmers, scientists, and agricultural supply firms in response to relative factor prices that reflected Japan's resource endowments, Japan was able to evolve a unique and highly productive system of agricultural technology called Meiji Noho (Meiji agricultural technology) (op cit. pp 235 - 7).

Had Japan left everything to market forces, the flop from earlier reliance on US and British technology would have continued. But having adopted a more indigenous strategy, based on its resource endowments, productivity rose astronomically. During World War I, the productivity lagged, culminating in 1918 in rice riots in all major cities. The government responded by boosting rice production in its Korea and Taiwan colonies. When this eventually dampened

Japanese farmers' income, the government blocked rice imports from the colonies; and increased investment in research and physical infrastructure. Agricultural productivity responded significantly.

It was severely disrupted during World War II as resources were diverted to munitions production. Japan's humiliating defeat in the war led to loss of its colonies and US occupation. But these helped somewhat. The US dictated further land reforms which further distributed land.

Note Hayami and Ruttan (1985):

The government was authorised to enforce the purchase of all farmlands owned by absentee landlords as well as the landholdings of resident landlords exceeding one hectare (four hectares in Hokkaido), which were to be sold to tenants within two years after the proclamation of the law. Consequently, during the process of hyper-inflation from 1945 to 1949, the real burden of tenant farmers in procuring land was reduced to a negligible level.

For the four years from 1947 to 1950, the government purchased 1.7 million hectares of farmland from landlords and transferred 1.9 million hectares including state-owned land, to tenant farmers, which amounted to about 80 per cent of the formerly tenanted land area. As a result, the ratio of farmland under tenancy declined from 45 per cent in 1945 to 9 per cent in 1955. Further, for the remaining land under tenancy, the rights of tenants were strengthened and rents were controlled at very low levels by the Agricultural Land Law (1952). This law also imposed a limit on landholding of three hectares (twelve hectares in Hokkaido) to prevent the revival of landlordism (p.241).

The results were:

... more equal assets and income distributions among farmers, thereby contributing critically to the social stability of the rural sector, although the farm-size distribution was fixed and the small-scale farms were maintained even though they became less efficient in the process of economic development. (op cit., p.241).

Although questioning the significance of these reforms to capital formation, Hayami and Ruttan despite their purist free market

approach, acknowledge that the reforms did contribute to "an increase in the level of living and consumption" (p.241).

Despite such reforms and subsidies, agricultural income did not keep pace with post-World War II non-farm incomes. Rural-urban income gap widened. In response, agricultural policy was re-focused from increasing staples production to reducing the income gap. A national charter, the Agricultural Basic Law was enacted in 1961. It made it

the government's responsibility to raise agricultural productivity and thereby close the gap in income and welfare among farm and non-farm people. Among the measures identified as necessary for this purpose were encouragements to expand selectively the production of agricultural commodities in response to a changing demand structure and to enlarge the scale of the production unit. (op cit. p. 244)

Prior to the 1961 law, a price support scheme was introduced in 1960 specifically for rice, implemented by the Food Agency. With the Production Cost and Income Compensation Formula, the agency uses cost of production to determine the price of rice. In calculating wages, for instance, as a component of cost of production, the agency relies on the formula's evaluation of family labour by non-farm wages. This is to guarantee "fair returns" for rice producers.

Although their parameters are not quite clear, Hayami and Ruttan (1985), right wing economists, reckon that by the early 1980s, the support price for rice was "between three and four times" the international price. Basing their assumption on, but without explaining, the parameters of Hayami and Honma's (1983) calculation, they claim that in 1980, "the nominal protection rate in Japan was 83.5 per cent of domestic output valued in international prices ... twice the EEC average of 35 per cent" (pp 245-6) and up from 17.6% in 1955. Ignoring the obvious fallacy of comparing one crop's subsidies with the EEC's comprehensive subsidies on virtually all agricultural products, one finds even them acknowledging that state supported "High prices have induced substantial private investment in rice production capacity..." (p.245).

Japan has since the late 1970s posted the highest global trade surplus, and can thus afford any amount of food imports. It does import a lot of food. But in recognition of the need for food security, it continues to subsidise domestic production, especially of staples, following in the steps of earlier industrialisers: Western Europe and North America.

9.3.2.3 Others

There are also cultural dimensions of Japan's economic success. These have been extensively documented by Morishima (1982) and Moulder (1981) among others. Morishima, for instance, argues that traditional religions, Shinto and Buddhism, did not have much influence in early Japan. Thus, when the Togukawa Bafuku aristocracy introduced Confucianism as its cultural policy, it spread widely and deeply among the Japanese. In effect, it became "an ethical system rather than a religion, and it directly (or rather indirectly through the medium of *Bushido* or *'hivalry'*) taught the Japanese people that frugal behaviour was noble behaviour" (Morishima, 1982).

The various writers including Morishima and Moulder state that Confucianism in Japan stresses (a) loyalty to the state (or lord), (b) filial piety, (c) faith towards friends, and (d) respect towards elders. They argue that these Confucian tenets allowed Japan to have a disciplined work force and a capitalist class that cooperated easily with bureaucrats, to the point of subservience beneficial to the state at large in the form of successful economic nationalism.

Morishima, who until recently (1990) was occupying the chair of economics at the London School of Economics, emphasises that "if the Japanese had not adopted the Confucian belief of frugality, which was (a prerequisite) of capitalism, then modern capitalism could certainly not have been achieved in Japan." But this prerequisite having been met over the years through Confucianism, Japan, "at the end of the Meiji Revolution, had already fulfilled the second prerequisite for capitalism ..." In effect, according to this cultural model, Japan never relied on market forces induced savings, it banks

never had to pay astronomical interests to attract deposits nor did borrowers, as seen earlier, have to pay market (high) rates for credits which could have served as a disincentive to investments and possibly fuelled inflation.

In sum, whether one accepts cultural or other extraneous explanation of Japan's repeated economic success, it is clear that no factor of production: capital, labour, land, was ever left completely to market forces. World War II was a severe setback for Japan. In the aftermath of its humiliating defeat, it not only lost its colonies in Taiwan and Korea, which had been providing cheap rice and raw materials, it also found itself internationally isolated. Internally, its infrastructure was substantially damaged. In effect, its "Great Power Project" was severely damaged and had to be rebuilt. But with the state machinery still intact, assisted by massive US aid, Japan's economic drive was back on course. By 1950, just five years after the war, Japan was back in a strong position to negotiate for foreign technology and was fully back on the international market.

In the course of its transformation since 1878, subsequent consolidation and expansion, Japan made extensive use of foreign technology. But it did not receive such on purely market terms. In the early stages, as the US and Britain competed over Japan's junior partnership in the exploitation of the Asian region, so did they compete over providing it with technology.

9.4 South Korea

Gross Domestic Product:	\$354 billion
GDP per capita:	\$8,040
Population:	59 million
Inflation:	7.8%

- 1992 figures

9.4.1 Introduction

One of the essential characteristics of a modern economy is its strong tendency towards centralisation. Mammoth enterprise – considered indispensable, at the moment, to our country – plays not only a decisive role in the economic development and elevation of living standards but further, brings about changes in the structure of society and the economy ... Therefore, the key problems facing a free economic policy are co-ordination and supervisory guidance, by the state, of mammoth economic strength. (General Park Chung-Hee, *Economic Builder of Modern South Korea*, 1962, pp. 228-9).

Of the case studies, South Korea's transformation is the most contemporary and closest to Nigeria. It is perhaps the most relevant because at independence in 1960, Nigeria was richer in terms of GDP and natural resources than South Korea. As at 1992, however, Nigeria's income per head was 4% of South Korea's.

9.4.1.1 Evolution of the Korean State

Years	Developments
1392 - 1910	The Yi dynasty with tributary relationship with China's Ming dynasty. Next to the Yi king was the landed <i>Yangban</i> elite which maintained itself by inheritance, privileges, etc. and utilisation of Confucian orthodoxy for the legitimisation of status and economic interests.
1910 - 1945	Korea was Japan's protectorate. The Yi dynasty of 1,000 years dismantled, formally ended. Japan abolished slavery, codified civil laws, created a comprehensive modern infrastructure comprising finance, transport, commerce, etc. Japan also invested heavily in education at all levels. It created the modern state politically and economically.

- About the most fundamental of Japan's acts was its institution of comprehensive land reform which virtually destroyed the power of the *Yangban* landed gentry and other landlords, substituting the power of the market in its place. Many landowners reacted by selling off whatever remained of their land and redirected their capital into manufacturing. Whereas in 1930, 3% owned two-thirds of all land, by 1940, only about 7% were without land.
- 1945 - 50 Intra-Korean ideological uprisings despite the occupation of the US.
- 1950 -53 Korean war, culminating in the split of the peninsula into North and South Korea. Thereafter, the US furthered the land reforms. Japanese property were sold at below market prices to political cronies, so largely went US aid estimated at \$270 million annually and other privileges. The state under Sygman Rhee allocated aid entitlements in exchange for political campaign contributions.
- 1961 The military under General Park Chung Hee seized power. They enacted the Illicit Wealth Act, arrested all favoured businessmen. Eventually, they were released on condition that they invested what was determined as their illegal wealth in specified companies and hand over such shares to the state within a year. Invest, they did, but they did not give the shares to the state. All banks were nationalised.
- 1965 Realising the importance of Japan both as a source of technology and as a market, Rhee

despite high public animosity towards Japan, entered into a bilateral agreement with her. This was a key to Korea's success.

1979 Park is assassinated. Thus ended the "Golden Age of Growth" in Korea. That era witnessed an almost blind pursuit of economic growth, the state saw this as the key to every other thing. It directed investments and marketing; rewarded good performance and punished failures. Chun Doo Wang takes over in May 1980 after a period of instability.

1991 Under pressures from the US, General Chun's government institutes gradual liberalisation.

9.4.2 How

South Korea is one of those late 20th century economic successes described by the World Bank up till the late 1980s as being based on the free market model. But as several Korea scholars have extensively documented, the country's economic model is a far cry from free market (See for instance, Kim, 1982; Amsden, 1989; Enos 1982; Amsden and Kim, 1982; Westpahl, 1977; Colman and Nixon, 1986).

The state very firmly and strictly directed the economy. Reports Amsden, for instance, after her definitive 1989 study of the country's economy:

In Korea, instead of the market mechanism allocating resources and guiding private entrepreneurship, the government made most of the pivotal investment decisions. Instead of firms operating in a competitive market structure, they each operated with an extraordinary degree of market control, protected from foreign competition. Nevertheless, most economists who recognise these realities greet them with an unflinching faith in market laws. They suppose that while state interference in Korea is pervasive, the economy operates with a set of relative prices that is not greatly distorted. Infact, little evidence supports this presumption (1989, p.139).

Below is how through a web of subsidies, targets and disciplines, the state turned around the economy with the Economic Planning Board as its administrator.

The EPB

At the heart of state direction of the economy was the Economic Planning Board (EPB), which still exists. This was actually set up in 1959 by Sygman Rhee. But its activity became central under Park. This board which had representatives from key ministries was dominated by bright economists. It served as the clearing house of all projects, local or foreign; approved policies; approved technologies; approved subsidies and other incentives to deserving firms; etc. In effect, it determined who entered the Korean market, on what terms and with what technology.

In a top-down method of planning, the EPB also prepared the five-year plan by issuing guidelines on policy targets and directions as domestic and international macro-economic projections. Individual ministries then formulated their own sectorial plans in accordance with the guidelines. The state was so driven by its righteousness that these plans which were strictly implemented are seldom open to the public for discussion let alone input. Overall, the state, through the EPB, used the following tools:

(a) Direction

While making little pretences about being open, the state nevertheless recognised it needed the private sector to execute its plans. Park did not believe in small firms. Adopting mainly the Japanese strategy, the state under Park believed that success depended on size, and it set out from the word go to create conglomerates, the *Chaebols*. By 1980, this strategy had concretised and Korea had overtaken Japan in market concentration. Amsden (1989) notes that in 1983, for instance,

only about 18% of all commodities that year, or 30% of all shipments, were produced under what are typically considered

to be competitive conditions - that is, a three firm concentration ratio of less than 60% (or a combined market share of the top three producers of less than 60%). The remainder of commodities was produced by either monopolies, duopolies, or oligopolies. Measured by sales, the ten largest diversified business groups accounted for ... 67 % of total sales in 1984 ... In 1982 the top ten diversified groups accounted for as much as 30.2% of manufacturing activity. (pp. 120 -1)

To ensure such economic concentration, the state, personified by Park, continuously backed the same set of enterprises. The state identified such businesses from among its rank of cronies. It directed them to invest in areas of interest to it: any manufacturing industry up to 1965; thereafter, emphasis was narrowed to heavy industries, the heavier, the better.

(b) Incentives

- i. Firms so identified were heavily supported: The state procured foreign credits for them at subsidised rates. Amsden reports a "regime of multiple interest rates ... quite similar to the multiple exchange -rate regime that export subsidies created" (p. 74). All these were despite the fact that South Korea, like most developing countries, was in those critical years, short of capital.
- ii. The state allowed identified firms near-monopoly in their investment areas. According to Amsden and others, only two or three firms were usually allowed in each new investment area. The ensuing market concentration, ranging from monopoly to oligopoly allowed enormous economies of scale. Furthermore, capacities were deliberately kept large by the state. For instance, as Kim (1985) notes, "Investment in heavy and chemical industries exceeded what was permitted by market size, financing capacity and technical and engineering capacity. Excess capacity result from over-investment is most evident in the machinery and plant manufacturing industry" (p. 175).
- iii. The state allowed little importation of non-essential goods. Rather, such latent demand was allowed to build up to a point of enormous economies of scale and then between one and

three favoured companies were allowed to manufacture such goods. Amsden (1989) cites various examples including the phased expansion of the electronics industry. Westpahl (1978) reports the same from his seven-year study. For example, colour television sets importation was not allowed in large quantities, rather, the demand was allowed to build up and then satisfied by state-identified and supported industries.

- iv. Essential manufacturing components, both for strategic import substituting industries and for exports were allowed to be imported duty free.
- v. Strategic companies, both in ISI and exports, enjoyed generous direct and indirect tax allowances.
- vi. Exports manufacturing companies were specially encouraged as the state was obsessed with exports: (1) The state subsidised the Korean Trade Promotion Corporation to mount promotions abroad for Korean companies. (2) It authorised private organisation of the Korean Traders Association "to collect 1% of the value of total c.i.f. imports as an export promotion fund" (Westpahl, 1978). (3) It allowed them in some instances to sell domestically at higher prices, to recoup export losses. (4) Suppliers of exporters enjoyed about the same incentives as exporters.

Reports Westpahl (1978) generally:

The most important incentives to exporters by 1967 included: unrestricted access to and tariff exemptions on imported intermediate and capital goods: exemption from payment of indirect taxes both on major intermediate inputs (whether imported or local) and on export sales. generous tax-free raw material imports which permitted the use of some of these imports in production for the domestic market: reduced prices for several overhead inputs including electricity and railroad transport. which were intended at least in part to compensate for payment of indirect taxes included in the normal charges for these inputs: a 50% reduction in direct taxes on income earned in exporting, along with accelerated medium-term credit to

finance working capital and fixed investment respectively. In addition, the 'export link' system entitled selected exporters to import certain popular items not otherwise approved for import. This system was used to subsidise exports during the late 1950s-60s. It has since been used only intermittently on a more or less ad hoc basis to offset exporters' temporary losses due to market fluctuations or entry into new markets.

- vii. The state invested heavily in infrastructure.
- viii. The state implicitly discouraged direct foreign investment (DFI), thus shielding Korean enterprises from competition which could have stifled them. To this end, the Foreign Capital Promotion Law was passed in 1960. Ostensibly, it was to regulate DFI and the acquisitions of foreign technology. In practice, it made South Korea "one of the few LDCs with very restrictive regulations on foreign investment and technology transfer" (Amsden and Kim, 1982, p.27). Between 1966 and 1971, DFI, according to Westpahl (1978), averaged less than 4% of total foreign capital inflows. Cumulative DFI was "appreciably less than \$100 million" prior to 1970 and amounted to just about 5% of capital stock in manufacturing in 1970, assuming all the DFI went into that sector (p.361). The remainder and bulk of foreign capital which by 1970 had topped \$28 billion was in form of loans procured by the state on behalf of private companies.
- ix. In 1973, the DFI law was re-tightened following inflow of Japanese investments and ensuing fears that such could have undesired effects. Three criteria were specified for DFI:
 - First, project eligibility criteria disallowed projects that might compete with domestic firms in either domestic or international markets, or that might disrupt domestic demand and supply of raw materials and intermediate goods. Second, foreign ownership criteria limited foreign participation to 50% unless projects were entirely export- oriented or technology-intensive and led to important export or import substitution production. Third, investment scale criteria set ... minimum investment.

(c) Discipline

Above were carrots. The South Korean state also applied the stick, sometimes unsuccessfully, but most times successfully. There are more than 1,000 economic laws in South Korea (*Economist*, November 16, 1991).

- i. **Laws.** The law, *T. Jkpyolpojen kaching chopolpop*, enacted in the 1960s allows punishment ranging from imprisonment to death for any illegal capital transfer of upwards of \$1 million. Although in the 1980s, long after take-off compliance fell into doubt, development scholars generally agree on the usefulness of such laws. Amsden (1989) for instance reports that "in the two preceding decades, its harsh terms are believed to have been a credible deterrent to private investors who might otherwise have used public subsidies to build personal fortunes abroad" (p. 18).
- ii. **Targets.** The state set stringent export targets for virtually all companies benefiting from its subsidies, regardless of how new such a company might be. The state forcefully insisted on such targets being met, predicating further support on it. Says Amsden (1989): "The sternest discipline imposed by the Korean government on virtually all large size firms – no matter how politically well connected-related to export targets... Pressures to meet ambitious export targets gave the big push into heavy industry its frenetic character" (p. 16). Amsden emphasises that state discipline of firms was of mainly two interrelated prongs: "(a) penalising poor performers; and (b) rewarding only good ones" despite the fact that all the firms were owned by the state's friends in a highly politicised process of corruption and kickbacks. "First, in industries weakened at various times by over-expansion, firms have been subject to rationalisation... Second, discipline has taken the form of refusal on the part of the government to bail out relatively large-scale, badly managed, bankrupt firms in otherwise healthy industries." (Amsden, 1989, p. 15).

iii. She provides evidences of the government's "cold-bloodedness" towards poorly managed firms:

... a company named Shinjin had a larger market share in the Korean Automobile industry in the 1960s than Hyundai Motors. Shinjin's owner, however, could not survive competition from Hyundai's 'Pony' and the oil shock in the 1970s. The company went bankrupt and the government, as banker, transferred Shinjin's holdings to Daewoo Motors. Another early automobile manufacturer, Asia Motors, was also abandoned... In the cement industry, the largest producer in the 1970s went bankrupt because it tried to optimise on oil technology rather than switch to a new one. Its production facilities were transferred by the government to a *chaebol*, the Ssangyong group, owned by one of the ruling party's elders. The Taihan group, a pioneer in the electronics industry, had an ailing consumer electronics division which failed. Eventually, the government oversaw its transfer to Daewoo Electronics. Construction firms such as Kyungnam (merged into the Daewoo group) and Samho (acquired by Daclim Engineering) are typical cases of firms that although they once enjoyed government support, were abandoned after going bankrupt when other firms in their industry were prospering for reasons which observers generally agree were related to incompetence. A badly managed *chaebol* of considerable size that the government recently punished was the Korea Shipbuilding Engineering Company. The Kukje-ICC group has also been pilloried (p. 15).

- iv. From her case studies of 35 automobile, cement, steel, textiles, paper, shipbuilding, general machinery, and construction firms, Amsden concludes that the government evaluated good performance "in terms of production and operations management rather than financial indicators" (p. 16).

(d) Technology

It is often argued, following Gerschenkron (1962), that developing countries have the advantage of a surplus technology pool to draw from. This is simplistic, assuming that the technologies are there for picking and are inevitably appropriate for every situation. But as some studies have shown, (e.g. McNerny and Donaldson, 1975),

there are complications in technology acquisition concerning, among others, price, terms, appropriateness, and impact on domestic economy. The South Korean government recognising these, adopted the Japanese strategy of acquiring technology rather than allowing Korean firms to go into partnership with the foreign firm(s). Only in extremely difficult cases such as involved Shinjin and General Motors of the United States (later transferred to Daewoo) was a 50-50 joint venture allowed. In effect, technology acquisition was by no means a free-for-all affair dictated wholly by market forces. Notes Enos (1985):

... the Korean Government deliberately and consistently imports industrial technology of the most modern type under terms that assure that equipment will be operated by its own citizens to the fullest extent, and that the goods which are produced will be made available at reasonable prices and steady rates, to domestic manufacturers and distributors (p.75).

(e) Domestic Price Structure

South Koreans' welfare was not left to market vagaries. This was perhaps not so much for General Park's popular sentiment, but in recognition that high domestic purchasing power was needed to buoy up the *chaebols'* export uncertainties. Thus, not only were the *chaebols* deliberately allowed economies of scale as seen above, the state apparently not trusting them as capable of restraint in exercising their state-imbued market concentration influenced domestic prices. Amsden (1989) reports that the state yearly negotiated prices with dominant enterprises. "At the end of 1986," she notes, "as many as 110 commodities were controlled, including flour, sugar, coffee, red pepper, electricity, gas, steel, nylon stockings, automobiles, and television" (p.17).

9.4.3 Of Comparative Advantage

Up till the late 1980s, the World Bank, alongside some scholars, was touting South Korea as an economy that has developed based

on its comparative advantage. Westpahl (1978), for example, claims that "given Korea's poor natural resources endowment and assuming that its comparative advantage lies in labour-intensive activities, Korea provides an almost classic example of an economy following its comparative advantage and reaping the gains predicted by conventional economic theory." Such assertions, copiously made until more detailed studies became widely available, have since been exposed as sheer fallacies. South Korea had actually turned the theory of comparative advantage on its head. Against the World Bank's stout opposition, the state directly went into steel making. By the close of the 1980s, the bank had not only swallowed its words, it was describing South Korea's steel industry as one of the world's most efficient (see *Economist* November 16, 1991). The steel industry deserves a case study.

9.4.3.1 Steel

In the 1960s when South Korea set out creating an integrated iron and steel industry, it had all the necessary factors against it. For a highly capital intensive project, it lacked capital; for an industry highly sensitive to scale, it lacked a market and nearby Japan had the world's most efficient steel industry; Korea has no iron ore deposits and is located far from the main supply sources; it lacked skills; it lacked technology. Understandably thus, from immediate market efficiency perspective, the World Bank's 1960s study concluded that "an integrated steel mill in Korea was a premature proposition without economic feasibility" (Pohang Iron and Steel Company Limited, 1984, p. 23).

The South Korean state ignored the odds including lack of World Bank backing. It set up the Pohang Iron and Steel Co. Ltd. (POSCO) on its own, bearing all the \$3.6 billion risk. By 1986, POSCO had not only become about the lowest cost producer of steel in the world, it had actually begun exporting technology and capital. In 1986, it entered into joint venture with US Steel (USX) to modernise the latter's plant in Pittsburg, California. "POSCO

was supplying half of the capital requirements or \$180 million, for the modernisation – providing the PittCal cold rolled sheet facility with hot-bend coil, undertaking basic design of the facility's modernisation jointly with USX, and training American managers and workers in operations and maintenance" (Amsden, 1989, p. 292).

There were market-inspired difficulties before POSCO became a reality in 1973. The government's attempts to raise finance collapsed in 1961, 1962 (with German steel makers), in 1967 with a World Bank-led consortium, all following disagreement over sales. Finally, the needed finance came from Japan as reparations for "36 years of hardship under Japanese rule" (POSCO, *op cit*). To the bargain, a Japanese group comprising Nippon Steel and Nippon Kokkan Steel provided engineering consultancy (Amsden, 1989) – POSCO is still state-owned.

9.4.3.2 Other examples: shipbuilding and electronics

(a) Shipbuilding: There are two other interesting areas in which South Korea has turned upside down the theory of comparative advantage. One is shipbuilding, the other electronics.

Shipbuilding was not traditional to South Korea, unlike Japan. Until 1968, the main shipbuilding activity was undertaken, poorly, by the government-owned Korea Shipbuilding and Engineering Corporation (KSEC) which was actually founded by Japan Mitsubishi during Japan's occupation, in aid of Japan's war policy. Various government attempts to stimulate shipbuilding culminated in 1968 – a period of slump in international ship orders – in the licensing of Hyundai Heavy Industries (HHI) to undertake large-scale shipbuilding. It began the activity in 1973, undergoing a learning process, with the guiding slogan: "our own ships, our own engines, our own designs." By 1984, Amsden reports, "HHI had become the world's largest shipbuilder, with cumulative deliveries exceeding 10 million dead-weight tons (DWT) . . . South Korea's share of world orders for new ships vied with Japan's . . . Outfitted with up to date capital equipment, it was able to undermine the supremacy of European and American shipbuilders" (p.269).

The state did not simply license HHI and direct it to export. It provided direct and indirect support. First, it fought off opposition from the World Bank and IMF whose support was mandatory for international loans. Second, it directly raised international credit for HHI. Third, it guaranteed foreign loans procured by HHI. Fourth, it provided "extensive subsidies" for infrastructure. Fifth, it provided "extensive financial guarantees" to help it in its first order. Sixth, alongside other shipbuilders, HHI continued to receive support after the teething state (op cit). Notes Amsden further:

Shipbuilding may have been relatively unprofitable, but the industrial plant unit of HHI was given a temporary monopoly over steel structures, which required massive yard space to construct and were highly profitable. Support was also provided as the need arose. The government, for example, ordered Korea's crude oil deliveries to be carried by the Hyundai group's newly created merchant marine as a way to strengthen stagnating demand for HHI's ships, once HHI had demonstrated its capability in shipbuilding (p.273).

Prior to licensing HHI, the government had done three key things. One, it helped existing yards in the 1960s convert from wooden to steel vessels building. In response, steel vessels tonnage rose from 8.2% of total in 1962 to 92.1% in 1971. Two, it funded the Korean Shipbuilding Society quality upgrading project in which a series of standard model ship were developed. The project which was executed by KSEC, in collaboration with Seoul and Pusan National Universities, produced 60 standard designs which were in turn made available to all shipbuilders. Three, it almost simultaneously embarked upon POSCO which readily provided steel at low prices to shipbuilders among other users during the big push.

(b) Electronics: In 1969, the Electronics Industry Promotion Law was promulgated to stimulate and guide black and white television assembly. Amplifying this, the fourth five-year plan, 1977-81, set out to push into genuine manufacturing of electronics. The element of finality and precision in South Korea's planning is clear in this excerpt of that plan:

The electronics industry WILL (*emphasis mine*) change structurally from assembly-type production to one which mainly produces the basic components and parts. In the meantime, product quality will be improved.

The electronics industry will be promoted as a major export industry through the development of new technology products and the expansion of overseas sales activities.

On the basis of product life cycles and comparative advantage, 57 items including semi-conductors, computers, and related items have been selected as strategic products.

South Korea, as Amsden rightly notes, had no comparative advantage in the classic definition, in computer and semi-conductors production. To start with, per capita income was only \$495. But to attain its goal, the state went beyond even its normal subsidies. It (1) procured \$221.6 million foreign loans, (2) established an industrial estate solely for these, and therein set up with \$60 million the Electronics and Telecommunication Research Institute (ETRI), (3) bolstered the domestic market against foreign competition, not satisfied with high tariffs and stringent quotas. In 1983, the state enacted a law prohibiting the importation of most relevant competing foreign products; and (4) restricted DFI, allowing only policed joint ventures (*op cit*).

In this strict pursuit of stated goals, research and development as some parts above indicate, were priority items. Most vital R&D by industrial firms are designated 'national projects'. But they are invariably state directed. In 1983 alone, 182 R&D projects of industrial firms were selected as national projects to which the state contributed \$28 million. Additionally, seven special semi-conductors and bio-engineering projects were specially funded with \$40 million.

To stimulate R&D generally, says Amsden,

The government sets a lower tariff rate on equipment imported for R&D purposes. This provision is important for technology intensive firms, and tells something about the extent to which the machinery sector is protected in general. The government also allows firms to set aside a percentage of profits in a reserve

fund that is exempted from taxation for a fixed period, for eventual investment in R&D. Venture capital corporations have been established by the government to lend to technology oriented start-up firms. Through its procurement policy, the government has also promoted the development of an indigenous electronic switching system for eventual incorporation in the domestic public telecommunications network (pp. 83-4).

One thing is thus clear, while neo-classical writers such as Little, Scitovsky and Scot (1970) state that the World Bank and IMF would insist that every country must follow its traditional comparative advantage, South Korea is one country which redefined this economic paradigm from static – as the industrialised West which dominates the multilateral institutions : World Bank and IMF, etc., would insist be believed and adhered to – dynamic comparative advantage. Although it has, as seen above, pursued this while insisting on efficiency, its economic projects have not always been efficient.

For some years, its steel and electronics were inefficiently produced but bolstered by various forms of subsidies and protection. In effect, left to market forces, most investments would have been impossible let alone profitable. But the state did not rely on sheer force or legal instrument to control the economy and get businesses to obey its directives. It had other forms of command:

- (a) Licensing as seen above .
- (b) Tariffs, taxes, quotas.
- (c) Control of financial resources. How the state generally manipulated capital (financial resources) and labour as factors of production deserves more details as given below.

9.4.4 Capital

From the pre-Industrial Revolution era, it has been a truism that whoever controls capital controls the state. In feudal societies, despite the state having all instrument of force, it equally found it expedient to control all instrument of capital formation and

distribution with which it favoured potential trouble-makers, thus securing their loyalty. In addition, it targeted many of such rewards at strong men of courage and vision capable of generating yet more revenue for the state at whatever costs. Societies over time have variedly operated on this principle.

But the late industrialisers, as Amsden describes such countries as Japan and the newly industrialising countries of Asia, have particularly leaned on such principle. The South Korean state under General Park particularly did so. One of the first steps the Park regime took was to nationalise all banks, make it impossible for a capital market to be developed and control all avenues of foreign capital procurement. No business of any significant scale, certainly not the *chaebols*, could survive without the state's financial backing. On average, Korean businesses relied on the state for \$4 out of every \$5 of their working capital (Lim, 1981). By law, 30% of a plant's total cost had to be self-financed. In practice, between 1963 and 1973, such internal financing accounted, on average, for only 20%. The more capital-intensive the project, the lower the average self-financing. Quoting data from the Bank of Korea, Amsden (1989) points out that as recently as 1983, only 9.9% of the manufacturing sector's capital was retained earnings and capital increases.

The net result was that as Sen (1983) notes, "The South Korea government had control over two-thirds of the investible resources in the country in the period of its rapid acceleration of growth" (p. 13). With such economic powers, the state distributed favours according to its vision and inclination. "This government power was firmly used to guide investment in chosen directions through differential interest rates and credit availabilities", says Sen (p. 13).

Amsden agrees:

Whereas subsidised credit for working capital was available to any exporter, long-term capital at favourable interest rates was allocated only to targeted firms and industries.

...In the cement industry, the *chaebol* belonging to a party elder, the Ssangyong group, was allowed to acquire nearly half

of cement making capacity by the 1980s and was then blessed with licenses for capacity expansions despite the existence of a more experienced cement company (the Tongyong Corporation) dating to the Japanese colonial period. In the steel industry, the small mini-mills of Japanese colonial vintage were discriminated against in credit allocation in favour of a newly created state owned integrated enterprise, the Pohang Iron and Steel Company (POSCO). In shipbuilding, seven small experienced shipbuilders were dwarfed and in some cases bankrupted by the government's assistance to the Hyundai group. In the machinery building sector, all three leading chaebol - the Hyundai, Samsung, and Daewoo groups were favoured over a slew of smaller long standing firms (p. 23).

What happened was that, as has been variously noted, even the most viable *chaebols* were technically bankrupt, totally dependent on the state.

9.4.5 Labour

Like capital, labour as a factor of production was highly regimented. It was never left to market forces. Controls included emphasis on science and engineering courses especially shop-floor engineers described as the kernel of South Korea's earlier imitation industrialisation.

Labour in South Korea, way into the 1980s, was guided by no policy and was not under any stated state portfolio. In practice, labour matters were handled by the Korean Central Intelligence Agency or the police. In the firms, there was no manager in charge of labour matters. The owner handled such matters directly. Unionisation was strongly discouraged.

As a developing country, with such repressive attitude towards labour, one would naturally expect low wages to obtain. But this was not the case. One explanation has been that due to egalitarian land distribution and general government subsidies on agriculture, the ensuing high agricultural productivity and wage rates discouraged urban-rural migration thus limiting urban labour pool. Another is that the state-directed industrialisation demanded a lot of skills. What

ensued was a lot of competition among firms to recruit and retain skilled labour as the industrialisation drive progressed. Both were important. But very fundamentally and apparently odd in the repressive scenario is that "Business was also pressured by government to share its wealth with labour" (op cit. p. 190). Thus, although South Korea boasted the longest working week in the world, a most repressive labour scenario, and a most sex discriminatory labour market, real wages up till the late 1980s, were increasing at unprecedented rates.

Furthermore, a combination of all the systemic controls augmented the market framework to ensure that between 1962 and 1979, inflation rate averaged 18.3%. This is not bad for a fast developing country.

9.4.6 Other Special Factors

Some 'special' factors have variously been acknowledged as responsible for or contributory to South Korea's economic development (see, among others, Amsden, 1989; Stoeber, 1976; Westpahl, 1978). These include:

- (a) A Confucian past imbued with hard work and discipline.
- (b) Large amounts of aids from the US especially, since the 1950s. In 1953-58, for example, the US provided \$270 million annually. The US also provided, and still provides, defence protection which has earned South Korea savings on defence spending.
- (c) Ready markets in the US and Japan which in its critical take-off period absorbed more than 50% of its exports. This rose to 70% in 1960; 60.3% in 1965; 75.3% in 1970 ; and 55.4% in 1975.
- (d) Readily available technologies from Japan and the US on generous terms, particularly useful in Korea's heavy industrialisation drive from 1969.
- (e) Relatively readily available foreign loans on generous terms as the US dominated World Bank and IMF supported most of

Korea's industrial drive despite its generous subsidies. More so, most of Korea's actual borrowing was in the 1960s and 1970s when international capital was mostly at negative real interest rates.

- (f) Low competition on export markets since up to the 1980s, most other developing countries were engaged mainly in inward-looking ISI.
- (g) The presence of the United Nations and US bases which provided cheap foreign exchange.

The point remains though that Korea's success has been due to a change of strategy from 1962, after all, these 'special' factors were present throughout the 1950s when the country was drifting. The trick was the combination of strict, central, top-down, detailed planning; strict adherence to such plans; subsidies; controls; strict discipline; and vision. With this, the Park regime changed the history of South Korea from a poor-resource economy to an economic success measurable in various ways. One year into Park's economic regime, 1963, gross domestic national product growth rate quadrupled to 9.1% from 2.2% in 1962. Real wages were also growing. By 1966, what is generally described as the Golden Age of South Korea's industrial expansion (1966-1977) had begun, with outputs, productivity and exports growing rapidly.

In 1967, the core of Korea's manufacturing was textile, and even this accounted for only 14% of GNP. In the 1970s, the industrial structure was transformed. By 1971, the heavy industries were accounting for 40% of manufacturing output. This increased to 56.3% in 1980 and by 1984, it had increased to 61.9%. Heavy industries' share of manufactured exports tripled within that period while their share of total merchandise imports more than quadrupled from 13.7% in 1971 to 59.7% in 1984.

Like any other LDC, Korea did not have enough domestic capital for its ambitious projects. It borrowed heavily abroad. But significantly, although external debts rose five-fold from \$4.3 billion in 1970 to \$20.5 billion in 1979, debt burden actually declined

from 34% in 1972 to 32% in 1979. This was due to the high productivity of the economy in general, and exports in particular. Due mainly to the stringent export standards set and insisted upon by the state, exports generated large surpluses to repay the debts. On individual basis, earning and purchasing power have been considerably strengthened. From about \$100 in 1960, per capita income has risen to about \$8, 040 (1992).

Chapter Ten

The Case for, and the Limitations of the Market

10.1 The Limitations of the Market

History and contemporary experiences, fairly illustrated with the case studies in Chapter Nine, show that the theoretical free trade/market has never existed in reality. While some development scholars see subsidies as a necessary condition in late industrialisation, it is evident from history that subsidies have been used by all countries and societies in different forms long before the 20th century, to stimulate and facilitate economic development. Alongside such subsidies have been various other factors. Basically, countries which have achieved economic development have historically used the following:

(a) Imperialism

This has historically been in two forms:

(i) Colonialism

We saw earlier how Britain, for example, used this to expand and consolidate its international trade and overall industrialisation. In all instances, each of the imperial powers – Britain, Spain, Italy, the US, Japan – used its colonies both as sources of surplus and cheap raw materials, and as a captive market. This allowed the powers an unnatural twin advantage of low production costs and dictated prices for their products. It is instructive that since British colonies became politically independent in the 1960s-1970s, the British economy has been deteriorating with only temporary arrests as between 1986 and 1988 when the Thatcher government stimulated a consumption led boom.

(ii) Neo-Colonialism

Colonialism may have formally ended with the political independence of the colonies from the late 1940s, but economic independence has remained elusive in most cases. Many still have the value of their currencies determined in their erstwhile colonial parents. The 16 Central and West African francophone countries provide ready examples. Where nature would have ensured boisterous trade among neighbouring countries thus allowing each economies of scale in its respective area(s) of dynamic comparative advantage, such cross-border trade is virtually absent officially. Many post-colonial countries have remained captive markets for their colonial powers' products. Conversely, and as a direct result, they have maintained their static "comparative advantage" of primary producers even when glut from their aggregate over-production, synthetic substitutes and more economic production technologies have caused a sustained slump in raw commodities prices resulting in persistent deterioration of their terms of trade.

What is happening in international trade can really not be called comparative advantage. For how can so many countries have a comparative advantage in only coffee or cocoa as is the case with former European colonies in Africa? A static comparative advantage for that matter. And how can Britain, for instance, maintain it still has comparative advantage in industrial products, engaging in vigorous exports of them, when Japan, South Korea, Taiwan are clearly more efficient in producing such products as shown by yearly international competitive survey? Were comparative advantage truly pursued and practised by the developed countries which dominate the World Bank and IMF, should not Britain, a dominant influence in votes and staffing in the BWIs be buying industrial products from the more efficient producers while relying on oil, gas and coal exports?

Yet through distribution and assembly ("manufacturing") links established in the colonial times, products from Britain, France, Belgium notably, some of which clearly cannot compete on free trade terms with some other countries' products are still dominating

post-colonial countries' official markets, at prices dictated by the supplier countries' price chains.

Yeats (1990) in a study for the World Bank found that British, Belgian and French exports to their former African colonies cost abnormally more. He had specifically analysed iron and steel import unit values of the respective former colonies over 1962 - 1987. The ex-British colonies were the Gambia, Ghana, Kenya, Nigeria, Sierra Leone, Sudan and Tanzania. Belgium's were Burundi, Rwanda and Zaire. Portugal's were Angola and Mozambique. France's included Benin, Bourkina Faso, Cameroon, Chad, Cote d'Ivoire, Togo and Senegal.

Yeats found that 20 African former French colonies paid for their iron and steel imports from France a premium of 20-30% on average over similar imports by other countries. The losses associated with these adverse prices totalled approximately \$2 billion by 1987. The study also showed that similar price premia (of 20-30%) were paid by former Belgian, British and Portuguese colonies in Africa for import of these products from their former rulers (p. 1).

He identified the excess price margins as "fully consistent with both economic theory on the functioning of markets and results from investigations of markets where monopoly elements exist" (p. 14).

On the possible causes of such monopoly, Yeats noted, among others, "the influence of factors that limit access to competitive suppliers, such as tied aid, established line of international and domestic transport, a lack of information on competitive suppliers, the use of over-pricing to facilitate graft and corruption, and transfer pricing by subsidiaries of foreign firms in the African countries" (p. 14).

Free trade would ordinarily dictate that Cameroon buy mineral water from Nigeria at ₦40, (under £2). Colonial distribution links [and post-colonial pressures] which dominate post-colonial Cameroon plus the French subsidisation of the CFA, however, ensure that French mineral water is imported into Cameroon at about Ff22. The sum result is that although Nigerian-made

products are sold throughout West Africa, officially, such trade does not exist as Nigeria has been recording nil credit in the West African Clearing House (WACH) in virtually all the years since WACH's establishment in 1975 (CBN, various).

(b) Monopolies

Market concentration may have become a philosophy with the Japanese through the *Zaibatsus* (business clans). But the Japanese were in the main copying from Western Europe, notably Germany and Britain. Many technologies – chemical, biological, and mechanical – are patents belonging to monopolies, duopolies and oligopolies. They are not on the market to be traded freely. Having started out on modern research and development (R&D) earlier than most others, dominant Western transnational companies in steel to pharmaceuticals, which account for about 96% of global R&D, they jealously guard their technologies. In history, they have always had the backing of their governments, from early British Industrial Revolution as we saw in the previous chapter, to the current attempt by the Group of Seven most industrialised countries (G7) to enforce the regulation of copyrights and patents in what they term Trade Related Property Rights (TRIPs) within the framework of the General Agreements on Tariffs and Trade (GATT), now the World Trade Organisation (WTO).

(c) War

Western European powers, – Britain, France, Germany, Portugal, Spain, Italy – the US and the Japanese fought one another and indigenous peoples of Africa, Asia and Latin America to ensure captive markets and cheap raw materials. We saw the example of the Opium War earlier. Even the wars were not fought on a free market basis. Most troops were conscripts from conquered peoples of Africa and Asia, some of whom got only supplies but no salaries and were in no position to negotiate.

(d) Generous Concessionary Finance

We saw above how the US used the Marshal Plan to help rebuild post -World War II Western Europe and Japan. We also saw how concessionary financing from the US and Japan helped South Korea to build its infrastructure as well as undertake some ambitious programmes such as large-scale shipbuilding and steel production. In addition to the Marshal Plan, the International Bank for Reconstruction and Development (IBRD) was set up to provide long-term development loans at concessionary rates to Western Europe and Japan. Since the completion of the reconstruction of those two, the World Bank, as the expanded IBRD which its affiliates is now known, has been market-driven, indicating that in practice, the bank may have abandoned its reconstruction and development role.

(e) Finance Capital

Many capital-endowed countries have in history used such to dictate the pattern of international trade, enhance their take-off and consolidate their development. Of early 20th century Germany, for example, Lansburgh (1909) writes:

In 1890 - 91, a Rumanian loan was floated through the German banks, which had already in previous years made advances of this loan. It was used chiefly to purchase railway materials in Germany. In 1891, German exports to Rumania amounted to 55 million marks. The following year they dropped to 39.4 million marks and, with fluctuations, to 25.4 million in 1900. Only in very recent years have they regained the level of 1891, thanks to two new loans.

German exports to Portugal rose following the loans of 1888 - 89 to 21,100,000 (1890); then, in the two following years, they dropped to 16,200,000 and 7,400,000, and regained their former level only in 1903.

The figures of German trade with Argentina are still more striking. Loans were floated in 1888 and 1890; German exports to Argentina reached 60,700,000 marks (1889). Two years later

they amounted to only 18,600,000 marks, less than one-third of the previous figure. It was not until 1901 that they regained and surpassed the level of 1889, and then only as a result of new loans floated by the state and by municipalities, with advances to build power stations, and with other credit operations.

Exports to Chile, as a consequence of the loan of 1889, rose to 45,200,000 marks (in 1892), and a year later dropped to 22,500,000 marks. A new Chilean loan floated by the German banks in 1906 was followed by a rise of exports to 84,700,000 marks in 1907 only to fall again to 52,400,000 marks in 1908.

Although Landsburgh seeks thus to buttress his claim of instability and regularity of export trade when bound up with loans and point out the unwisdom of investing abroad, he unwittingly ends up illustrating the benefits of loans to the exporting country: interest income and captive market. This principle still guides various bilateral loans, many of which led Nigeria to its current debt burden which heralded this version of SAP. Concessionary facilities such as the British, German, Japanese grants as well as those of the Lome Conventions (the pacts between the European Union and its members' former African, Caribbean and Pacific (ACP) colonies) are tied to imports from the respective countries and sub-region. There is little room for the beneficiaries to manipulate for competitive bids whereas the "donor" country is assured of captive markets on virtually uncompetitive terms. This is one of the reasons why Nigeria is traditionally hesitant to draw on the various grants. Even so, it is no coincidence that its major trading partners are also its leading bilateral creditors.

(f) Subsidies

These take many forms:

(i) Defence of currency. This ensures stability in cost of production especially with regards to imports. While some, especially Western European countries and the US with large

reserves, have usually relied on currency defence (buying up their currencies when under attack), other countries such as Malaysia, South Korea with smaller reserves have not (check, recently?) floated their currencies. South Korea, for instance, practices a multiple trade exchange rates regime, (even after it became OECD member), only slowly depreciating the won from time to time but by not more than 5 % a year. Considering the centrality of exchange rate to an economy, this perhaps is the most fundamental subsidy in any economy.

(ii) Concessionary credit: Malaysia, South Korea, Japan, as we saw earlier, ensured that their priority industries enjoyed concessionary external and domestic credit. This is despite the fact that South Korea, for example, was short of capital in its take-off period.

(iii) Tax and tariff exemptions: We saw examples earlier and in the previous chapter.

(iv) Agricultural subsidies: We have seen examples earlier from the EC (now EU), Japan, etc. In the US, since 1938 under the New Deal, agricultural subsidies have been entrenched in the constitution and these have been updated with various laws from time to time. The US has basically three types of agricultural subsidies: (1) **The loan rate** – a price support system under which the congress sets political prices and real target prices are met from a fund in the federal budget called the deficiency payment. (2) **Land set aside** under which farmers are paid for not cultivating some lands. (3) A \$5 billion **Export Enhancement Programme** (EEP) was established in 1986 to provide corporate grain exporters with subsidised access to reserve stocks which enables them to penetrate markets. By 1986, the US farm budget was nearly \$30 billion and the EC's \$22 billion (Gatt Briefing, 1990). These subsidies have enabled the US to lead in global grains production (corn, wheat, rice,

soyabeans), followed closely by the EU which, however, leads in dairies and meat. In 1986, at the height of dumping muscle flexing by the two giants, long after their take-off and consolidation, their wheat was trading in West Africa at \$60 per tonne. The two were subsidising each tonne by \$100.

(g) Controls

We saw technological, capital imports controls in the above case studies. These in history have ranged from tariff to non-tariff. Since 1959, imports into the EC -AEU have been highly regulated largely in order to protect industries and farmers of the common market member countries. Industrial imports must have at least 40% of their content sourced from EU otherwise, they attract tariffs as high as 60% and sometimes are placed under quotas or outright prohibitions. The same is basically the case with the US. Note Colman and Nixon (1986):

The tariff provisions of the industrialised economies give preferential treatment to imports that incorporate domestically produced components: that is the tariff is applied only to the value added in the assembly or manufacturing processes undertaken overseas. In the US tariff items 807.00 and 806.30 provide for duty-free re-entry of components that do not alter their physical identity in the assembled article ... (p.350).

Agricultural imports are placed under similar tariff and non-tariff controls including quantitative restrictions (quotas) and prohibitions. Amsden (1989) aptly sums it up:

States in modern history have always intervened to spur economic activity. Even the first Industrial Revolution whose guiding principle was *laissez-faire* is now being reassessed by historians... The British government intervened to maintain law and order and to minimise the flight of technological capability... In the second phase of intervention, that associated with the Second Industrial Revolution in Germany and the United States, state intervention intensified because the economies of Germany and the United States were required

not merely to industrialise but also to catch up. We can think of infant industry protection as the primary characteristic of this era.

To catch up in the twentieth century has required still heavier dose of government support because backwardness has been relatively greater ...

... The more backward the country the harsher the justice meted out by market forces. The inherent conflicts of the market apply to all users rich and poor alike. But the conflicts are sharpest among the least well endowed. Countries with low productivity require low interest rates to stimulate investment and high interest rates to boost exports and overvalued exchange rates to minimise the cost of foreign debt repayment and of imports – not just imports of raw materials which rich and poor countries alike require but also intermediates and capital goods which poor countries alone are unable to produce. They must protect their industries from foreign competition but they require free trade to meet their import needs. They crave stability to grow to keep their capital at home and to direct their investment toward long-term ventures. Yet the prerequisite of stability is growth. Under such disequilibrating conditions the state's role in late industrialisation is to mediate market forces (p. 12-13).

10.2 Where then lies the Market? The Case for the Market

While intervention in various forms has been used by various states over time to stimulate development, their experiences show that the market is necessary. However, their experiences also show that reliance on the market is not necessarily a matter of prices, at least in the short-term. Rather, late developers such as South Korea, Japan, Malaysia, have shown with their experiences that though prices are an integral part of the necessary market mechanism, more important in the short-term are technology and production deepening as well as volume of manufactured exports. These, from the medium-term, combine to justify earlier “wrong” prices of both resources and products.

Chapter Eleven

Conclusions

Following post-1980 oil price declines, which in turn exposed the deep-rooted structural weaknesses in the economy, the choice facing Nigeria was not whether to adjust. It was how to. With the size of the external debt burden and a traditionally conservative military back in power, the choice that was made favoured the essentially monetarist IMF-World Bank adjustment models.

Adjustment and stabilisation policies were implemented simultaneously. Most policies were instituted within the first year. The entire SAP was initially publicly scheduled to run for two years. The schedule was later modified to be on-going.

Nearly six years later, at the end of 1991 when the Babangida regime effectively ended the implementation of the policies, as previous chapters have shown, the results were mixed. Against the broad objectives of the policies, the most was achieved at the micro level. Agricultural production consistently rose and became more diversified. Industries were given the choice to integrate backwards or fold-up. Some TNCs divested. Some integrated backwards after initial scepticism. Local entrepreneurial energies were for a while unleashed into industrialisation, in operations from small to large-scale. The major problems occurred at the macro level. Firstly, public spending from 1988 went totally out of control, due mainly to external debt service which in 1991, for example, claimed 76.8% of total expenditure and came to 142.4% of revenue. Deficit steadily grew and in 1991 was 12.4% of GDP, the worst in the country's history. A result was excess liquidity in the system due to money creation. Another damaging result was vigorous public sector borrowing from the banking system, which pushed up interest rates. The latter made credit too expensive for especially small and medium-scale enterprises (SMEs), some

of which could not service even pre-SAP loans. SMEs could, therefore, neither take advantage of the diversification, modernisation and internationalisation of the financial system, nor available external credits.

Secondly, cuts in expenditure on domestic economic services led to the decay of infrastructure.

Thirdly, with external debt service claiming an average 30% of the average \$7b export earnings, much less foreign exchange than the economy needed was available. Consequently, the naira persistently depreciated. This was the secondary cause of the high interest rates, companies needed more naira for both working and investment capital.

All these created a growing climate of uncertainty, which saw investment lagging behind savings. This tallies with the finding by the IMF (1989) that "... the poor performance of investment in countries with debt servicing problems is generally consistent with the presence of debt overhang disincentives."

Socially, apart from the civil war period, low and middle income Nigerians never suffered so much hardship. The crime wave increased. Computer frauds and other sophisticated crimes became common, as unemployed and poorly remunerated but highly skilled manpower tried to defend their livelihoods and utilise their learning. It is arguable whether so much damage to the social fabric was necessary, the more so as the upper income groups were thriving. What is clear, though, is that Nigerian military governments have always had an upper class bias. None of the low and medium income groups welfare programmes as at 1992 were initiated by the military. As bankrupt as the 1979-83 civilian Shagari government was, it did initiate the medium- and low-cost housing programme. This and other welfare programmes were dismantled under SAP. Palliatives were instituted in reaction to major riots, but were haphazardly implemented.

All these questioned the sustainability of the policies. First, the military was scheduled to leave power in 1993, eliminating

their characteristic repression. Second, as evident from this discourse, some key components of sustainability were lacking. Rodrik (1990) identifies three such:

- (a) stable macro policies, chiefly a small fiscal deficit and a realistic exchange rate policy;
- (b) a credible and predictable set of micro economic incentives, widely sustained into the indefinite future;
- (c) the absence of sharp distributional changes that would create political pressures to reverse course down the line.

Two major things need to be tended. One is the external debt burden. The other, clearly is the heavy social cost of the adjustment process which still lingers.

Yet other things to be done are as follows:

- (a) The naira's depreciation has to be decelerated. The CBN must establish a band and defend the naira within that band with both enhanced regulatory responsibility and reasonable supply to FEM. Even the developed countries defend their currencies within established bands, with both supply and established mechanisms such as the European Exchange Rate Mechanism (ERM). No country in history has developed leaving its currency entirely to market forces. Even Britain did not float its currency till 1972.
- (b) There must be more market augmentation of industrial production by way of concessionary credits and controlled market entry which must be repaid by beneficiaries with performance.
- (c) Imports should be further restrained to check frivolous imports which drain scarce foreign exchange and discourage domestic production. If the United States, EC and Japan can still prohibit some imports and place some on quota, including products of LDCs such as Nigeria's textiles, there is no reason for Nigeria, one of the 15 poorest countries in

the world to practice extremist trade liberalisation as was the case during the six years under review.

- (d) There has to be more discipline in the use of national resources such as foreign exchange from oil. Companies using it to import must be given export targets and deadlines to wean themselves off official foreign exchange and start supplying the market themselves. Such deadlines and targets must be backed by effectual penalties including allowing the company to go bankrupt. A company which cannot earn its keep is not worthy of existence, or why is it a commercial enterprise?

It makes absolutely no sense for companies older than even Nigeria and which pre-dated the discovery of oil in the country to be dependent on foreign exchange from oil to survive. Did the United African Company (UAC), not exist profitably long before oil, having been set up by British interests in 1900? The same applies to Lever Brothers, PZ and other old companies, even post-independence ones, both wholly indigenous and otherwise.

Oil companies do have a case that they should be allowed to sell their foreign exchange directly to the market. So should other firms in the country. Foreign exchange remains an unnecessary subsidy regardless of the exchange rate so long as companies which should by now be supplying the market instead buy from it as if it is their birthright.

Until the market framework is righted, the political framework will remain troubled and crisis will never be far off.

Appendices

Appendix 1: Banned Imports

1. Cigarettes.
2. Rough wood and furniture products.
3. Soft drinks, beverages and sparkling wines including champagne.
4. Textiles.
5. Rice and rice products.
6. Maize and maize products.
7. Wheat and wheat products.
8. Gaming machines.
9. Vegetable oils.
10. Jewellery and precious metals.
11. Egg in the shell.
12. Domestic articles and wears made of plastic excluding baby feeding bottles.
13. Fresh and preserved fruits.
14. Live poultry.
15. Vegetables, including tomato puree.
16. Evian and similar waters, beer and stout.

Appendix 2: Nigeria's Principal Trading Partners (₦ Million)

Imports	1985	1986	1987
Austria	86.5	57.9	226.8
Belgium & Luxembourg	108.1	142.9	380.4
Brazil	378.2	133.2	334.4
China	37.3	63.1	342.0
France	458.0	667.3	1,569.7
Fed.Rep. of Germany	650.6	807.8	2,110.6
Hong Kong	36.8	51.3	179.4
India	24.8	42.7	158.8
Italy	211.5	290.7	899.9
Japan	408.3	309.9	1,417.5
Rep. of Korea	n.a.	n.a.	195.6
Netherlands	202.6	244.2	722.6
Romania	61.2	90.3	206.3
Spain	100.7	119.9	243.7
Sweden	53.0	47.1	164.9
Switzerland	115.0	156.8	383.8
Taiwan	n.a.	n.a.	331.2
USSR	68.1	148.6	288.1
United Kingdom	1,098.7	1,075.0	2,641.3
USA	741.6	711.9	1,297.9
Yugoslavia	23.9	25.6	156.4
TOTAL (inc.others)	5,536.9	5,974.7	15,698.1

Exports	1985	1986	1987
Brazil	524.0	163.8	197.4
Canada	152.5	214.6	623.3
Cote d'Ivoire	169.1	151.0	875.5
France	1,902.7	1,364.6	2,285.7
Fed.Rep. of Germany	863.5	636.9	1,564.8
Ghana	171.4	134.5	427.2
Italy	1,921.0	738.4	1,758.8
Netherlands	1,434.2	1,012.1	3,343.5
Portugal	n.a.	n.a.	281.5
Senegal	13.0	34.4	158.3
Spain	664.4	257.3	2,347.8
Sweden	154.0	61.1	121.8
United Kingdom	538.6	572.6	530.3
USA	2,116.3	3,163.3	13,897.8
Uruguay	n.a.	n.a.	193.3
TOTAL (inc.others)	11,720.8	9,047.5	29,577.9

Source: Federal Office of Statistics (quoted in Europa, 1991).

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Economic Reforms and Nigeria's Political Crisis is an insightful analysis of the effect of exogenous economic development strategies on the political crises of Nigeria and other third world countries. Using Nigeria as a model, the author challenges the often widely held view that Nigeria's economic crisis is a function of a self-imposed paralytic political framework. Rather, she submits that the nearly two decades of Nigeria's political turmoils arise from the unfavourable externally fashioned economic reforms. She anchors her thesis on a detailed review of official data and documents from the World Bank, IMF, Central Bank of Nigeria and Nigeria's Federal Office of Statistics covering the SAP period, 1986-1991. The Nigeria SAP experience is then weighed against successful turn-around strategies of specific developed and developing countries.

The book aims for a very wide readership in Nigeria in particular and Africa at large where SAP has been most widely implemented under day-to-day supervision of the World Bank and IMF. It will also be of great relevance to policy makers at various levels of government, economists and people in related professions, the academia, and the general populace.

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