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The Economy

Nigeria

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NATIONAL INTELLIGENCE SURVEY

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This chapter was prepared for the NIS by the Central Intelligence Agency. Research was substantially completed by November 1972.

NIGERIA

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This General Survey supersedes the one dated December 1969, copies of which should be destroyed.

FIGURES

The Economy

A. Economic appraisal (U/OU)

Nigeria, with a gross domestic product (GDP) of approximately $6.1 billion in FY71 (more than double that of any other black African country), is the economic giant of black Africa (Figure 1). Its population of 58 million is the largest in all of Africa, providing a substantial domestic market for local industry. Extending inland about 600 miles from the coast, the country has widely differing climatic and terrain conditions which enables it to produce a variety of agricultural crops for export. Nigeria is the second largest cocoa producer in the world, the largest producer and exporter of rubber in Africa, and one of the world's leading exporters of peanuts and palm products. It possesses most forms of primary energy in quantities in excess of domestic requirements, and it is the eighth largest producer of petroleum in the world. Its administrative and financial institutions, developed under British tutelage, are better developed than those of most west African countries. In spite of its large area and population and its fairly large economic potential, however, Nigeria remains one of the poorest countries in the world, with a per capita income probably not over $100 in 1971.

Virtually all economic activity in Nigeria was affected by the civil war (1967-70). After achieving an average increase in real GDP of about 5% annually from independence in 1960 until the outbreak of the war in 1967, all major components of GDP, except manufacturing, declined in 1968 and showed little recovery through 1969. Agriculture and petroleum production suffered the most, but distribution, construction, and transportation and communications were also adversely affected. Furthermore, the war had a particularly adverse impact on the government's financial position. Defense expenditures rose sharply, while revenues from petroleum production and high-duty consumer imports declined. Budget surpluses, typical of the first 6 years of independence, were replaced by growing deficits. Despite extensive controls, Nigeria incurred balance-of-payments deficits and experienced serious delays in its current payments.

Much has been accomplished since the end of the war in early 1970, and economic growth rates have surpassed those of prewar years. In real terms, GDP increased 9.6% in 1970 and an estimated 12% in 1971. Some of the expansion came from reconstruction in the east and from increased production of cocoa, cotton, and palm products, but the major factor was the very large increase in petroleum production and in manufacturing, the two fastest growing sectors of the economy. The increase in agriculture represented to a large extent a return to prewar production levels following major declines in output during the war; the increases in petroleum and manufacturing output, on the other hand, represented major gains over prewar production.

Despite its declining share of GDP and its relatively slow growth rate, agriculture remains the backbone of the economy (Figure 2). Agriculture continues to employ over half of the labor force and provides sufficient food for domestic needs. In addition, agricultural products constitute a significant part of the country's exports, although their share of total exports declined markedly as petroleum exports rose. Agricultural exports declined from 70% of the value of all exports in 1965 to 55% in 1969 and 22% in 1971, although the absolute value of such exports showed little annual change.

The rapid growth in petroleum production has made Nigeria a major world producer and, combined with recent higher receipts per barrel because of new price agreements, has greatly increased government revenue. Receipts from petroleum now account for over one-half of federal government budget revenues, thereby providing Nigeria with adequate funds to meet the present needs of the expanding government sector, reduce the government internal debt, support the military establishment, and assist the state budgets. The increase in receipts also reduces the need for internal and external borrowing to finance the Second National Development Plan. Furthermore, petroleum exports provided about 70% of Nigeria's foreign exchange earnings in 1971 and have alleviated a foreign exchange crisis caused by the civil war. In the future, growth in output from existing concessions is

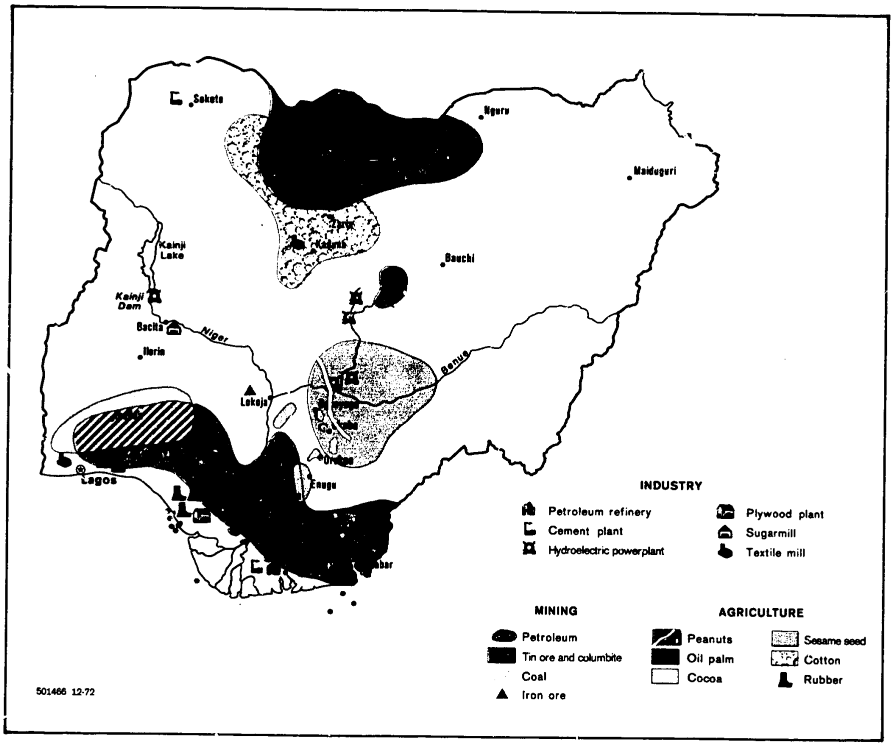
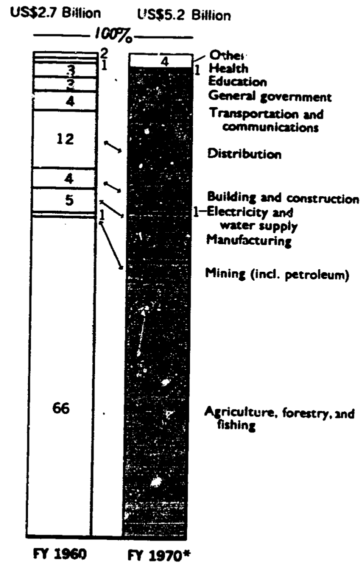


FIGURE 1. Economic activity (U/OU)

expected to continue, but at a reduced rate, and petroleum production by new concession holders probably will take up the slack.

Prospects for significant long-range economic growth in Nigeria are fairly good. The Second National Development Plan (1970-74), which was launched officially in October 1970, emphasizes increasing development in agriculture, industry, and transportation. The plan is aimed at achieving an overall domestic growth rate of 6.6% per year during the plan period and anticipates investments of $4.5 billion, to be financed almost equally by the private and public sectors. Foreign capital is expected to finance 50% of private investments and 19% of public investments. The plan started slowly, as the government and much of the population were preoccupied with postwar reconstruction and rehabilitation. Although there has been some slippage in investments during the first 2 years of the plan, the planned growth rate has been exceeded, and financial resources have exceeded expectations because of the boom in petroleum production. The biggest plan constraints now are the lack of prepared projects for development and the limited managerial capacity of the government.

Government policy in Nigeria actively promotes greater economic participation by Nigerians and more government control over the economy. The long-awaited "Nigerianization" decree was issued in early 1972, but it was considerably more moderate than expected. Although it reserves 22 small-scale manufacturing and service fields for Nigerians (after 31 March 1974) and requires at least 40% Nigerian ownership in 33 others, only about $10 million of the $800 million in foreign investment outside the petroleum industry appears to be affected. To date,



**Excludes eastern states, Figures may not add to total because of rounding.*

FIGURE 2. Gross-domestic product by economic sector (U/OU)

the major government involvement has been in the petroleum industry, in which it now participates in the ownership of all new concessions and in several existing ones. All government shares are held by the Nigerian National Oil Company (NNOC), which participates in petroleum exploration, production, refining, and marketing. The government also plans to participate in the equity of all commercial banks in the country as a means of assuring adequate financial resources to support its Nigerianization policy. The government, however, has attempted to remain flexible in its demands and continues to encourage foreign investment in many of the remaining sectors of the economy.

B. Sectors of the economy

1. Agriculture, forestry, and fishing (U/OU)

a. Climate and crop zones

Nigeria's size (about 357,000 square miles) and diversity of climate make possible the production of a broad range of agricultural products. The tropical coastlands of the south, characterized by dense forests and mangrove swamps, support rich belts of cocoa and oil palm plantings; the dry north produces primarily cotton and peanuts and is the main cattle raising area of the country; and the area between the two is a transitional area which produces the major food crops of the country—yams, cassava, corn, and rice.

Two seasons—dry and wet—are well marked throughout most of Nigeria. The north's dry season, from October to May, is usually made dusty by Sahara winds. In the south the dry season extends from December to February, with considerable desert winds in December and January. Rainfall varies from 150 inches per year on the coast to 25 inches or less in the extreme north. Heavy rains contribute to severe soil leaching. Commercial fertilizer is still not widely used, although its consumption has increased rapidly in the last decade.

b. Land use and tenure

Less than 15% of the land area of Nigeria is under cultivation for farm or tree crops because of the abundance of land and the rotational system of farming (Figure 3). Except for the nomadic, livestock-raising Fulani of the north, most tribes farm their land under a traditional system of shifting agriculture. The land is cultivated for as many years as it is fertile and is

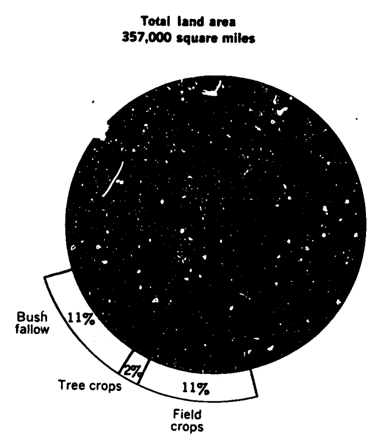


FIGURE 3. Land use (U/OU)

then allowed to revert to bush until it has regained its fertility. Nearly all cash and subsistence crops are grown on small, nonmechanized farms which average 3.7 acres per family. Plantation agriculture plays only a small role in Nigeria.

Land tenure is still largely under the control of extended families, clans, or villages. A farmer has title to land by virtue of his membership in the clan. He can use it to produce food and other necessities, but as soon as the fallow period begins, the land reverts to the clan and may later be allocated to another member. Furthermore, because of the system of inheritance, a clan's land tends to become fragmented and scattered. The system discourages individual initiative and perpetuates small, uneconomic plots. While the government recognizes the need for change in the land tenure system, systematic land reform is unlikely for some time because it is bound up with tribal order. The government has treated the land tenure system as a delicate political problem and allocated basic responsibility for it to the state governments. Permanent individual ownership is increasing to some extent, however, as a result of population pressure and changes in cropping patterns.

c. *Agriculture*

Nigeria's economy is heavily dependent on agriculture, which supplies most of the domestic food requirements and makes Nigeria an important world exporter of several agricultural commodities. Although its relative share of GDP has been declining in recent years as petroleum output has grown, agriculture combined with forestry and fisheries still accounted for over half of GDP in FY70. Exports of agricultural products have helped finance the country's development by making available foreign exchange required to purchase capital goods abroad.

Nigerian agriculture generally suffers from low productivity. Production techniques are primitive, and yields are low. Increases in output have resulted mainly from augmenting the area cultivated rather than from improving production techniques. Growth in agricultural output is projected at only about 2.4% a year in the current development plan period (1970-74), and the plan includes few specific provisions for agricultural development.

State marketing boards promote stability in prices and marketing of export crops. The boards have a monopoly on the purchase of most export crops, which they buy through licensed buying agents, at uniform legal minimum prices which the boards establish. The purchased crops are sold abroad through the Nigerian Produce Marketing Company (NPMC), which surrenders proceeds to the boards. Although the primary objective of the marketing boards is to stabilize prices paid to the farmers and improve the marketing organization, the boards also provide revenue to state governments which is used in both the agricultural and nonagricultural sectors.

(1) *Food crops*—The staple food crops—roots and tubers, grains and pulses—are grown chiefly on a subsistence basis. Domestic production of food crops generally satisfies local demand, but some sugar, wheat, fish, and dairy products are imported. The average daily caloric intake of about 2,200 per person compares favorably with that of other underdeveloped countries but is considerably below that of most industrialized countries. Protein intake, particularly from animal sources, is low.

Root crops comprise over half of the food crops produced for domestic consumption. Yams and cassava are the most important (Figure 4), accounting for over 90% of total root crop production, followed by cocoyams and sweet potatoes. The root crops are high in caloric value, having a high carbohydrate and low protein content.

Grains, including sorghum (guinea corn), millet, corn, rice, and wheat, are the second most important class of food crop in Nigeria. They are considerably

FIGURE 4. Production of major food crops by crop year (U/OU)
(Thousand long tons)

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	ESTIMATE 1970/71
Yams	14,334	14,504	11,775	7,683	11,100	14,580	13,000
Cassava	7,872	8,069	8,266	8,462	8,679	8,895	9,000
Guinea corn	4,172	4,168	3,110	3,336	3,500	4,015	*na*
Millet	2,445	2,686	1,719	2,549	3,000	3,510	3,000
Corn	1,191	1,142	1,115	635	1,200	1,590	1,400
Rice	218	228	197	298	380	350	421

na Data not available.

richer in protein and B vitamins than the root crops and are used for human food, feed for livestock, fermentation into alcoholic drinks, and other purposes. The stalks are used for fuel, for basket and mat weaving, and for structural purposes. Guinea corn is by far the most important cereal crop and is used primarily as *dawa*, a fermented food rich in carbohydrates.

The most important pulses grown are peanuts (which are discussed under export crops), cowpeas, lima beans, and soybeans. They are an important source of protein, and some are also rich sources of oil. Cowpeas often are interplanted with other crops or used as a cover crop. They are a primary source of plant protein in Nigeria as well as a source of carbohydrate, calcium, iron, B vitamins, and carotene. In addition to use as a food, cowpeas are used as livestock fodder and in the manufacture of fertilizers.

(2) *Export crops*—Cocoa, peanuts, palm products, rubber, cotton, and sesame seed are Nigeria's major export crops (Figure 5). Although agricultural exports have long been the backbone of the Nigerian economy, their relative importance has declined in recent years because of increased petroleum exports. In 1968 agricultural exports—including forest products—were valued at $384 million and made up 65% of the value of all exports, but by 1970 they accounted for just 33%, although their value had risen to $405 million. Agricultural exports declined to about $360 million in 1971, less than one-fourth of the total.

Nigeria is the second largest cocoa-producing country in the world, and cocoa exports, valued at $200 million in 1971 (12% of total exports), are the leading export crop of the country. About 90% of the crop is produced in Western State (Figure 1), and small quantities are produced throughout the country. Except for a few large plantations, cocoa is generally grown on small peasant farms. Since 1964, production has been declining due to the low rate of replantings and the poor condition of existing plantations. Most of the cocoa is exported unprocessed, but small amounts of cocoa butter, cake, and powder are produced in the country for export.

Peanuts are the second-ranking cash crop. Exports of peanuts and peanut products were valued at $61 million, or 4% of total exports, in 1971, making them the third-ranking export product of the country. Most peanuts for export are produced in northern Nigeria, while production in the south largely supplies local requirements. Emphasis has been placed increasingly on the processing of peanuts into oil and cake, largely to avoid the fluctuating international prices of raw peanuts; domestic crushing mills now have a capacity of about 400,000 tons annually.

Production of peanuts has declined since 1966, largely because of a shift in relative prices of peanuts and cotton; substantial acreages formerly planted to peanuts are now planted to cotton. In 1970/71, the peanut crop was adversely affected by poor weather, and production was unusually low. Production in 1971/72, estimated at about 325,000 tons, continued to decline as land was diverted to more profitable food crops. Besides the declining production, smuggling, largely to Niger, has also affected the quantity of peanuts available for legal export and for domestic consumption.

Before the civil war, Nigeria was the world's leading exporter of palm products, but disruption of production and transportation difficulties during the war reduced output to 40% of its prewar level. Since the end of the war production has recovered to some extent, but exports probably never will return to their prewar level, since a larger part of the output now is consumed locally. Exports of palm products were

FIGURE 5. Marketing board purchases of major export crops (U/OU)
(Thousand tons)

	1959/60	1961/62	1963/64	1965/66	1967/68	1968/69	1969/70	ESTIMATE 1970/71
Cocoa	149	191	216	182	234	186	218	299
Peanuts	446	686	787	978	684	763	638	281
Palm kernels*	423	362	401	414	193	220	295	302
Palm oil*	190	129	148	130	4	14	28	31
Rubber**	57	60	72	70	52	56	58	*na*
Seed cotton	89	83	129	127	79	162	270	113
Sesame seed	21	21	20	23	13	13	17	6

na Data not available.
*Purchases during calendar years for last half of year shown (e.g., 1959/60 = 1960 calendar year).
**Exports during calendar years; commodity not purchased by marketing boards.

valued at $50 million in 1971, accounting for 3% of total exports, compared to $94 million, or 12% of the total, in 1966. The bulk of the crop is harvested from wild palm groves in the eastern and midwestern area. Palm oil, extracted from the palm fruit, is by far the most valuable product and is used in the manufacture of edible fats, and in the soap, candle, and tinplate industries. The palm kernels are crushed to extract palm kernel oil, which has applications similar to palm oil, and the residual cake is used for livestock feed. Palm leaves, which are 6 to 15 feet long, are used locally for roofing and to make fences and baskets.

Nigeria is the largest producer and exporter of rubber in Africa, but exports have been stagnant in recent years. Rubber exports valued at $17 million constituted 1% of the total exports in 1971. About 80% of production comes from Mid-Western State, where it is grown mostly on native smallholdings. The Rubber Development Agency of Mid-Western State is attempting to improve the production, marketing, and manufacturing of rubber by guaranteeing a fixed price and by attempting to increase the purity of the raw rubber. Production of rubber was 58,000 long tons in 1969/70.

Most cotton is grown in the north, where production has been expanding steadily except for the 1967/68 crop year, when bad weather caused a sharp drop. Total output in 1969/70 amounted to about 270,000 tons. Cotton lint for weaving is the most valuable product of cotton cultivation. Some cotton lint is exported, but a large portion of the output is used in Nigeria's expanding textile industry. Some cottonseed is exported, but most is used as animal feed and as a source of oil.

Production of sesame seed, also known as benniseed, has remained stable except in 1967/68 and 1968/69 crop years, when poor weather caused output to drop to 13,000 tons. The crop is grown chiefly in Benue-Plateau State. Sesame seed oil is used for margarine and cooking and as a substitute for olive oil.

d. Livestock

Although accounting for only about 5% of GDP, livestock production is important to Nigeria as a source of animal protein and other nutrients and as a source of hides and skins for export. The animal population includes an estimated 11 million cattle, 7.5 million sheep, 21.5 million goats, 700,000 pigs, and 66 million fowl. Nearly all of the cattle and about two-thirds of the sheep, goats, and poultry are raised in the northern states. Pigs are raised primarily in the south.

The nomadic Fulani tribes, which own most of Nigeria's cattle, move from place to place in search of water and better pastures for their animals during the dry season. The long treks result in emaciated animals, and many of the animals that are taken into tsetse-infested areas die of trypanosomiasis. The government plans to eradicate the tsetse fly and settle the nomadic herdsmen by providing stable sources of water through the construction of wells and dams, but it probably will be many years before the quality of Nigerian cattle is significantly improved.

Sheep and goats are raised both for meat and for their skins. Most slaughtering takes place on festive occasions, but it is also done throughout the year to supplement the meat supply. Most skins for export come from the northern states. The Red Sokoto goat of the north is a chief source of Moroccan and other colored leather.

Pig breeding offers one of the best opportunities for increasing the output of animal protein in Nigeria. Indigenous pigs are small and inferior to imported breeds, and efforts are being made to improve production through crossbreeding and commercial production of imported breeds. The government also plans to increase production of inexpensive feed in order to reduce pork prices.

Poultry raising has benefited from government programs to make feed available at reasonable cost and to improve poultry quality by introducing imported breeds. Local breeds of poultry are small and are poor layers. They are found in all settlements and tend to scavenge for their food. Ducks, geese, guinea fowl, and turkeys are raised primarily for private consumption.

e. Forestry

More than one-third of Nigeria's land area is covered by forests, but only about 10% is classified as permanent forest reserves. Most of the forest reserves consist of northern savanna woodland. The high forests of the southern part of the country account for 20% of the reserves, and the coastal swamps account for less than 1% of the total. Since the savanna woodland contains relatively few valuable species and many of its forests are virtually inaccessible, its main use is as a source of firewood and building materials for the local inhabitants. The dense high forest of the wet southern part of the country provides nearly all of the industrial wood. The high forests contain many tropical broadleaf species, such as obeche, mahogany, sapele, and abura. Timber exports have originated here for centuries; the numerous rivers, creeks, and roads facilitate the transport of timber.

All of the forest area except that held by the state governments is owned by tribes, clans, or families and is classed as community forest. The government's policy is to place all state forests and one-fourth of the community forests into reserves to create a permanent, well-managed forest estate covering 25% of the country's land area. So far, however, increasing population, the land tenure system, and the bush-fallow method of cultivation have limited the reserve to only about 10% of the land area. In the west, scientific protection and management of forest reserves have been possible, with forestry policy providing a 50-year cycle of felling and regeneration. Other forests, however, have been steadily reduced as a result of careless and uncontrolled timber-cutting and shifting agricultural cultivation.

Timber and plywood exports have declined in recent years, and by 1970 they were only about one-third their 1960 volume (Figure 6). In 1960 timber exports were valued at $23 million, or 5% of total exports; by 1965 their value had declined to $20 million, less than 3% of total exports, and in 1971 timber exports of $10 million were less than 1% of total export ne decline is attributed to competition from other more efficient west African producers, increased shipping costs, increased domestic consumption, and relatively poor quality, which reduced exports to the United States. Most exports go to the United Kingdom, the Netherlands, West Germany, and Italy.

f. Fishing

Fishing contributes less than 5% of Nigerian GDP. Expansion is hindered by the lack of satisfactory fishing terminals, trained manpower, and suitable fishing vessels. Nevertheless, the potential for expansion of fish production is large, as fish is a significant adjunct to the diet throughout the country

FIGURE 6. Timber and plywood exports (U/OU)
(Thousand cubic feet)

	LOGS	SAWN TIMBER	PLYWOOD AND VENEERS
1960.........	22,211	2,098	674
1961.........	20,340	2,200	718
1962.........	16,212	2,337	769
1963.........	19,662	2,690	725
1964.........	21,418	2,695	745
1965.........	16,167	2,508	880
1966.........	15,344	2,373	742
1967.........	8,996	1,733	525
1968.........	8,535	1,918	584
1969.........	8,877	2,176	714
1970.........	5,967	1,570	741

and an important supplement to meat as a source of animal protein. The current development plan allocates about $13 million for capital expenditures to increase the fish catch. The largest expenditure, planned by Lagos State, is to be used to build a large fishing terminal and expand the fishing fleet.

Landings totaled about 156,000 metric tons in 1970. The catch includes sardinella, bonga, croaker, catfish, threadfin, sole, bigeye, rays, shark, and shrimp. A 15% ad valorem tax is levied on the wholesale price of fish landed by Nigerian-owned and -operated vessels, and a 25% tax is levied on fish landed by foreign-owned vessels.

About 54,000 tons of fish are caught annually by the traditional canoe fishermen. Sea canoe fishing is conducted all along the coast on a full-time basis and produces about 25,000 tons a year. In addition, many villagers engage in brackish water fishing on a part-time basis.

Modern commercial fishing is based on a modest inshore fleet, an expanding shrimp fleet, and a charter fleet. The first two operate in waters off the Nigerian coast. The charter fleet, under which Nigerians are permitted to charter foreign vessels and land the catch in Nigeria, operates in distant waters. Most of the fish comes from chartered Soviet and East European vessels and is landed as frozen whole fish.

Nigeria is the largest consumer of fish and fish products in Africa. Smoking is the most common method of processing the fish, and there is an important internal trade in smoked and dried fish. Some of the domestic demand is supplied by imports, but they declined after the civil war, when imports of stockfish (air-dried cod without salt) were banned as a means of conserving foreign exchange. Imports were valued at $19 million in 1964, whereas in 1970 they were valued at only $4.1 million. As an anti-inflationary measure, the ban was lifted in 1972.

2. Fuels and power (C)

Nigeria possesses fuel resources capable of providing far more energy than is needed to meet foreseeable domestic requirements. Energy sources known to exist in Nigeria include wood, coal, petroleum, natural gas, and water power. The inadequacy of interstate transport is the most important factor limiting the development of the various fuels.

Wood is the principal fuel used by the Nigerian population for household heating and cooking. Only in the major cities are other fuels used to any extent in homes. Nearly all of the savanna forest growth is suitable for fuelwood, but the brushlands are the main source of fuelwood for the agrarian population.

Consumption of fuelwood in most years is estimated at about 30 million cubic meters.

Nigeria has the only workable coal deposits in west Africa. The deposits near Enugu have been worked by the government since 1915, but the gradual dieselization of the Nigerian railroads beginning in 1958, the development of hydroelectric and gas turbine power, and the civil war drastically curtailed the demand for coal, and production declined from 905,000 tons in 1958/59 to 731,000 tons in 1965/66, and to only 155,000 tons in 1971. Production is not likely to return to earlier levels but will probably be limited to meet specialized requirements, although some coal was exported to Ghana in 1972.

Petroleum, Nigeria's most important fuel, plays a significant role in development. With production in early 1972 reaching nearly 1.8 million barrels a day (Figure 7), Nigeria is now the eighth largest petroleum producer in the world. Petroleum is by far its largest export, increasing in value from $191 million, or 26% of the total exports in 1965, to $1,175 million, or 71% of the total in 1971. Balance of payments contributions (net foreign exchange earnings) of the petroleum sector (Figure 8) grew concurrently, from $91 million in 1965 to $370 million in 1970. The contribution to government revenues has also increased, partly from increased production but also because of tax agreements negotiated in November 1970 and April 1971 which increased prices and sped up payments to the government. The contribution to government revenue grew from $38 million, or about 9% of the total in FY66, to an estimated $983 million, or well over half of the government revenue in FY72.

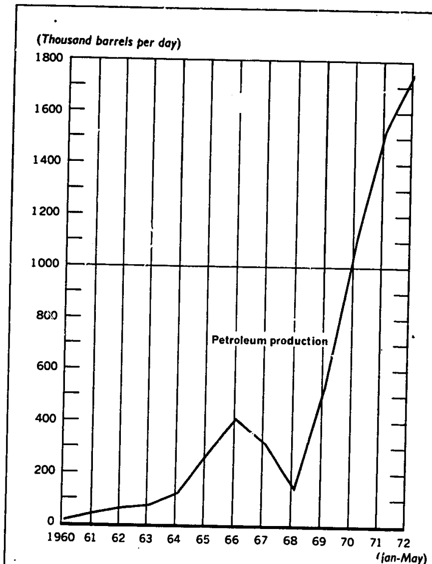


FIGURE 7. Nigerian petroleum production (U/OU)

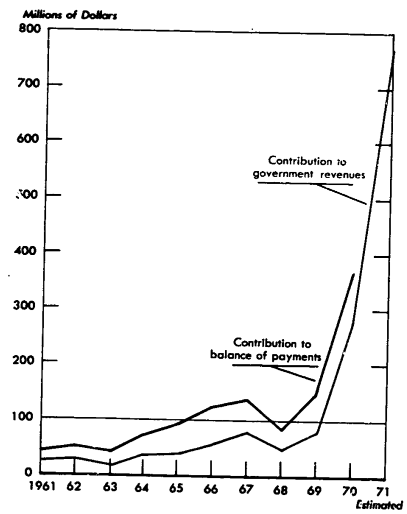


FIGURE 8. Petroleum's contribution to government revenue and balance of payments (U/OU)

Currently more than a dozen international petroleum companies have concessions in Nigeria, of which six are now actually producing. Shell-BP, owned by Royal Dutch Shell and British Petroleum, is by far the largest. The other producers are Gulf, Mobil, AGIP/Phillips, Texaco/Chevron, and French Petroleum Research and Exploitation Company (SAFRAP). Five companies recently completed negotiations with the government to exploit promising offshore concessions where most of Nigeria's production probably will be centered in the next decade.

Like other major petroleum exporters, Nigeria has sought since the end of the civil war to increase its control over its valuable resources. In July 1971, Nigeria became the 11th member of the Organization of Petroleum Exporting Countries (OPEC). Nigeria has also been seeking to increase government participation in petroleum concessions. The first participation agreement came in April 1971 with SAFRAP. In return for permission to resume production—stopped during the civil war—the company yielded 35% of its holdings to the Nigerian Government, and the government's share will gradually be increased to 50%. In September 1971 the government exercised an option to assume one-third participation in the AGIP-Phillips operation in Nigeria. In addition, 51% participation in the new offshore concessions has been reserved for the government. Negotiations have also been initiated by the government to acquire a participating interest—probably about one-third—in the other existing concessions in Nigeria. All government shares in petroleum production will be held by the Nigerian National Oil Company (NNOC), which will participate fully in petroleum exploration, production, refining, and marketing. Some promising offshore concessions have been reserved for NNOC.

Nigeria's one petroleum refinery is located near Port Harcourt. Although it was badly damaged during the civil war and was forced to close in July 1967, it reopened in May 1970. The refinery has a capacity of 55,000 barrels per day and is currently barely able to meet most of Nigeria's needs for refined petroleum products other than premium grade gasoline. Originally the refinery was owned 50% by the Nigerian Government and 25% each by Shell and by British Petroleum. In early 1972, however, the government's participation was increased to 60%, with 20% each remaining for Shell and BP. A second refinery is being planned.

Large quantities of natural gas exist in Nigeria, both in isolation and in association with deposits of crude petroleum. All production to date, however, has been associated with petroleum production, and most of the gas has been flared. Production in 1971 was about 1.2 billion cubic feet a day, but consumption was only about 17 million cubic feet a day. Production of gas will continue to expand with petroleum production. Consumption should also expand, since many future industrial and electric power needs for fuel are expected to be met by natural gas. In addition, an agreement has been signed with Guadalupe Gas Company to build a $25 million to $30 million plant in Port Harcourt to extract liquified petroleum gas (LPG) from natural gas that presently is being flared in the area. The plant would be owned 60% by the Nigerian Government. Before construction is begun, however, problems associated with transportation, marketing, and gas gathering must be resolved. Several proposals are also being considered by the government for construction of a plant to produce liquefied natural gas (LNG), but because of the large investment required—several times more than for an LPG plant—decision may be withheld until a proposed independent economic and technical study of gas utilization has been made.

The electric power industry in Nigeria, although small, is expanding rapidly and is highly important to economic and social development. The planned industrialization is keyed initially to the availability of sufficient electric energy. At the end of 1971, the estimated installed capacity totaled 1,111,000 kilowatts (kw.), and production during the year amounted to almost 1.7 billion kilowatt-hours (kw.-hr.), about 30 kw.-hr. per capita.

At least eight entities are involved in the production of electric power in Nigeria. The government-owned Electricity Corporation of Nigeria (ECN) is a statutory organization responsible for the generation of thermal electric power and for the transmission, distribution, and sale of nearly all electric power. A second government company, Niger Dam Authority, was created in 1962 to construct and operate the Kainji Dam and other future hydroelectric powerplants on the Niger River. It operates a 330 kilovolt (kv.) national transmission grid which delivers power from the Kainji Dam hydroelectric plant to several substations, where it is turned over to ECN for further transmission, distribution, and sale. The Niger Dam Authority was merged with the ECN to form the National Electric Power Authority in 1972. The most important privately owned producer is the Nigeria Electricity Supply Co. (NESCO), which was established in North-Central State to produce and furnish thermal electric power to the nearby mines and to sell bulk electricity to ECN for distribution and sale to consumers in Jos, Bukuru, and Vom. The other privately owned producers are industrial concerns that produce electricity for their own use: Shell Petroleum Development Company of Nigeria, African Timber and Plywood (Nigeria) Ltd., Nigeria Sugar Company, United Africa Company of Nigeria, and Dunlop Rubber Estate.

The electric power base comprises 60 powerplants. Almost all are thermal installations, but the most significant single source of energy is the Kainji Dam hydroelectric powerplant, which accounts for about 30% of Nigeria's total capacity. It has an initial capacity of 320,000 kw. and a potential total capacity of 960,000 kw. if all generators are installed. Although the remaining powerplants in the country are relatively small individually, their collective capacities constitute an important segment of the total national power capacity, and they are of particular importance in supplying power to remote localities and to isolated industries.

The transmission system consists of 330-kv., 132-kv., 66-kv., and 33-kv. lines. The 330-kv. system comprises over 800 miles of a single-circuit overhead transmission line connecting the Kainji Dam plant with major substations at Jebba, Oshogbo, Lagos, Benin City, and Kaduna. At each substation, the voltage is stepped down from 330-kv. to 132-kv. before supplying bulk power to the ECN.

Consumption of electric energy has increased considerably during the last decade, the largest amounts being consumed in Lagos and in the Ibadan area. The demand for electricity for industrial, agricultural, and domestic purposes up to the mid-1980's should be met by the currently planned expansion in generating capacity. Distribution of electricity for residential use normally is single phase, 50-cycle, alternating current at 220 volts, and for industrial and commercial use, three-phase, 50-cycle, alternating current at 400 volts.

Development of the electric power industry is focused on completing the second and third stages of the Kainji Dam hydroelectric powerplant, which should meet the country's needs well into the 1980's. Upon completion of the Kainji Dam plant, plans are to be formulated for building the 500,000-kw. Jebba and the 480,000-kw. Shiroro Gorge hydroelectric powerplants downstream on the Niger River. In the interim, additional thermal plants fueled by natural gas may be constructed. Considerable development of transmission and distribution facilities is also planned by ECN and NESCO, and expansion of the interconnected system has begun.

3. Minerals and metals (C)

Nigeria is richly endowed with mineral resources, and mining has become a strategic sector in the nation's economy. Tin ore and columbite are the most economically significant minerals (excluding petroleum), but deposits of gold, limestone, marble, and iron, lead, and zinc ores are also found. Disruption of transportation and loss of experienced workers during the civil war delayed development of mineral resources and resulted in a reduction of output of some minerals (Figure 9). In 1970 minerals (excluding petroleum) provided 4% of all exports, compared to 6% in 1966. The value of mineral exports, however, grew from $46 million in 1966 to $49 million in 1970; their declining relative importance was due mainly to the increase in petroleum exports.

FIGURE 9. Production of principal minerals (U/OU) *(Thousand tons)*

	TIN ORE	COLUMBITE	LIMESTONE	MARBLE	GOLD*
1965	12.9	2.5	1,291.6	1.6	79.0
1966	12.6	2.2	1,098.0	1.1	45.0
1967	12.6	1.9	883.2	1.0	39.0
1968	13.0	1.1	647.4	0.4	214.0
1969	11.6	1.5	680.0	1.2	299.0
1970	10.6	1.6	677.5	1.8	124.0
1971	10.7	1.2	788.3	3.8	*na*

na Data not available.
*Quantity in Troy ounces.

Nigeria has long been the world's fifth largest tin producer, but production has declined in recent years because of diminishing ore reserves, depressed prices, and increased production costs. Production is expected to continue to decline at the rate of about 10% a year. Nevertheless, metallic tin, with exports worth $35 million in 1971, is Nigeria's most important mineral export (excluding petroleum). The ore is mined near Jos in Benue-Plateau State, smelted, and exported as tin ingots. Ingot production amounted to 9,000 tons in 1970; exports of tin averaged 10,000 tons annually in 1966-71, most of which went to the United Kingdom. The two tin smelters in the country have a capacity well in excess of total ore production.

Nigeria is the third largest producer of columbite in the world and is an important source of columbium, which is used to manufacture stainless steel and to make alloys with a high degree of heat resistance for such uses as jet engines. Production of columbite was over 2,000 tons a year from 1960 to 1965 but has been declining since then. The United States is the largest importer of Nigerian columbite. Tantalum and zirconium, also used in the steel industry as alloying elements and in high-temperature applications, are extracted as byproducts of columbium.

Two major iron ore deposits are found on the Agbaja Plateau in the north and near Enugu in the east. The ores have a metallic content of only 45% to 50%, however, and are further disadvantaged by a high phosphorus and sulfur content. The U.S.S.R. has undertaken a survey of Nigeria's iron ore and coal resources which may lead to the construction of a Soviet-sponsored iron and steel complex.

4. Manufacturing and construction (U/OU)

Manufacturing has been an important contributor to the overall growth in Nigeria's economy. During the last decade its percentage contribution to GDP increased from 5% in FY60 to 10% in FY70. Manufacturing was second only to petroleum in rate of growth and was the only sector that continued to expand during the civil war. Although the war caused destruction of facilities and halted output in the east, import controls stimulated production in the rest of the country, and the index of manufacturing increased from 165 (including the east) in 1966 to 212 (excluding the east) in 1969 and in 1970 it reached 250 (1963=100). Reconstruction in the east is now substantially complete, but several plants that were too severely damaged to be profitably repaired or plants that can no longer compete with newer structures have not been reactivated.

Nigeria's large domestic market, linked by a relatively well-developed transportation system, and the country's active export processing market have been largely responsible for this industrial development. Industries producing largely for domestic consumption include food processing, textiles, chemicals, footwear, construction materials, metal processing, light machinery, and petroleum refining. Industries processing largely for export include palm, sheanut, and peanut oil mills, cotton ginning mills, rubber processing factories, tanneries, and timber sawmills.

Despite the past record of expansion, further industrial development in Nigeria faces a number of problems. Much of the past growth has been in import substitution industries, and the possibilities for further substitution are becoming more and more limited as Nigeria attains self-sufficiency in the production of many consumer goods. Production of intermediate and capital goods is somewhat limited by the size of the market and the lack of skilled labor and technical and managerial experience. Furthermore, since the removal of most import restrictions, domestic industries now face price and quality competition from imports, and the more uneconomic domestic producers may founder.

Most of the output of manufactured goods now consists of finished consumer goods, but efforts are being made to increase production of intermediate and capital goods for sale to other domestic industries, and vertical integration of industries is being encouraged. The government also is continuing its policy of Nigerianization. A decree passed in late 1971 established an Industrial Training Fund to finance the training of native labor. This was followed by a decree in early 1972 reserving some sectors of the economy exclusively for Nigerians and establishing a requirement for Nigerian participation in a number of others. Nevertheless, foreign investment with and without indigenous participation has been encouraged by providing tax holidays, relief from import duties, and other financial aids and incentives.

Construction activity accounted for less than 5% of GDP during the last decade. The most important project during that period was the $250 million Kainji Dam, although significant progress was made in the construction of housing, industrial plants (cement and textiles), roads, bridges, and railroads. During the civil war total building activity declined, and there was also extensive damage to existing structures, especially in the east. Homes, schools, and hospitals were destroyed or vandalized, roads and bridges were damaged, repairs were neglected, and railroad bridges and roadbeds were ruined. Consequently, recent construction activity concentrated on reconstruction as well as on new construction. New construction will increase further, if the proposed iron and steel complex, the second oil refinery, the automobile assembly plants, and other major development plan projects get underway.

Nigeria is self-sufficient in almost all basic building materials. Lumber, paint, glass, clay products, and cement are produced locally, and, except for cement and iron and steel products, imports are not significant. Almost all heavy construction equipment, however, must be imported.

5. Domestic trade (U/OU)

Much of the domestic trade in Nigeria consists of movements from countryside to nearby urban areas, but a significant portion of it is long distance. A large part of the local trade is in domestically produced foodstuffs such as grains, animal products, kola nuts, roots, pulses, and vegetable oils; interregional trade comprises domestic light manufactures such as soap, textiles, earthenware, and leather products of lesser importance. The output of large-scale enterprises like the petroleum refinery serve national rather than regional markets. The growing urban concentration of population and the growth in import substitution industries have increased the domestic movement of goods. As transportation improves and the number of large-scale plants increases, national trade is likely to increase further.

Some retail merchandising is controlled by European-owned department stores; firms like the Kingsway Stores, the A.G. Leventis Company, and the Union Trading Company cater largely to foreigners and wealthy Nigerians. Most consumers patronize small shops and local markets which are owned largely by Nigerians, although there are also a number of Lebanese and Indian establishments. The local markets are run by Nigerians who are responsible for their maintenance and financial operations. The markets are fragmented, with many petty traders selling goods in small quantities and determining prices by bargaining. The local sales force of the south consists of women, commonly called "mammys," who trade in the markets or sit along the roadsides selling to passers-by.

Government policy has been aimed at increasing internal trade and directing more of its benefits to Nigerians. A decree in March 1972 called for the Nigerianization of retail trade during the current development plan period. In addition, since transportation is a significant element in the cost of distribution, the government plans to improve the transportation network. The government also plans to establish a national trading organization to train salesmen and traders in modern practices and a credit guarantee corporation to enable indigenous businessmen to finance domestic trading activities.

C. Role of government in the economy (U/OU)

1. Economic policy

Nigeria's planning experience, which dates from the end of the World War II, has gone through various phases of central and regional emphasis. The first plan, from 1946 to 1954, was highly centralized in formulation and execution. Prepared by a group of senior colonial government officials, the plan was largely ineffective. The second attempt at planning (1955-62), introduced after Nigeria adopted the federal system of government, was largely regional in approach and left the country with virtually five development programs. The 1962-68 plan was the first national plan. While structured like the 1955-62 plan with separate programs for each region, this plan also recognized the common objectives and targets of the component governments. Although capital spending did not reach the target level, the plan was largely successful and saw the completion of several major projects, including the petroleum refinery, the Niger Dam, the sugar and paper mills, and the ports extension.

The civil war, which started in 1967, interrupted the planning process and forced the government to focus on minimizing the war's adverse impact on the economy. A number of imports were banned or licensed, and tariffs were increased to protect the country's balance-of-payments position. In addition, repatriation of profits and dividends was deferred, and a moratorium was imposed on repayment of liabilities under contractor-financed agreements. Exports of essential domestic foods were controlled by licenses to combat inflation, and a capital gains tax and a super tax on profits were introduced. Although these measures helped the economy to survive the war relatively intact, there were, nevertheless, budgetary and balance-of-payments deficits and substantial inflation.

In October 1970 the government adopted the Second National Development Plan, which is to run from April 1970 to March 1974. Reconstruction costs, estimated at $840 million in the public sector and $650 million the private sector, are concentrated in the first 2 years of the development plan. The basic economic objective of the plan, however, is to achieve an average annual rate of growth in GDP of 6.6% through more intensive capacity utilization and through an increasing rate of capital formation. Total investment during the period is slated at $4.5 billion, divided almost equally between the private and public sectors. Foreign capital is expected to contribute 50% of the private investment and 19% of the public investment. The plan accords highest priority to agriculture, industry, transportation, and manpower development, and the second order of priority goes to social services and utilities.

In the first 2 years of the current plan, the state and federal governments had difficulty attaining the planned level of investment. Initially, postwar problems of reconstruction and rehabilitation and a lack of financial resources were responsible for the shortfall in investment. The recovery of petroleum production after the war, however, provided financial resources considerably beyond expectations. Currently, budgetary and foreign exchange resources are no longer constraints on development, but the limited executive capacity of the government and a lack of properly prepared, feasible projects will continue to be an obstacle to the plan's execution for some time.

2. Government finance

Nigerian public finance is carried out at four levels—by the federal government, the 12 state governments, about 20 public corporations, and more than 100 local authorities. The federal government has exclusive power to impose customs and excise duties, company income taxes, and mining royalties and rents. The states depend primarily upon personal income tax and sales taxes for their direct revenue. In certain areas such as mining royalties and rents, the federal government has authority to collect revenue but is required to pass the revenue to the states. Local governments derive their revenue through grants from the states and through local taxes.

The allocation to the states of revenues collected by the federal government is complex. It is based in large part on the principle of "derivation," under which revenue on products exported from a state and duty on goods consumed or utilized within a state are paid to that state. A modification introduced in 1969, however, requires that some of the mining rents and royalties and import duties be paid into a Distributable Pool Account (DPA) for division among the states on the basis of population and balanced regional development. In 1970 the DPA was divided into two parts—one to be divided equally among the 12 states and the other to be divided on the basis of population. The government in 1970 also changed the distribution of revenues from mining royalties and rents, reducing the federal government share from 20% to 5%, reducing the state of origin's share from 50% to 45%, and increasing the DPA share from 30% to 50% of such revenues. Income from offshore petroleum and from all petroleum profits taxes, however, remain with the federal government.

The state and federal governments prepare separate budgets each fiscal year (1 April through 31 March). All use similar systems to distinguish between current and capital expenditures. Current revenues and expenditures are credited or debited to consolidated revenue funds maintained separately by each government. Capital receipts and expenditures are handled similarly through development fund accounts. Any surplus on the current account is transferred periodically to the development fund account.

Federal government current revenues and expenditures have been greatly influenced in recent years by petroleum production and trade and by the civil war. From independence in 1960 until the beginning of the civil war in 1967, the federal current budget consistently showed a surplus (Figure 10). During the war, however, surpluses were replaced by growing deficits. Defense expenditures rose from an estimated $35 million in FY67 to more than $500 million in FY70. Furthermore, despite increased tax rates and new taxes, revenue declined during the war because petroleum production was disrupted and imports of high-duty consumer goods were reduced. When petroleum production recovered, however, the deficits disappeared.

Nigeria has historically received most of its revenue from indirect taxes. In FY70, for example, 66% of federal revenues were derived from import, export, and excise duties and fees. In that year direct taxes contributed 14%, mining rents and royalties contributed 11%, and 9% came from other sources such as interest and government agency earnings. These percentages are changing rapidly, however, with the surge in government petroleum revenue. Petroleum revenues in FY70 were about $95 million, whereas in FY72 they have been estimated at more than nine times that amount, making petroleum the most important source of government revenue.

The largest expenditure in FY70 was for defense, which accounted for about half of total current expenditures. Another one-fourth of the total consisted of transfers to the states, leaving the remaining fourth for administration, social services, and economic services. Defense expenditures have remained high. In FY71 current defense spending was estimated at $378 million—almost 30% of the total—and capital spending on defense was estimated at $80 million.

State government revenues and expenditures are largely influenced by the federal government, from which the states receive 60% to 70% of their current revenues. The state governments' local revenues—obtained from income taxes, export duties, sales taxes, and taxes on native and local authorities—fluctuate

FIGURE 10. Federal government revenues and expenditures (U/OU)
(Millions of dollars)

	1959/60	1961/62	1963/64	1965/66	1967/68	1968/69	1969/70	1970/71	1971/72*
Current revenue	249	321	349	451	420	420	610	1,061	1,332
Current expenditure	229	306	348	443	430	510	938	1,109	1,489
Of which:									
Transfer to states	108	131	137	179	172	148	255	402	502
Current surplus (+) or deficit (−)	+20	+15	*Insig*	+7	−10	−90	−328	−48	−157
Capital expenditure	100	90	126	156	193	195	245	190	445
Overall deficit	−80	−75	−126	−149	−203	−285	−573	−238	−602

*Revised estimate.

widely but have been increasing as the states become more efficient in their collection. In FY69, the states' first year of operation under independent fiscal and budgetary systems, seven of the states achieved a surplus on current account; current revenues were $215 million, and current expenditures were $205 million. Capital expenditures were $66 million, however, leaving an overall deficit of $56 million. The budget estimates for FY72 show state current revenues of $565 million—nearly two and one-half times their FY69 level—of which 67% was to come from the federal government. Current expenditures were estimated at $539 million, leaving a surplus of $26 million.

The public debt portfolio of the federal government is divided into three main parts—funded, unfunded, and floating. The funded segment is made up of internal long-term development loans and long-term foreign loans. The unfunded segment consists of treasury certificates of 1 to 2 years maturity and loans from international agencies and foreign governments. The floating debt consists of 90-day treasury bills. Like other government finance, the public debt was markedly affected by the civil war. From the beginning of the war in 1967 until its end in 1970, the debt more than doubled. Although the external debt remained relatively stable during the war, the internal debt soared as the government was forced to rely increasingly on deficit spending financed by short-term borrowing from the commercial banks. By March 1971, the public debt totaled almost $2 billion, of which almost 90% was internal (Figure 11). Recently the increase in public debt has leveled off, rising only 3% in 1971.

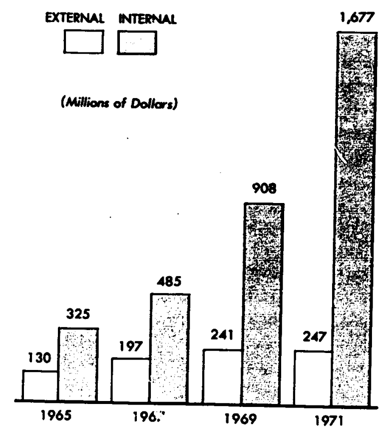


FIGURE 11. Nigerian public debt (U/OU)

3. Money and banking

Nigeria's unit of exchange is the pound. Issued initially by the Nigerian government in 1959, the Nigerian pound (N£) was convertible into the British pound sterling on a one-to-one basis until the sterling devaluation of November 1967. The Nigerian pound retained its par value, making the exchange rate with the dollar N£1 = US$2.80. The Nigerian pound again retained its par value with gold during the exchange rate realignment of December 1971, making its present exchange rate with the dollar N£1 = $3.04.

A new decimal currency is already being introduced and is scheduled to become the official unit of exchange on 1 January 1973. The "naira," worth 10 shillings (½N£) of the present currency, will be the larger unit, subdivided into 100 "kobo," each kobo worth slightly more than the present penny.

The banking system consists of the Central Bank of Nigeria, 15 commercial banks (foreign and domestic), two acceptance houses, and various other financial institutions such as the Post Office Savings Bank, regional financial corporations and loan boards, and the cooperative banks. At the top of the banking structure is the government-owned Central Bank, which was established in 1958. The main function of the Central Bank is the regulation of the money supply to achieve monetary stability and adequate economic growth. The Central Bank has the sole right to issue Nigerian notes and coin. Under its open market operations authority, the bank may purchase, sell, and discount Nigerian treasury bills, treasury certificates, inland bills of exchange, and, within limits, long-term securities of the federal government. In addition, the bank has the power to lend to the commercial banks against specified security. The Central Bank controls the commercial banks' liquidity ratios by requiring banks to maintain specified ratios between liquid assets and demand deposits and between liquid assets and time deposits. The liquidity ratios are intended to protect the depositors as well as to influence the money supply.

The Central Bank is banker to the federal and state governments and marketing boards. It advises the central government on such matters as monetary and general economic policy, the advisability of issuing new securities, the initiation of capital expenditures, and the establishment of the yield and maturity structure of the national debt. The bank is authorized to act as banker for commercial banks and other credit institutions, and it may engage in commercial banking itself. It may also subscribe to, hold, and sell shares of any corporation set up with the approval of the federal government to promote the development of a money market or to improve the financing of economic development.

Government monetary policy prior to 1967 was aimed primarily at achieving balance-of-payments equilibrium and a reallocation of credit in favor of the productive sectors, but the civil war increased the financing requirements of the government appreciably. Although the Central Bank of Nigeria Act was amended in 1968 to give the bank additional powers to control credit, it was difficult for the bank to enforce realistic limits on the growth of credit to the government. Short-term domestic borrowing from the commercial banks was relied upon to finance the massive public spending during the war. This was accompanied by a decreasing rate of expansion of credit to the private sector and a substantial growth in the money supply which has resulted in serious inflation in Nigeria. After declining 4% in 1967 and holding steady in 1968, prices for the lower income group rose by 10% in 1969, about 14% in 1970, and an estimated 15% in 1971. Inflation has now abated, however, largely because of growing production and imports, the latter paid for by increased petroleum foreign exchange earnings.

Fifteen commercial banks with nearly 300 offices and branches operate in Nigeria (Figure 12). Eight of the banks are Nigerian owned, while the rest are owned totally or partly by large foreign banks. All banks, however, must be incorporated in Nigeria to transact business in the country. Commercial banks play an important role in the Nigerian economy, with deposits totaling $1,061 million and loans totaling $766 million in March 1972.

The Nigerian Finance Ministry and the Central Bank have provided guidelines for commercial banks to assure their support for government policy. Each bank is required by the Central Bank to extend a minimum of 40% of its loans, advances, and discounts to Nigerian borrowers. Credit guidelines set up by the Central Bank require that by the end of FY73, 45% of each bank's outstanding loans and advances be for manufacturing, agriculture, mining, real estate and construction; 32% for general commerce; 11% for services; and 12% for other categories including state government financial institutions. Furthermore, in April 1972, the Finance Ministry announced that the federal government planned to negotiate the acquisition of a 40% interest in each commercial bank in order to give the government a role in bank management to synchronize further commercial bank policy with government policy.

A number of other financial institutions exist in Nigeria. The government Post Office Savings Bank operates through post offices and postal agencies throughout the country. The Nigerian Industrial Development Bank, Ltd., finances enterprises that are unable to get funds through regular commercial

FIGURE 12. Commercial banks operating in Nigeria (U/OU)

BANK	PRINCIPAL SHARE HOLDERS
African Continental Bank, Ltd	Eastern state governments.
Arab Bank (Nigeria), Ltd	Arab Bank, Ltd., Amman, Jordan.
Bank of America Nigeria, Ltd	Bank of America, San Francisco.
Bank of India, Nigeria, Ltd	Bank of India, Ltd., Bombay.
Bank of the North, Ltd	Northern States Marketing Board.
Barclays Bank of Nigeria, Ltd	Barclays Bank D.C.O., London.
Co-Operative Bank of Western Nigeria, Ltd	Co-operative Movement of the Western State.
International Bank for West Africa, Ltd	*Banque Internationale pour l'Afrique Occidentale* of Paris and First National City Bank of New York.
Mercantile Bank of Nigeria, Ltd	South-Eastern State Government.
National Bank of Nigeria, Ltd	Western State Marketing Board.
New Nigeria Bank, Ltd	Mid-Western State Government.
Pan-African Bank	Rivers State Government.
Standard Bank Nigeria, Ltd	Standard Bank Group, London and Chase Manhattan Bank, New York.
United Bank for Africa, Ltd	Five European and one U.S. bank.
Wemabank	Western State Government.

channels. The two cooperative banks finance the marketing of crops by various cooperative societies, and there are a large number of cooperative Thrift and Loan and Thrift and Credit societies. The Federal Loan Board makes loans for industrial development, and the Revolving Loan fund assists in the establishment, expansion, and modernization of industrial enterprises. There are also at least seven regional development corporations established to finance development in specific regions. In addition, in 1960 a number of financial institutions joined together to establish the Lagos Stock Exchange. Exchange transactions averaged almost $2 million a month in 1970, and the Exchange is expected to play an important role in mobilizing funds for industrial purposes.

D. International economic relations

1. Foreign trade (U/OU)

Nigeria's external trade has been dominated in recent years by rapidly rising petroleum exports. After being disrupted by the civil war, the value of petroleum exports increased over tenfold—from about $100 million in 1968 to nearly $1.2 billion in 1971 (Figure 13). Because of expanded production and increased prices, petroleum now comprises nearly 75% of Nigerian exports. Agriculture contributed more than half the total value of exports in 1965, but less than one-fourth in 1971. Nonpetroleum exports in fact declined in value from $547 million in 1965 to $484 million in 1971.

The surge in earnings from petroleum exports has financed increased imports (Figure 14), which nearly doubled between 1965 and 1971; an increase of 42% in the value of imports occurred in 1971 alone. Consumer goods and raw materials made up 63% of total imports in 1971, and capital goods—mostly imports by the petroleum companies—made up the rest.

Nigeria's trade balance has shown a surplus every year since 1966, after being in deficit from 1954 to 1965 (Figure 15). Although both agricultural and petroleum exports were adversely affected by the civil war, which also brought an increase in military imports, the government reduced nonmilitary imports and continued to show a trade surplus. Export earnings have recovered from wartime levels, but the

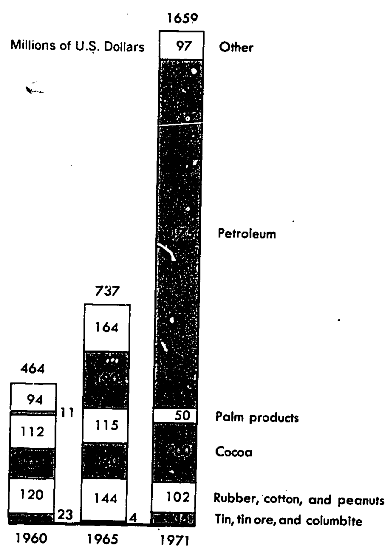


FIGURE 13. Composition of exports (U/OU)

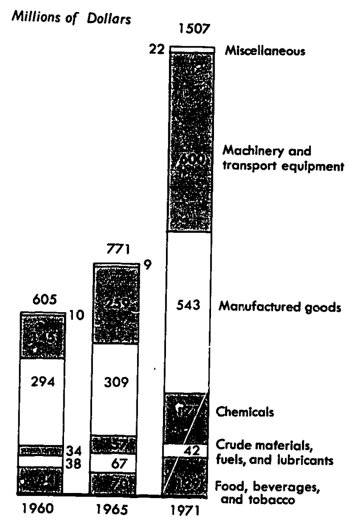


FIGURE 14. Composition of imports (U/OU)

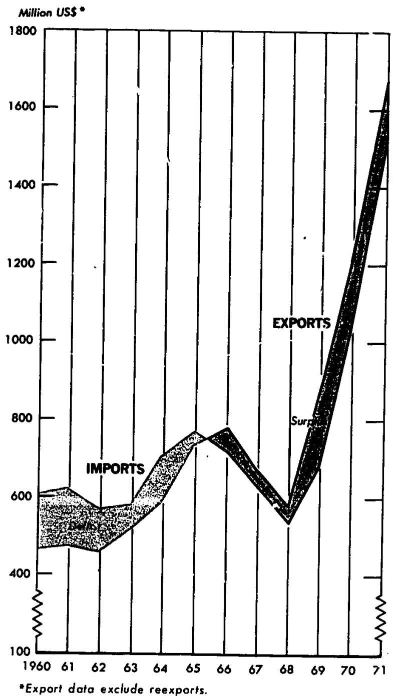


FIGURE 15. Balance of trade (U/OU)

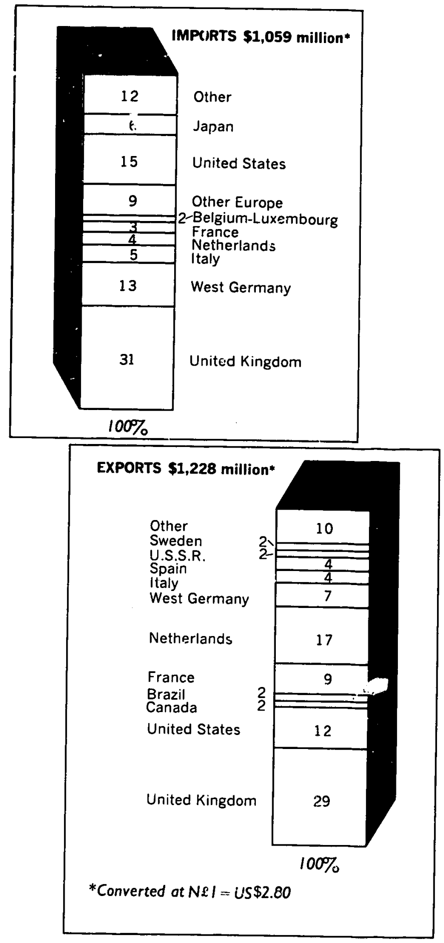


FIGURE 16. Direction of trade (U/OU)

postwar relaxation of import controls also brought a rising level of imports, and the trade surplus has remained stable. In 1971 the trade surplus exceeded $150 million.

Traditionally the United Kingdom has been the largest customer for Nigerian exports, but since independence the trade pattern has been broadened to include other countries. In 1959 the United Kingdom received 50% of Nigerian exports, but by 1970 its share had dropped to 29% (Figure 16). Almost half of the exports to the United Kingdom were petroleum and petroleum products, but cocoa beans and peanut oil were also important. The Netherlands was the second ranking customer in 1970, and the United States was third. Petroleum and petroleum products were the major items exported to both the United States and the Netherlands.

Nigeria's imports have followed a pattern similar to that of its exports. In 1959 the United Kingdom was the source of 45% of Nigeria's imports, but by 1970 its share was 31%. The principal imports from the United Kingdom were electrical machinery, medical and pharmaceutical products, trucks, paper, motor vehicles and parts, and road construction, mining, and conveying machinery. The United States rose to second place as a Nigerian supplier; the more important items imported from the United States were cereals and road construction, mining, conveying, and electrical machinery. West Germany was important as a supplier of trucks and cars.

Nigeria has relatively liberal import controls. Until the outbreak of the civil war most commodities could be imported under open general license. The main exceptions were goods from the Communist bloc, Japan, and Hong Kong; coal from the dollar area; and sugar, cement, and petroleum products. During the war, however, emergency import controls were progressively placed on an increasing range of goods, until by the end of the war only a limited list of goods was not subject to specific import licensing. In addition, duties were increased on many goods to encourage the use of domestic substitutes, and a "national reconstruction surcharge" was added to 11 imports. Since the war's end, however, imports have again been liberalized, and although most bulk agricultural commodities are still licensed, almost all other restrictions have been removed. In addition, although some tariffs were raised in 1972 to protect domestic manufacturers, tariffs on many consumer goods were reduced. Import duties on selected raw materials were also lowered in 1972 to boost local competitiveness. Imports are now prohibited only from Rhodesia and South Africa.

Exports are relatively unrestricted. Most locally produced goods may be exported freely, under open general license, to any country except South Africa—which require individual licenses—and Rhodesia, to which exports are prohibited. Individual export licenses are required for cigarettes and tobacco, columbite, tin and tin byproducts, tantalite, goods made of imported components, and goods controlled by the marketing boards. The export of some items such as African antiquities is prohibited except under special conditions. Certain explosives and foods may not be exported.

Trade agreements exist with Poland, the U.S.S.R., the People's Republic of China, Romania, Hungary, Bulgaria, Czechoslovakia, Chad, Niger, Syria, Dahomey, Zaire, Togo, Cameroon, Egypt, Japan, Tunisia, and West Germany. The agreements are similar in pattern, providing for suggested lists of commodities to be traded, payment in convertible currencies, and most-favored-nation treatment.

2. Foreign aid (C)

Nigeria receives aid from a number of sources, both Communist and non-Communist. Foreign aid financed 50% of the 1962-68 development plan. It was also important for relief and reconstruction during and after the civil war. With the rise in petroleum revenues, however, foreign aid has become less important as a source of financing. The Second National Development Plan includes planned investments of $4.5 billion, of which foreign aid is expected to provide $423 million, or less than 10%.

The major non-Communist sources of aid to Nigeria have been the International Bank for Reconstruction and Development (IBRD), the United States, the United Kingdom, and West Germany. Other sources include Japan, Canada, Italy, France, Belgium, the Netherlands, Sweden, and the International Development Association (IDA). IBRD assistance has been largely for construction of infrastructure and for reconstruction and industrial development. The United Kingdom has provided technical assistance and loans for rehabilitation, general development, and telecommunications. U.S. economic aid, which has averaged about $25 million a year since 1962, has been mainly for agriculture, education, and transportation.

Communist economic aid extended to Nigeria since 1965 has totaled $49.2 million. Of this, the U.S.S.R. extended an estimated $500,000 in 1965 and $6.7 million in 1970, Czechoslovakia extended $14 million in 1965, and Poland extended $28 million in 1971. In addition, the U.S.S.R. has extended $9 million in military aid to Nigeria. It is estimated that there are over 200 Communist economic technicians in Nigeria from the U.S.S.R. and Eastern Europe.

Nigeria has also provided aid on a small scale. In early 1972, Lagos extended a $3 million interest-free loan to Dahomey, which had been receiving quasi-commercial assistance from Nigeria since early 1971. In addition, Nigeria has begun reconstructing a road from Idiroko (on the Nigerian border) to Porto-Novo, Dahomey, at Nigeria's expense.

3. Balance of payments (U/OU)

Nigeria's balance-of-payments situation was greatly affected by the civil war, prior to which the country's external payments position was comfortable and improving. The war, however, resulted in a balance-of-payments squeeze, which might have reached crisis proportions if the government had not imposed firm controls on trade and payments. Despite the controls, however, reserves fell by $110 million between 1965 and the end of 1969 and did not regain their 1965 level until early 1971. Furthermore, the decline in reserves

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FIGURE 17. Balance of payments 1965–70* (U/OU)
(Millions of U.S. dollars**)

	1965	1966	1967	1968	1969	1970
Trade balance	−7.0	84.3	57.1	48.4	236.3	242.2
Service payments	−250.9	−348.0	−311.1	−332.1	−405.4	−773.4
Transfers	7.6	5.9	21.6	48.2	29.1	63.0
Balance on current account	−250.3	−257.9	−232.4	−235.5	−140.0	−468.2
Balance on capital account	265.7	170.0	163.2	217.6	100.2	460.8
Errors and omissions	18.2	63.3	−33.9	10.9	54.0	89.3
Overall balance	33.6	−24.6	−103.0	−7.0	14.3	82.0
Net contribution of the oil sector to the overall balance	91.3	121.5	136.4	80.6	156.5	369.3

*Because of rounding, components may not add to totals shown.
**Converted at N£1 = $2.80.

would have been much worse if foreign payments had been made when due. By permitting overdue payments to accumulate, Nigeria was able to show a small deficit in 1968 and a small surplus in 1969 (Figure 17). Foreign payments have since been placed on a systematic basis.

Foreign exchange problems during the war are traceable to a combination of increased military imports, decreased exports, and reduced medium- and long-term capital inflows. Total payments for military equipment during the war were estimated at between $300 million and $400 million. At the same time, exports fell during the war years, from $780 million in 1966 to $578 million in 1968, mostly because of reduced petroleum production but also because of the fall in exports of palm products from the east. Long- and medium-term net capital inflows during the war also declined dramatically, and by 1969 they were only about 10% of the prewar level.

The recovery of petroleum production and exports eased Nigeria's external payments problem. Since April 1971, imports have been paid for on a regular basis. During 1971 and early 1972 the government liquidated a backlog of payments which appeared to pose a threat to the economy a year earlier. The settlement of arrears was effected in advance of the agreed date, in spite of the fact that imports increased $360 million in 1970 and $448 million in 1971. With continued increases in petroleum production, Nigeria's foreign reserves should be strengthened and the balance of payments should no longer be a constraint on the country's economic development.

The Ministry of Finance is responsible for basic foreign exchange control policy, and the Central Bank of Nigeria is the principal administrator of exchange policy. Most commercial banks have been appointed by the Finance Ministry as authorized exchange dealers. Certain transactions such as repatriation of capital, transfer of profits, and raising of external loans must be approved by the ministry. Other transactions, such as purchases of foreign currency and transfers of Nigerian currency to accounts of residents in other countries, may be approved by the authorized dealers. Transactions not within the scope of the dealers or the Finance Ministry must be submitted to the Central Bank.

All foreign currency proceeds (except those originating from petroleum exports) are deposited with the Central Bank, which supplies the authorized dealers with the foreign exchange they require for approved payments. The petroleum companies, on the other hand, are permitted to retain abroad the proceeds from their petroleum exports and to convert into Nigerian currency only the amounts required to meet their payments to the government and to cover their local operating expenses.