

INTERNATIONALIZATION OF FINANCE AND ECONOMIC DEVELOPMENT IN NIGERIA

(Continued from Last Issue)

Adolphus J. Toby

Internationalization of Finance and Economic Development in Nigeria.

The recession in world business during the mid 1970s and the early 1980s shifted international lending towards the developing countries. Moreover, for lack of more attractive investments, internationally mobile funds have found their way into the syndicated Euro-currency market, resulting in a sharp growth in the scope and dimensions of Euro-bank sector as sources of external finance.

The beneficial role of the transnational banks could be viewed from the provision of a large source of external finance to Nigeria. Table 5 shows that external finance to Nigeria has been growing since 1980. Infact the Federal and State governments during the past civilian administration from 1979 to 1983 embarked on indiscriminate massive borrowing from this unsuitable external finance source, having failed to be prudently mindful of the heavy costs and future debt servicing problems. This has mainly complicated the country's debt management and external financing problems. At least we all accept that the role of transnational financial markets in providing a major source of financing the growing balance of payments deficits of developing countries is commendable - having made their credits more liberal than those from the IMF and from bilateral and multilateral official sources. In spite of this liberality, government has continue to show lack of priority in national resource management. For instance, the military administration under Buhari announced in its revised 1984 budget a drastic cut in further external borrowing; but surprisingly not on the less productive Abuja (Federal Capital Territory) projects opinion leaders had observed that the Abuja projects are not the type of investments that international finance should be obtained to executive because they are the type of priority

productive investments that could yield the required returns that would facilitate the servicing of the external debt later. We must also note that the size of international credits to Nigeria within the period under investigation constituted an insignificant portion of total global lending. Uzor (1990) had stated that in the securitized global market of the 1980s, Third world countries, due to impaired credit worthiness, have been left helpless bystanders. In the international banking market too, developing countries have lost their ground. Following the debt crises of 1989 developing countries share of total bank borrowing has dropped. Progressively in the 1980s, developing countries lost access to development capital.

The table also reveals that inspite of increasing external debt, the gross domestic product (GDP) increased on the average, but not by the same amount and rate at which external debt increased. Change in external debt was much bigger and faster. Infact the GDP in Nigeria was lower than the average in sub-saharan Africa between 1980 and 1988. Also, per capita income increased marginally and was far below the average in sub-saharan Africa within the period investigated. Strikingly noteworthy was the fact that balance of payments (b.o.p.) deficits were significant and exceeded BOP surpluses. Of what use then is the increasing role of transnational finance in Nigeria's economic development? Who must bear the blame? International financial markets or managers of the Nigerian economy? It is the opinion of this paper that most of the blame should go to the managers of the Nigerian economy. This opinion is held because economic development is not simply a matter of money. It is more important a matter of establishing a sound framework of policies designed to ensure that the money is invested productively. Developing countries must recognise the fact that every international lending ac-

tivity is a business with a profit motive. They must avoid diversion of international loans to non-productive purposes. If developing countries like Nigeria can utilize international credits with prudence and enterprise, most of their economic woes will be reverted.

The growing importance of international bank lending as a source of external finance to LDCs has not been without its mixed blessings. While the funds provided might have assisted in filling some financial gaps in these countries, they have, in many cases, exacerbated their external debt financing burden. The banks themselves will need to avoid lending policies that aggravate payments imbalances in the borrowing countries. It is, of course, not the bank's business to make conditional loans of the kind which the International Monetary Fund (IMF) provides and has been accused of making. But as reported by the BIS¹, instances have occurred in the past where the banks clearly over lent to certain countries whose payments deficits were obviously unsustainable. As in the case of many other developing countries, transnational banks play a significant role not only in influencing the level of external indebtedness of Nigeria through increasing loans to the country on less favourable terms, but also through other forms of foreign currency leakages, as revealed in a study conducted by UN/ECA in 1983². The dominant role of the transnational banks in the investment, production and distribution processes also enable them to exercise tremendous control over resource flows to and from developing countries like Nigeria in a manner to impose a net cost on the external financial position of the country. The important role of the banks in effecting transfers of international payments has been particularly detrimental to Nigeria's external finance situation by abetting and conniving at various dubious forms by which Nigerians and

Basic indicators

	Population (millions) mid-1990	Area (thousands of square kilometers)	GNP per capita ^a		Average annual rate of inflation ^a (percent)		Life expectancy birth (years) 1990	Adult illiteracy (percent)	
			Dollars 1990	Average annual growth rate 1965-90 (percent)	1965-80	1980-90		Female 1990	Total 1990
Low-income economies	3,058.3 t	37,780 t	350 w	2.9 w	8.0 w	9.6 w	62 w	52 w	40 w
China and India	1,983.2 t	12,849 t	360 w	3.7 w	3.2 w	6.8 w	65 w	50 w	37 w
Other low-income	1,075.1 t	24,931 t	320 w	1.7 w	17.3 w	15.1 w	55 w	56 w	45 w
1 Mozambique	15.7	802	80	..	..	36.6	47	79	67
2 Tanzania ^b	24.5	945	110	-0.2	9.6	25.8	48	..	..
3 Ethiopia	51.2	1,222	120	-0.2	3.4	2.1	48	..	..
4 Somalia	7.8	638	120	-0.1	10.2	49.7	48	86	76
5 Nepal	18.9	141	170	0.5	7.8	9.1	52	87	74
6 Chad	5.7	1,284	190	-1.1	6.2	1.2	47	82	70
7 Bhutan	1.4	47	190	..	..	8.4	49	75	62
8 Lao PDR	4.1	237	200	..	..	..	49	..	..
9 Malawi	8.5	11 ^c	200	0.9	7.4	14.7	46	..	..
10 Bangladesh	106.7	144	210	0.7	15.9	9.6	52	78	65
11 Burundi	5.4	28	210	3.4	5.0	4.2	47	60	50
12 Zaire	37.3	2,345	220	-2.2	24.7	60.9	52	39	28
13 Uganda	16.3	236	220	-2.4	21.4	107.0	47	65	52
14 Madagascar	11.7	587	230	-1.9	7.7	17.1	51	27	20
15 Sierra Leone	4.1	72	240	0.0	7.9	56.1	42	89	79
16 Mali	8.5	1,240	270	1.7	9.0	3.0	48	76	68
17 Nigeria	115.5	924	290	0.1	14.6	17.7	52	61	49
18 Niger	7.7	1,267	310	-2.4	7.5	2.9	45	83	72
19 Rwanda	7.1	26	310	1.0	12.5	3.8	48	63	50
20 Burkina Faso	9.0	274	330	1.3	6.3	4.5	48	91	82
21 India	849.5	3,288	350	1.9	7.5	7.9	59	66	52
22 Benin	4.7	113	360	-0.1	7.4	1.9	50	84	77
23 China	1,133.7	9,561	370	5.8	-0.3	5.8	70	38	27
24 Haiti	6.5	28	370	0.2	7.3	7.2	54	53	47
25 Kenya	24.2	580	370	1.9	7.2	9.2	59	42	31
26 Pakistan	112.4	796	380	2.5	10.3	6.7	56	79	65
27 Ghana	14.9	239	390	-1.4	22.9	42.5	55	49	40
28 Central African Rep.	3.0	623	390	-0.5	8.2	5.4	49	75	62
29 Togo	3.6	57	410	-0.1	7.1	4.8	54	69	57
30 Zambia	8.1	753	420	-1.9	6.3	42.2	50	35	27
31 Guinea	5.7	246	440	..	..	..	43	87	76
32 Sri Lanka	17.0	66	470	2.9	9.4	11.1	71	17	12
33 Mauritania	2.0	1,026	500	-0.6	7.6	9.0	47	79	66
34 Lesotho	1.8	30	530	4.9	6.7	12.7	56	..	..
35 Indonesia	178.2	1,905	570	4.5	35.5	8.4	62	32	23
36 Honduras	5.1	112	590	0.5	5.7	5.4	65	29	27
37 Egypt, Arab Rep.	52.1	1,001	600	4.1	6.4	11.8	60	66	52
38 Afghanistan	..	652	..	..	..	..	42	86	71
39 Cambodia	8.5	181	..	..	..	..	50	78	65
40 Liberia	2.6	111	..	..	6.3	..	54	71	61
41 Myanmar	41.6	677	..	..	..	..	61	28	19
42 Sudan	25.1	2,506	..	..	11.5	..	56	88	73
43 Viet Nam	66.3	330	..	..	..	..	67	16	12
Middle-income economies	1,087.5 t	41,139 t	2,220 w	2.2 w	21.1 w	85.6 w	66 w	27 w	22 w
Lower-middle-income	629.1 t	22,432 t	1,530 w	1.5 w	23.6 w	64.8 w	65 w	32 w	25 w
Upper-middle-income	458.4 t	18,706 t	3,410 w	2.8 w	19.3 w	102.1 w	68 w	19 w	16 w
Low- and middle-income	4,145.8 t	78,919 t	840 w	2.5 w	16.7 w	61.8 w	63 w	46 w	36 w
Sub-Saharan Africa	495.2 t	23,066 t	340 w	0.2 w	11.4 w	20.0 w	51 w	62 w	50 w
East Asia & Pacific	1,577.2 t	15,572 t	600 w	5.3 w	9.3 w	6.0 w	68 w	34 w	24 w
South Asia	1,147.7 t	5,158 t	330 w	1.9 w	8.3 w	8.0 w	58 w	67 w	53 w
Europe	200.3 t	2,171 t	2,400 w	..	13.9 w	38.8 w	70 w	22 w	15 w
Middle East & N. Africa	256.4 t	11,334 t	1,790 w	1.8 w	13.6 w	7.5 w	61 w	60 w	47 w
Latin America & Caribbean	435.1 t	20,397 t	2,180 w	1.8 w	31.4 w	192.1 w	68 w	18 w	16 w
Other economies	320.9 t	22,634 t	..	..	..	..	71 w	7 w	6 w
Severely indebted	455.2 t	21,048 t	2,140 w	2.1 w	27.4 w	173.5 w	67 w	24 w	21 w
World	5,283.9 t	133,342 t	4,200 w	1.5 w	9.2 w	14.7 w	66 w	45 w	35 w
Fuel exporters, excl. former USSR	272.9 t	12,387 t	..	1.1 w	14.5 w	8.4 w	58 w	54 w	44 w

Source: World Bank Development Report.

(Cont. from page 60)

foreigners have transferred through the banks to other countries billions of the country's foreign exchange resources especially over the past decade. Considerable sums of money have been siphoned away through:

- * transfers of actual and potential foreign exchange by over invoicing of imports, under-invoicing of exports, and through manipulation of commodity pricing, e.g. transfer pricing; and
- * excessive transfers of profits and other capital gains, especially in the absence of effective national policies to prevent or reduce the incidence of such transfers.

Conclusion

Nigeria's present financial problems have thus become aggravated by the past massive multinational bank loans mainly because the proceeds of the loans were not productively utilized to bring about a healthy development of the economy. The resultant rising external debt was utilized primarily to cover avoidable balance of payments deficits rather than to finance specific projects that would have later assisted in the servicing of the debt. Furthermore, such general purpose loans from the multinational banks were used by the government to avoid badly needed fundamental adjustment in domestic economic policy. By thus aiding the postponement of

urgent economic adjustment measures, the doom day was only postponed, which has now made the economic adjustment measures being taken to be rather more costly, less effective and for the problem to drag on for a longer time, in a more painful manner. Nigeria, and indeed other developing countries must now learn the lessons of Prudence, Enterprise and Priority in national resource management. To be forewarned is to be forearmed!

Footnotes

1. Bank for International Settlements (BIS) Fifty-First Annual Report, 1st April 1980-31st March, 1981, P.III.
2. UN/ECA, "Foreign Currency Leakages in the Nigerian Economy", NISER, Ibadan, October, 1983 (mimeo).

45