New Nigerian President challenged by economic crisis, IMF blackmail

by Uwe Friesecke

On May 29, in Abuja, Nigeria's capital, Olusegun Obasanjo was sworn in as the new President of the Federal Republic of Nigeria. This ended an 11-month transition to civilian government which was initiated by Gen. Abdulsalam Abubakar in June last year. Abubakar took over the Nigerian Presidency after Gen. Sani Abacha, the President since 1994, died unexpectedly. General Obasanjo emerged as the winner of Nigeria's Presidential elections on the ticket of the People's Democratic Party (PDP) in February 1999.

A week before the Presidential elections, the voters were called to the polls to elect their House of Representatives and Senate. Both chambers met five days after the Presidential inauguration to choose their President and Speaker. The 109-member Senate elected Chief Evan Enwerem, 63, an experienced politician from the East, as President, and the 360-member House of Representatives selected Alhaji Ibrahim Buhari, 36, a successful businessman from the North, as Speaker.

With this inauguration of the new President and the seating of the National Assembly in Abuja, the Nigerian political class is attempting a fresh approach at tackling Nigeria's difficult political and economic problems. Their optimistic calculation is that, if, under the new civilian government, Nigeria ends its status as a pariah and is again accepted by the international community, then help and support will be forthcoming. A critical review of developments surrounding Obasanjo's inauguration as head of state clearly shows, that this will turn out to be a thorough miscalculation. Because the British government, speaking for the international community, has made it very clear that Nigeria will have to pay the price of strict adherence to economic dictates of the International Monetary Fund (IMF). The sooner some of the political leaders in Nigeria realize this, the better it will be for the country and its people.

In his inauguration speech, President Obasanjo emphasized as his main concern the need to fight corruption and to implement principles of good governance. And, consequently, President Obasanjo, after two days in office, started implementing measures accordingly. He suspended all government contracts, licenses, and appointments (except judiciary appointments) made by the Abubakar administration since January of this year, and set up a review panel for this. He fired 99 high-ranking Customs officials, and has made it known that the conduct of the entire civil service will be reviewed. In the military, a wide-ranging process of early retirements is under way, affecting in the first round more than 40 officers of the rank of two-star general, and ultimately up to 400 officers in all three services.

While dubious practices in Nigeria's administrative institutions need to be corrected, political observers emphasize that this is not the only reason for these measures. President Obasanjo and his team of advisers would also like to score some points with the international community and media, which had praised him so much before. But, nobody should be fooled. Nigeria's critics in London and on Wall Street don't really care about corruption or good governance, except for purposes of political blackmail.

The more critical points in the inauguration speech were promises to do something about the collapsed economy and infrastructure of the country. He defined the priority issues which his administration must deal with, including: the crisis in the oil-producing areas; food supply, food security, and agriculture; education; exchange-rate management; supply and distribution of petroleum products; the debt issue; infrastructure; job creation; and housing and health services. In a speech to the first joint session of the House of Representatives and the Senate, Obasanjo specified even more clearly his administration's commitment to rehabilitate and modernize transportation infrastructure, and to revive the Nigerian educational system, as preconditions for improving Nigeria's economy.

It will soon become obvious, that the new President and his government will find themselves in a bind. Because the Nigerian people, after undergoing more than 15 years of dramatic decline of living standards, expect that the new government will fulfill its promises in the short term. If not, social unrest is preprogrammed, no matter how "democratic" the new government is. But, this means that the new government will have to spend money for those programs. Yet, the international community, represented by financial institutions including the IMF, the World Bank, and the Paris Club of creditors, is demanding that money first be spent on debt repayment rather than improvement of Nigeria's economic infrastruc-

Nigerian President-elect Olusegun Obasanjo, at a meeting with U.S. Secretary of State Madeleine Albright on March 31, 1999. The sooner some of the political leaders in Nigeria realize that the IMF and London do not intend to help it overcome its economic crisis, the better it will be for the country and its people.

ture. And, their praise for "democracy in Nigeria" will soon evaporate if the new government were to resist their demands, which, according to well-informed sources, the Western financial institutions did not miss their chance to deliver during the inauguration festivities in Abuja. So, the big question, right from the beginning of what is now called Nigeria's Fourth Republic, is: How far is President Obasanjo's government willing to go to challenge the IMF, the World Bank, and the Paris Club?

The weakness of the Nigerian economy

Speaking before Parliament, President Obasanjo sounded the alarm over the fact that the national budget is dramatically sliding into deficit and running out of foreign reserves. He warned that if current trends continue, at the end of the year the Nigerian budget deficit would grow to $246 million. And, he reported that foreign reserves fell from $7.1 billion in January to $3.75 billion at the end of May. Nigeria's almost complete dependency on revenue from oil sales turns out to be devastating. Because the world market price fell below $10 per barrel, because the Organization of Petroleum Exporting Countries members agreed on reduced production quotas, and because of violence in the oil-producing areas of the Niger Delta, the monthly revenue from oil sales for Nigeria fell from more than $1 billion in January 1997 to only $310 million in December 1997. Therefore, for this year, the government already projects a drop in foreign exchange earnings to $6.37 billion, as compared to $12 billion last year. With the IMF demanding approximately $3 billion a year in debt payments, it creates an impossible budgetary situation for the new government, because, after subtracting the operational costs of running federal, state, and local governments, it leaves nothing for any new investments.

When the Manufacturers Association of Nigeria (MAN) published its semi-annual review of the economy in mid-May, it became clear again what the fundamental deficit of the Nigerian economy is: the lack of an industrial base. Although the country is rich in natural and human resources, successive governments since independence almost 40 years ago have failed to develop a self-sustaining industrial economy for the country. To this day, Nigeria is dominated by agriculture, most of it at subsistence level, and the export of oil. The industrial production of physical goods constitutes only a tiny proportion of economic activity. Therefore, Nigerian industry cannot produce the amounts of cement, fertilizer, bitumen, or other goods so urgently needed for economic development. The country does not even operate enough refineries to supply the domestic market with gasoline and other petroleum products. Nigeria still has to import every bit of steel that is needed for construction.

And, as the MAN semi-annual review shows, for the little industrial production that exists, things went from bad to worse in 1998. Capacity utilization fell to 31.3% by the end of 1998. While industrial employment was 45,948 at the end of 1997, it fell to 32,471 at the end of 1998, losing some 13,500 jobs in one year, or almost 30% of the workforce. The value of industrial output correspondingly plunged to 27.48 billion naira (Nigeria's currency), which is 31.4% lower than the 40.05 billion naira in 1997. Even more alarming, is the fact that total investment expenditure crashed by 1.8 billion naira, or 66%, and that no investment went into any new projects. In other words, Nigeria is rapidly losing its productive industrial sector.

The unavoidable fight with the IMF

When IMF Managing Director Michel Camdessus visited Abuja in March, the Nigerian government finally capitulated to his demands. It devalued the naira by 4.2%, from 86 to 90 to the dollar, and ended the fixed exchange-rate regime. The naira, which 20 years ago was worth more than a dollar on the parallel market, immediately lost more than 10% of its value and fell to between 100 and 104 to the dollar. By the end of May, this sent prices for foodstuffs and consumer goods soaring by up to 15% already in most of the markets in Nigeria's big cities such as Lagos or Kaduna. Imports of capital equipment or spare parts for industry and agriculture, such as irrigation pumps, equally rose in price and are becoming out of reach.

With the decision to devalue the naira, the Nigerian capital market also has become vulnerable to attacks by international speculators. The second IMF demand calls for unrestricted privatization of state companies to balance the budget. While complaints about the inefficiency of certain state enterprises, such as the refineries or the telephone system, are justified, selling these enterprises off to international bidders will only lead to asset-stripping in favor of international investors, not the Nigerian economy.

The third IMF policy demand is for a further increase in government austerity measures, such as lowering wage benefits and laying off large numbers of government employees. This can only accelerate a social catastrophe, because most civil servants are already unable support their families on an average government salary, and outside of government employment, no new jobs are available. The IMF prescriptions for Nigeria, if implemented, would further destroy Nigerian industry and agriculture and spread poverty like wildfire. If the Obasanjo government agrees to such IMF conditions, as are now demanded, it will commit political suicide.

Signs of resistance

But, there are signs of a fight against the IMF within Obasanjo's government. Sources report that Her Majesty's government of British Prime Minister Tony Blair may have overplayed its hand with the demand for posting of permanent IMF monitors at the Central Bank and Federal Finance Ministry, which British Chancellor of the Exchequer Gordon Brown expressed in a letter to Nigerian Finance Minister Ismaila Usman, at the beginning of May, as a precondition for British support for new IMF loans. General Obasanjo reacted with unusually harsh language. At a meeting with the director of the Jubilee 2000 Coalition, Obasanjo declared that he had invited the IMF and the World Bank to come and examine the Central Bank, but that he would not be dictated to by such institutions. He noted that at least half of Nigeria's debt "is dubious." "The people who gave those loans, knew that the money wasn't being spent wisely. Perhaps they even took their own cut. Yet the ordinary people of Nigeria have to pay back that loan," he said. In an apparent response to the British Chancellor, Obasanjo continued: "Once you owe money, you lose an element of sovereignty. But I want to make it clear, that they cannot tell me what to do in Nigeria. I have stuck my neck out. You want openness, I'll open up. You want transparency, I'll give you transparency. After that, what else is the West asking me to do? Cut my neck? Bleed Nigeria to death?"

Nigerian patriots, who fought against the structural adjustment policy of the IMF for the last 15 years, were relieved by Obasanjo's statement, because finally, after months of appeasement from official circles in Abuja toward the IMF and Western creditors, there was a sign of a fight. There are prominent Nigerian economists and political leaders who are trying to push the new President to resist IMF blackmail. They point to China and Malaysia as two countries in Asia which survived the storms of the financial crisis, because they defended themselves with calculated dirigistic measures such as exchange and capital controls. They argue that the West has only limited means of blackmailing Nigeria; after all, Nigeria has the largest population of Africa, and is still the largest oil producer on the continent. What could the West really do, if the Obasanjo government were to move toward a dirigistic policy of a controlled market economy based on rapid development of infrastructure and protectionist measures favoring the internal market for Nigerian industry and agriculture? What could the West do, if the new Nigerian government decided to allocate significant money from oil revenue to build railroads, highways, waterways, energy plants, schools, universities, hospitals, and refineries, to rehabilitate roads, and, finally, finish the Ajeokuta steel project?

The anti-IMF faction argues that President Obasanjo can only fulfill his promises to the Nigerian people if he resists the IMF pressure, even though a strong faction of the old Vision 2010 project is lobbying for a sellout to the IMF. This will decide the fate of Obasanjo's Presidency more than anything else. If he and the new political leadership in the House of Representatives and the Senate are serious about creating a new Nigeria, they will initiate a public debate on the IMF as the life and death question for Nigeria's future.