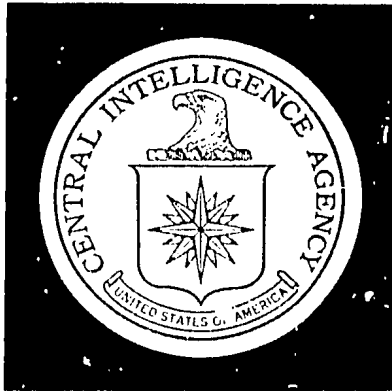


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Impact of Civil War on the Nigerian Economy

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1968

INTELLIGENCE MEMORANDUM

Impact of Civil War on the Nigerian Economy

Summary

The civil war and the preceding months of deepening political crisis have halted Nigerian economic growth and dimmed prospects for development over the next few years. The economic and organizational framework has been disrupted, massive population shifts have occurred, and considerable physical damage has been sustained. The war has loosed tribal rivalries that threaten any future political arrangements that may emerge. The short-term economic outlook for Nigeria, or for its component parts, is poor. The organization and financing of the dozen newly created states into which the country has been divided is likely to be a long and costly process. Private, particularly foreign, investment outside the petroleum sector is not likely to resume in significant quantity unless and until a modicum of political stability has been achieved.

In secessionist Biafra, the former Eastern Region, the level of economic activity in the modern sector has declined much further than in the Federal areas. Biafran plants dependent on imported raw materials have closed as a result of the blockade

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence and the Office of National Estimates.

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imposed by the Federal Military Government (FMG) in mid-1967. Shortages of imported consumer goods are reportedly widespread. External trade is confined to smuggling via the creeks and back roads supplemented, at least until mid-May 1968, by occasional clandestine flights into Port Harcourt. The pervasiveness of the extended family system has enabled Biafra to absorb perhaps a million refugees from elsewhere in Nigeria and to increase, or at least maintain, the production of staple foodstuffs. This influx of skilled workers and technicians has also contributed to Biafra's remarkable ability to adapt to the blockade and to innovate sufficiently to keep a wartime economy going. Biafra's foreign exchange earnings have been drastically cut, however, and paying for arms and other imports will become more difficult unless new sources of money are found.

In Federally controlled Nigeria, much of the population lives in the traditional economy where events outside the villages, including the civil war, have relatively little effect. Good harvests of many important crops have sustained farm income and the demand for basic consumer goods. In the more modern sector, however, economic activity has fallen off, and some local shortages and dislocations have occurred. Internal trade is sluggish, and private investment and government development spending have slowed down. Exports have declined more than imports, and the trade balance turned unfavorable in August 1967. Foreign exchange reserves are being depleted, and the Federal budget deficit is growing as military spending mounts. Although these problems are severe, they do not pose insurmountable economic difficulties for the FMG in its war against Biafra.

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Introduction

1. Nigeria, which was the largest British colony in Africa, gained independence in 1960 as a federation of three regions, each of which was dominated by a major tribal group -- the Hausa-Fulani in the North, the Yoruba in the West, and the Ibo in the East. Each region also contained many lesser tribes, most of which bitterly resented their subordinate status. The eastern part of the Western Region, which is inhabited largely by small, non-Yoruba related tribes, became the Mid-Western Region in 1963 (see Figure 1).

2. The regions were self-governing and held wide powers over such matters as regional development plans, local taxation, and industrial development. Federal government responsibilities included the issuance of currency, external borrowing, defense, control of mining and mineral extracting, and communications. With more than half the total population, the North dominated the national Parliament and the central government, and control by the conservative Moslem northerners became less and less palatable to the more modern and progressive southerners.

3. After efforts to loosen the Northern grip or further strengthen regional government by constitutional means had failed, an Ibo-led group killed or otherwise removed key Hausa-Fulani leaders and many of their allies in January 1966. This coup resulted in the establishment of a military regime headed by General Ironsi, an Ibo, which in turn was overthrown in mid-1966 by northerners. Many Ibo officers were killed, and waves of massacres of Ibos in the Northern Region led to a mass flight of Ibos back to their Eastern homeland in the second half of 1966.

4. Differences between the East, headed by its military governor, Colonel Ojukwu, and the rump Federation, headed by General Gowon, worsened steadily and culminated in the East's declaration of independence as Biafra on 30 May 1967. The Federal government decreed an increasingly tight blockade of the East, and by early July, when war broke out between Biafra and the Federation, the blockade of Biafran ports was practically complete.

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*General Gowon, Head of the Federal
Military Government*



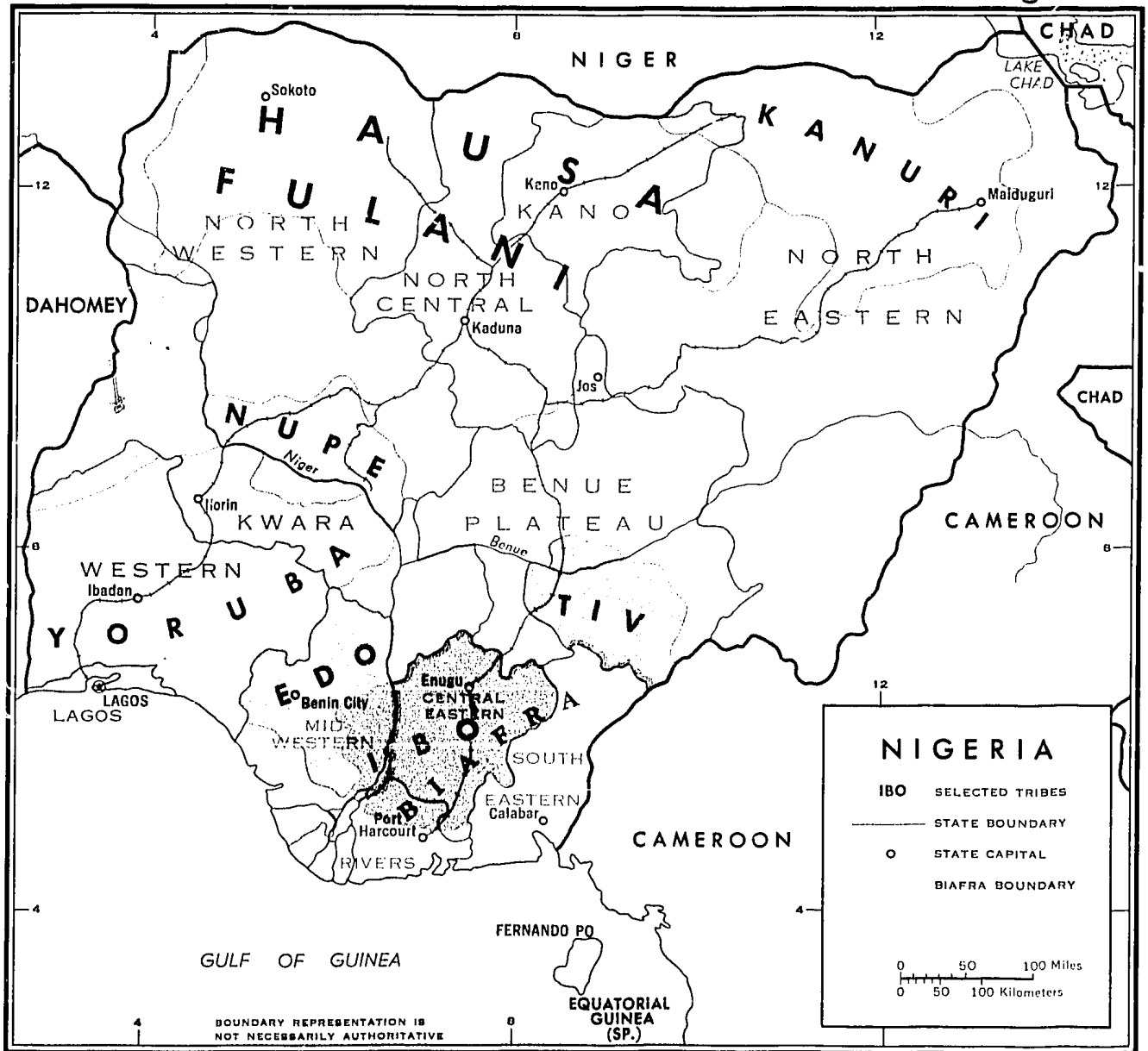
*Colonel Ojukwu,
Biafra's Chief
of State*

The Pre-Coup Economy

5. From 1951 through 1965 the Nigerian economy appears to have grown fairly steadily. Rough estimates indicate that gross domestic product (GDP) increased at an average annual rate of about 4 percent through 1960 and perhaps 5 percent per year thereafter. The prime source of growth over the whole period was the expansion of production of cash crops -- peanuts, cocoa, palm produce, rubber, and cotton -- which averaged about 5 percent per year by volume. Large-scale manufacturing, based chiefly on import-substitution, increased about 15 percent per year over the period and, especially after 1960, the oil industry assumed a rapidly increasing importance. In spite of their rapid growth, large-scale manufacturing and the oil industry still made up only a small part of the economy. Nevertheless, the oil industry was beginning to contribute materially to government revenues as initial tax and depreciation privileges were exhausted and the government's share of the profits increased.

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Figure 1



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6. Economic development has been spread unevenly over the country because the southern area, comprising the Western Region, the Mid-Western Region, and the Eastern Region, attracted the bulk of domestic and foreign investment. As a result, output per capita was considerably higher in the south than in the north. The general level of infrastructure, services, literacy, and skills was also much higher in the south. Under the system of allocating revenues between the Federal and regional governments that prevailed before the former Eastern Region seceded, the southern regions were subsidizing services and development in the poorer Northern Region. This subsidy would have increased under the formulas for distributing rapidly growing revenues from the oil industry located in the former Eastern and Mid-Western Regions. The diminishing share of oil revenues that the East was allowed to keep was one of the factors contributing to Eastern dissatisfaction with the Federal system before the outbreak of the war.

7. Before the January 1966 coup, in which the civilian politicians were overthrown, prospects for the Nigerian economy were brighter than for many African countries. The diversity and volume of agricultural exports were such that Nigeria supplied only a small part of the world market for each commodity, and thus the country could expand output without adversely affecting the world price. The size and apparent stability of the economy were attractive to both foreign and domestic investors. Moreover, the rapid growth of petroleum production and of manufacturing promised further diversification of exports and expansion of domestic industries.

8. Major economic problems existed, however, especially rising urban unemployment and an increasing gap between urban and rural incomes. Ill-advised government pricing policies were partially responsible for this situation. All important cash crops, except rubber, are handled by government marketing boards which collect and sell the output. The price paid the farmer is much lower than the f.o.b. prices at the ports because the government levies export duties and sales taxes

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and because the marketing boards often make a sizable profit. These levies and profits contribute substantially to government revenues and have provided much of the money used to expand government services and finance development projects. Since 1960 the prices paid to the farmers have declined markedly, and (at least in the case of palm oil) the price has been so low as to discourage sales for exports. As a result, production of export crops has, in many cases, become relatively less attractive than the production of food.

9. The failure of farm income to keep pace with the rise in urban wages* has contributed greatly to the serious problem of urban unemployment. As urban wages for unskilled labor rose to over twice the average farmer's income, many rural people, especially those with some schooling, were attracted to the cities. Growing urban unemployment has coincided with a shortage of labor in some rural areas.

Economic Effects of the Coups and Civil War

Effects on Biafra

10. Although detailed information on Biafra is lacking, the level of economic activity has obviously declined sharply since mid-1967. Exports have virtually ceased. Industries dependent on imports generally have ceased production, and trade with the rest of Nigeria has been greatly reduced. Although some trade with the Mid-West continues via the creeks and back roads of the permeable border, the introduction of separate Nigerian and Biafran currencies early in 1968 probably reduced such trade to barter levels. Imports from overseas have been confined to occasional flights into Port Harcourt and to coastal smuggling. The loss of the Port Harcourt airfield to FMG forces in May 1968 will reduce airborne traffic. Shortages of consumer luxuries have been reported, but supplies of

* Taking 1950-52 as a base, an index of prices paid southern farmers by the marketing boards dropped from 100 to about 73 for 1961-63: the minimum wage paid unskilled labor by the Federal government rose from 100 to nearly 300 in the same period.

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domestically produced food and consumer goods apparently remain fairly satisfactory. Intermittent operation of the oil refinery at Port Harcourt (until it was captured in May 1968), combined with previously acquired petroleum stores, has allowed continued operation of motor vehicles. Shortages of spare parts, tires, and batteries have been reported, but the number of motor vehicles apparently is large enough to allow cannibalization to keep essential vehicles running. Although the major textile plants are closed, cottage industry seems to be providing the necessary minimum of cloth.

11. The million or so refugees from northern violence who returned to the East after the September/October 1966 massacres went mostly to their home villages, and consequently local food production seems to have risen. Many of the refugees are highly skilled and have contributed greatly to Biafra's ability to adapt to changed circumstances. Although Biafra has shown remarkable flexibility in meeting the demands posed first by blockade and then by war, economic problems are certain to worsen as fighting continues. Ibo civilians are retreating into the densely populated heartland as Federal forces advance, and shortages of protein foods and medical supplies have become severe.



Primitive Ibo Village near Enugu

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12. When war broke out on 6 July 1967, Biafra had perhaps as much as \$40 million in foreign exchange in European banks, most of which probably has been spent by now. In addition, it had at least \$100 million in unissued Nigerian currency stored in its bank vaults to replace notes as they wore out. After secession, Biafra began selling these notes overseas at substantial discounts to get foreign exchange to pay for arms, other war materiel, and its substantial propaganda activities. Few, if any, of its major purchases appear to have been on credit.

13. In early January 1968 the FMG issued new Nigerian notes, and the opportunities for Biafra to sell its stocks of old notes abroad were reduced. Sales of bonds and of its new stamps and currency to collectors may bring in additional foreign exchange, but these sources of revenue would be relatively small. Biafran ability to continue to import sizable quantities of arms and other materiel would thus appear to depend on the size of current foreign exchange holdings and on whatever assistance it may be able to obtain.

14. Logistical difficulties may soon overtake the problem of obtaining foreign exchange, however. The fall of Port Harcourt has reduced Biafra's ability to receive arms shipments. The other landing strips that might be available are unlikely to be able to handle the relatively large planes that used the Port Harcourt airfield.

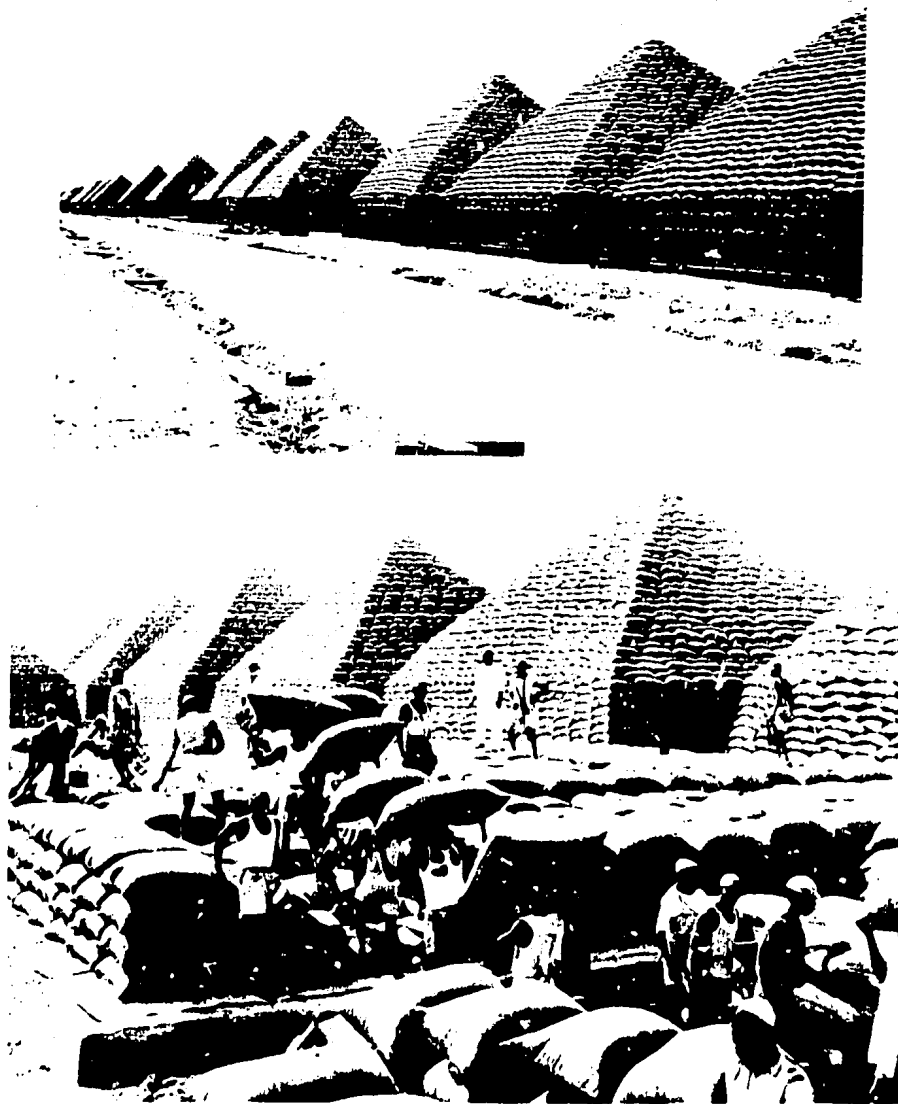
Effects on the Federal Economy

15. Nigeria's economic growth rate declined in 1966 and again in 1967 when per capita income probably dropped slightly. Overall economic activity has been slowed down by the separation of Biafra from the Federal economy and by the uncertainties and dislocations caused by the civil war and the 18 months of deepening crisis preceding it. Nevertheless, the self-sufficiency of many of the rural areas has enabled large sections of the

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population to continue much as usual. Moreover, good harvests of many important crops in 1966 and 1967 have mitigated the effects of lower prices on farm income, and the demand for basic consumer goods like beer, textiles, and cigarettes has been generally sustained.

16. The slaughter of thousands of Ibos and other easterners in September/October 1966 and the exodus of the remainder led to temporary but severe shortages of skilled labor, especially of railroad and communications workers, in many parts of the former Northern Region. There were further dislocations in the transport system as the eastern branch of



Peanuts Bagged for Export, Kano

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the railroad, over which about 10 percent of northern peanut exports moved to Fort Harcourt, was closed to non-Biafran traffic. After an initial sharp decrease in rail service and efficiency, many of the problems were overcome through the recruitment of expatriate workers, by crash training programs for northerners, and by diverting northern rail traffic to Lagos. Shortages of fuel and other imported goods in northern areas appear to have been largely overcome, partly because of a rapid expansion of north-south truck traffic. Transport costs are now somewhat higher than prewar levels, but peanuts and other important northern exports seem to be moving at near normal rates. The transport system is under considerable strain, however, and severe port congestion at Lagos continues.

17. The sealing off of Biafra has meant a loss of markets for many producers in the rest of Nigeria, since the East normally accounted for at least a quarter of the Nigerian market. In FMG-controlled areas, sales of goods other than staples appear to be off, in line with the general decline in economic activity. Consumer prices rose rapidly in 1966, largely as a result of the dislocations caused by the flight of easterners, who controlled a large share of local trade, and of the disruption of interregional trade patterns and organization. More recently, distribution has recovered somewhat, and consumer prices have declined.

18. The rapid changes in government since early 1966, combined with decreasing revenues, have adversely affected development spending. Foreign aid has also declined. Official capital receipts were estimated at \$87 million in 1966, compared with over \$100 million in the previous year, and were probably still lower in 1967.

19. The estimated net inflow of private capital (including that of the oil companies) was about \$170 million in 1965 and dropped to about \$155 million in 1966. Domestic private investment has probably followed the same trend. Private foreign investment, outside the oil industry, had not been expected to grow as rapidly in 1966 and 1967 as it did in earlier

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years, because many of the most profitable import-substitution opportunities had already been taken up. Investment declined appreciably, however, as a result of political uncertainties arising from the January 1966 coup and subsequent upheavals. Foreign investment in the oil industry probably remained high until mid-1967, when the full blockade and subsequent hostilities ended exports from the Eastern Region and caused the evacuation of most oil company personnel from the affected areas.

The Oil Industry

20. One of the more costly aspects of the civil war was the virtual cessation of oil production after hostilities began. Since August 1967, production and exports have been only about 10 percent of the June 1967 level, as indicated in the following tabulation showing monthly production of crude oil in 1967:

<u>Thousand Barrels per Day</u>			
January	561	July	148
February	554	August	52
March	574	September	54
April	582	October	55
May	580	November	58
June	578	December	58

Oil exports rose rapidly throughout the 1960's and had been expected to average about 600,000 barrels per day in 1967. Instead, they fell below the 1966 level, as shown below.

	<u>Exports (Thousand Barrels per Day)</u>	<u>Annual Value of Oil Exports (Millior. US \$)</u>
1959	10	7.6
1960	16	12.3
1961	44	32.2
1962	66	48.2
1963	72	56.6
1964	116	89.9
1965	260	190.7
1966	378	257.3
1967	320	202.0 (provisional)

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Government revenues derived from the oil industry rose slowly in the early 1960's because of tax concessions granted the companies and because the industry was still concentrating on exploration and development. Such revenues grew more rapidly after 1964 as taxable profits increased and by 1966 amounted to an estimated \$65 million to \$70 million, or more than 10 percent of combined Federal and regional revenues. About \$45 million of this revenue was from operations in the former Eastern Region. In spite of the sharp drop in production in 1967, oil revenues probably remained high because Nigeria raised taxes and changed the capital allowances permitted the industry.

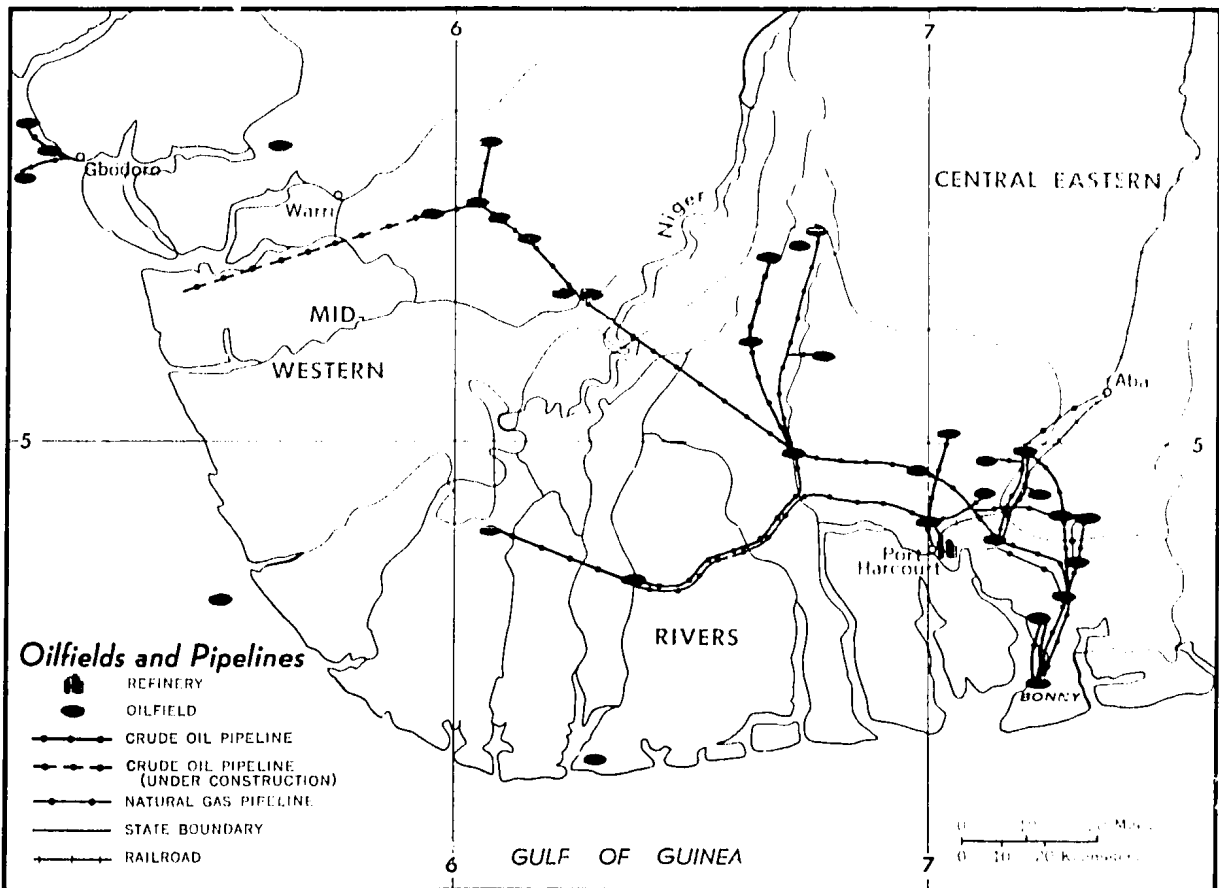
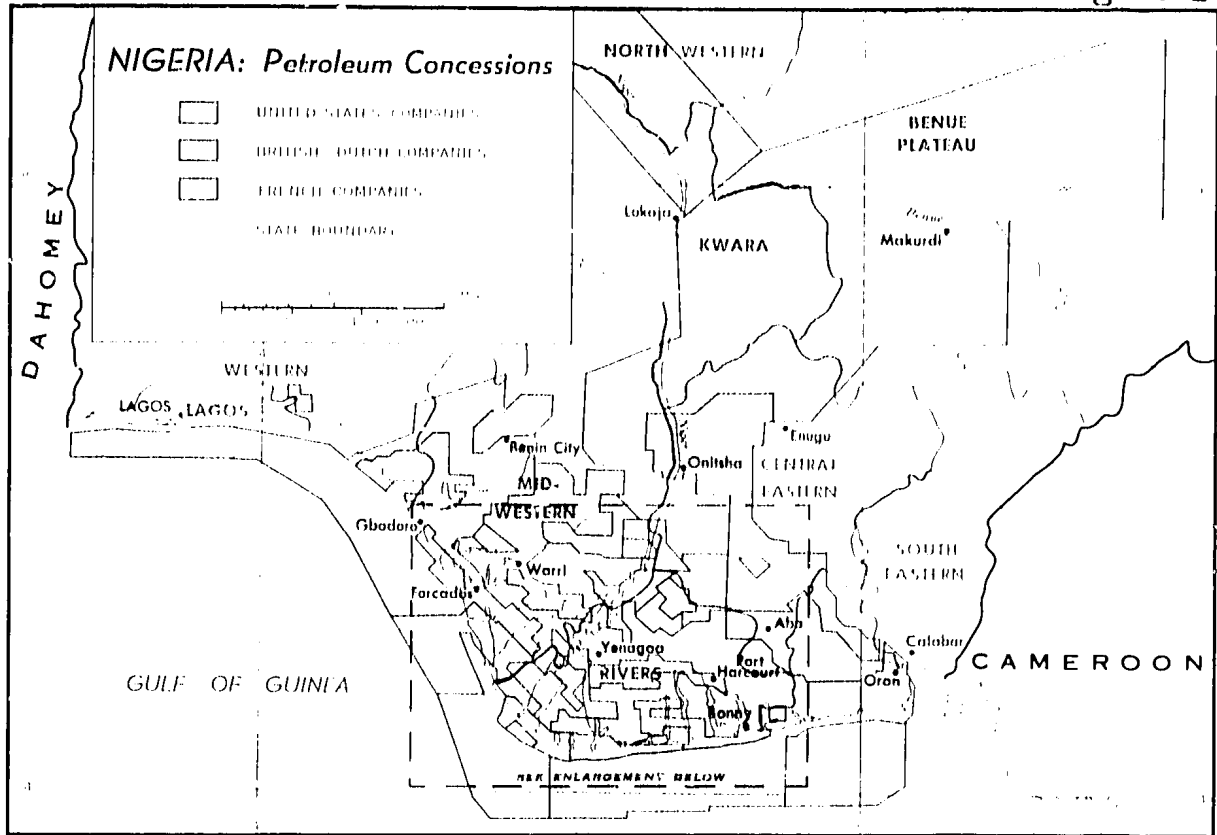
21. Before the war, about 60 percent of the oil produced in Nigeria came from the former Eastern Region, but nearly 90 percent of Nigerian production was exported through the East's terminal at Bonny. Biafra's declaration of independence at the end of May 1967 brought exploration to a halt as the companies began to evacuate personnel. Shell/BP and the French firm SAFRAP continued to export through Bonny until July 2, when the FMG declared a total blockade of Eastern ports. Thereafter, only Gulf, which produces off the Mid-West coast, continued to export oil (see Figure 2).

22. Moreover, the refinery at Port Harcourt, which had supplied the bulk of all Nigeria's needs for products, ceased to supply the Federally controlled areas, and the FMG had to import products. The refinery continued to be operated intermittently by the Biafrans, at least through early 1968.

23. Exploration and development have already resumed in the Mid-West, and production from that area is expected to rise rapidly even if the war continues in the eastern areas. Gulf is expanding its operations in the Mid-West and expects production to average about 100,000 barrels per day in 1968. Shell/BP has begun work on a new terminal off the Mid-West coast and on several pipelines and expects its Mid-West production to expand rapidly in late 1969 and the early 1970's, if current forecasts prove correct.

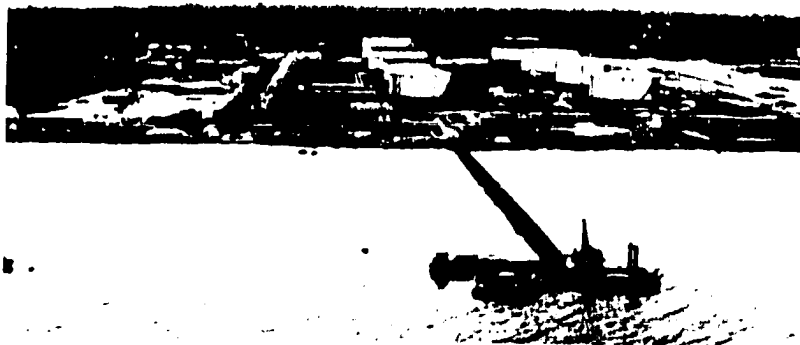
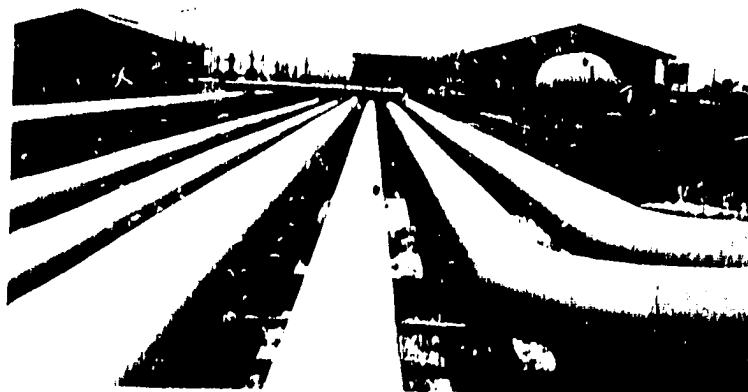
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Figure 2



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Bonny Crude Oil Terminal, 1966

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24. A return to normal operations in the East could take place soon after order and stability are restored. Moreover, Shell/BP, SAFRAP, and several other companies have new wells ready to bring into production in the former Eastern Region, and output from that area could rise rapidly. Repair of the Bonny terminal is not expected to take more than six months, and plans are in hand to begin work as soon as the authorities allow company officials to return there.

Foreign Trade and Finance

25. Imports and exports now are well below the prewar level and are not expected to recover until peace is restored. In the first half of 1967, exports rose while imports remained fairly steady compared with the first half of 1966. By August, however, the trade balance turned unfavorable and remained so for the rest of the year. Preliminary reports for the full year 1967 indicate a trade surplus of only about \$50 million compared with a \$75 million surplus in the previous year. Both imports and exports were lower than in 1966. The Federal government has imposed increasingly strict controls over imports, and purchases of raw materials and consumer goods from abroad declined sharply. Imports of war materiel and mineral fuels rose, however, especially after the war began and the Port Harcourt refinery ceased supplying products to Federal Nigeria.

26. Foreign reserves fell fairly sharply as foreign investment, aid, and exports declined. Official gold and foreign exchange holdings declined from about \$246 million in December 1965 to less than \$130 million by the end of March 1968. Nonessential imports will probably be further restricted; nevertheless, the overall deficit in Nigeria's balance of payments probably will worsen so long as the war continues.

Public Finance

27. The estimated Federal government budget deficit increased from about \$67 million in FY 64/65* to about \$142 million in FY 66/67. The FY 67/68 budget was prepared before the outbreak of

* Year ending March 31.

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hostilities and anticipated a deficit of \$185 million. The actual deficit probably was about \$200 million. Since the civil war began, Federal revenues have declined because of the drop in exports and imports, which are the source of more than one-third of tax revenues. Nonmilitary expenditures also declined appreciably. The recently announced FY 68/69 budget envisions further sizable deficits, at least for the first half of the year.

28. The FMG has resorted to short-term borrowing to finance the budget deficits. Treasury bills outstanding rose from the equivalent of \$190 million at the end of June 1967 to over \$235 million by the end of the year. Measures accompanying the new budget include amendment of the Treasury Bills Act to allow up to \$500 million to be converted to two-year certificates, and additional duties and excise taxes. But as war expenditures continue and economic activity declines, the budget deficit is certain to worsen.

29. Estimates of Federal military spending are only approximate. The total military budget for FY 67/68 may have been as much as \$140 million, or about one-fourth of total government expenditures. The most recent estimates are shown below.

	Million US \$			
	<u>FY</u> <u>64/65</u>	<u>FY</u> <u>65/66</u>	<u>FY</u> <u>66/67</u>	<u>FY</u> <u>67/68</u>
Total government expenditures	467	550	522	560
Of which:				
Defense expenditures	33	44	35	112 to 140
Of which:				
Foreign exchange costs	15	22	13	56 to 84

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30. The FMG probably paid cash for most of the military hardware imported over the past year, including an estimated \$5 million for planes and equipment from the USSR, armed jet trainers valued at \$2 million from Czechoslovakia, and perhaps \$50 million for arms and materiel procured from Western countries, mainly the United Kingdom. In recent months, interest seems to have increased in deferred payment arrangements for new purchases. It is not clear whether the estimated foreign exchange costs shown above were all disbursed in the 67/68 fiscal year, although spending on that order is indicated by the drop in foreign exchange holdings.

The Economic Outlook

31. Whatever the outcome of the civil war and whatever form its settlement takes, the outlook for the economy has dimmed. The government or governments that emerge from the war will face immediate and pressing problems of physical reconstruction, troop demobilization, establishment of a new state structure and allocation of powers and revenues under whatever system is adopted. Exports and government revenues are not likely to recover for many months, and the country is likely to require short-term assistance on a fairly massive scale to cover budget deficits and the expected shortfall in foreign exchange earnings. The government can be expected to turn to the International Monetary Fund for standby assistance and to the major British banks operating in Nigeria for short-term loans.

32. Demobilization, for example, would involve many in the Federal army who expect to receive sizable separation bonuses. Military expenditures are expected to remain well above prewar levels because the FMG plans to maintain a much larger military establishment in the postwar period. If the new states established in April 1968 evolve into small, semiautonomous regions as some of their leaders apparently envisage, the increased administrative costs could absorb for years to come much of the government surplus that would otherwise be available for investment. The quality of administration in much of the country would deteriorate if the states demand exclusive use of local

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tribesmen in their civil services and technical posts. This has begun to happen in many of the northern states where non-northerners formerly ran the region's government and ancillary institutions like the Marketing Board and Development Corporation. There is almost no chance that the six states into which the Northern Region has been divided can find trained native manpower to properly staff their administrations over the next few years.

33. If, as seems likely, the FMG achieves its goal of preventing Biafran secession, the reintegration of the Biafran areas into the Nigerian economy would depend almost entirely on Federal attitudes toward such questions as redeeming Biafran currency, providing aid for reconstruction and rehabilitation, and permitting Ibos to live and work outside of their homeland. If the Federal government is generous on all these points, then a large measure of economic activity could resume fairly rapidly. Oil probably would start flowing within months, but the reopening of Port Harcourt could take longer if reports of harbor and channel silting and sunken obstacles prove true. Palm produce and rubber exports could resume as soon as the ports and transport system can accommodate them. Initial efforts to this end have already begun in the Calabar area "liberated" late in 1967. Recovery of manufacturing is likely to be the most difficult and will depend on the availability of funds for repair and reconstruction of infrastructure.

34. If Federal policies toward the eastern area are harsh, then recovery would be much slower and guerrilla-like resistance could further hamper economic activity. The whole of the eastern area would likely be affected. It would be difficult, for example, to exchange the Biafran currency now used in the Rivers area without also including the Ibo state, and the Federal government has asserted that Biafran notes will not be redeemed. If they are not, the liquid assets of much of the former region would be wiped out and the inhabitants at least temporarily reduced to barter trade.

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Onitsha Market During the Prewar Period



Onitsha Market After the 1967-68 Civil War

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35. In either event, a Biafran surrender will not result in an automatic resumption of prewar levels of output and rates of growth. The fabric of the Nigerian economy has changed in the two-year process of coup, counter-coup, and civil war, and the general climate for investment has been worsened by the revelation of the depth of tribal and political divisiveness. The mass movement of population, the loss of Ibo skills in much of the Federal area, the disruption of internal trade patterns, and the expenditure of scarce resources on military endeavors all have reduced prospects for the early resumption of economic growth.

36. The longer run prospects for the economy will depend on the level of political stability achieved, which will in turn affect the level of investment. Both domestic and foreign investors, with the exception of the oil companies, are likely to be deterred unless and until a large measure of political stability is regained. Aid from the United States, the United Kingdom, and the IBRD, which totaled about \$100 million a year before the war, is unlikely to be restored to previous levels for some time. Nigeria will probably seek continued assistance from the Free World, however, and will probably also take up at least some of the Communist offers, which total about \$80 million. The bright spot in the economic picture is oil. Oil production, exploration, and development could be quickly resumed; oil revenues amounting to well over \$200 million a year by the early 1970's are a reasonable prospect. Such revenues would ease the government's financial situation. Oil development of this magnitude, however, depends on the maintenance of order in the oil-producing areas and on whether the government refrains from any drastic revisions of the tax structure affecting the oil industry.

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