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Nigeria: Implications of Economic Decline

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An Intelligence Assessment

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An Intelligence Assessment

This paper was prepared by
Office of African and Latin American Analysis.
It was coordinated with the Directorate of
Operations. Comments and queries are welcome
and may be directed to the Chief, Africa Division,
ALA,

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Nigeria: Implications of Economic Decline

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Key Judgments

Information available as of 21 June 1985 was used in this report.

Nigeria has emerged from 10 years of high oil earnings cash poor, heavily in debt, import dependent, and sociopolitically deeply divided. Over the course of the 1974-84 period, Lagos squandered much of its $145 billion in export earnings as five successive governments have mismanaged the oil income, diverted substantial sums to create personal fortunes, and missed the opportunity to develop an economic base that could provide growth for the future. In our judgment, and that of most other knowledgeable observers, Nigeria is in worse economic condition today than when the oil boom began in 1974.

The Buhari military regime seized power at the end of 1983 promising economic revitalization, jobs, and lower prices. Instead, economic data show that Nigeria experienced its fourth consecutive year of economic contraction in 1984, higher unemployment, and rising prices. Although the government has succeeded in getting Nigerians to live more within their means and has brought some order to the country's foreign accounts, we believe that it has concentrated on short-term solutions while failing to address the country's basic economic problems. Lagos's dependence on oil income is growing—97 percent of export earnings came from oil in 1984 compared with a 93-percent average for the 1980-83 period. Per capita food production is less than it was in 1970, and the manufacturing sector is dependent on imports for almost three-fourths of its material inputs.

Evidence of the economic decline is not limited to the aggregate statistics. On a human scale, it has sharpened the historical divisions between mutually hostile ethnic and regional groups, according to Embassy reporting and open sources. For example, competition is escalating among various regions for a share of the diminished oil earnings. In our view, such centrifugal tendencies probably will grow and violent clashes between regions could occur that eventually might lead to the type of conflict that occurred in 1966-69.

Nigeria's fundamental economic problems have had an especially adverse affect on its external accounts. Lagos is not earning sufficient foreign exchange to pay its debts, purchase food, supply inputs for production, and maintain the billions of dollars worth of existing investment. Food imports

[redacted]
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and debt service alone will consume about two-thirds of hard currency earnings in 1985, according to US Embassy estimates. An abrupt drop in oil income could cause trade arrears to accumulate again—Lagos still has about $9 billion in trade debt outstanding from 1982-83 when the former Shagari government failed to contract the flow of imports in the face of declining oil earnings.

We estimate that, even if oil earnings remain relatively stable at current levels, Lagos's debt service will increase to at least 60 percent of export earnings in 1987 and will remain high for the decade. In our judgment, Lagos can meet its payments on its estimated $23 billion debt during 1985 if it maintains planned restrictions on imports and if the oil price does not soften considerably. However, we believe that rising unemployment and inflation, severely restricted credit, and the need to limit imports will finally produce economic pressures sufficiently severe to compel the Nigerian Government to agree to an IMF program as a prelude to debt rescheduling sometime next year or in 1987.

Despite its message of austerity, the Federal Military Government is continuing the development policy of the oil boom years. Spending is heavily influenced by the need to satisfy regional and ethnic jealousies, pacify the military, and maintain the support of business and bureaucratic elites. Funds continue to be squandered because of corruption. Although personal enrichment at public expense reached its peak during the high-income years of the former civilian government—and the present military government came to power promising to end it—[redacted] these leaders are continuing the practice. 25X1 25X1

Based on reports of dissatisfaction with Buhari's leadership, we would expect some reshuffling of top officers and the likely replacement of Buhari, possibly by force, by another senior officer such as Chief of Army Staff Ibrahim Babangida. Although such a government would be more likely to accept an IMF program because of economic circumstances, we would not expect other abrupt policy changes. Despite US Embassy reports of unrest throughout the military, we believe it most likely that officers representing conservative, northern-based interests will be able to retain power with or without Buhari. Based on assessments from the Embassy [redacted] we do not judge that potential rivals from other regions can coalesce enough support within the military to mount a successful coup. 25X1

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We believe an alternative scenario within the next two to three years is a coup by midlevel officers who would replace the present northern-based power elite. A regime formed by midlevel officers, probably representing Nigeria's southern and Middle Belt regions as well as reformist elements in the north, could be expected to depart from the policies of previous regimes by taking a more nonaligned posture and instituting nationalistic economic policies including the probable refusal of an IMF program. In our judgment, this scenario becomes more probable if intense ethnic and regional rivalries are not eased soon. However, conservative northerners are likely to resist forcefully such attempts by nonnorthern groups almost certainly leading to factional fighting within the military.

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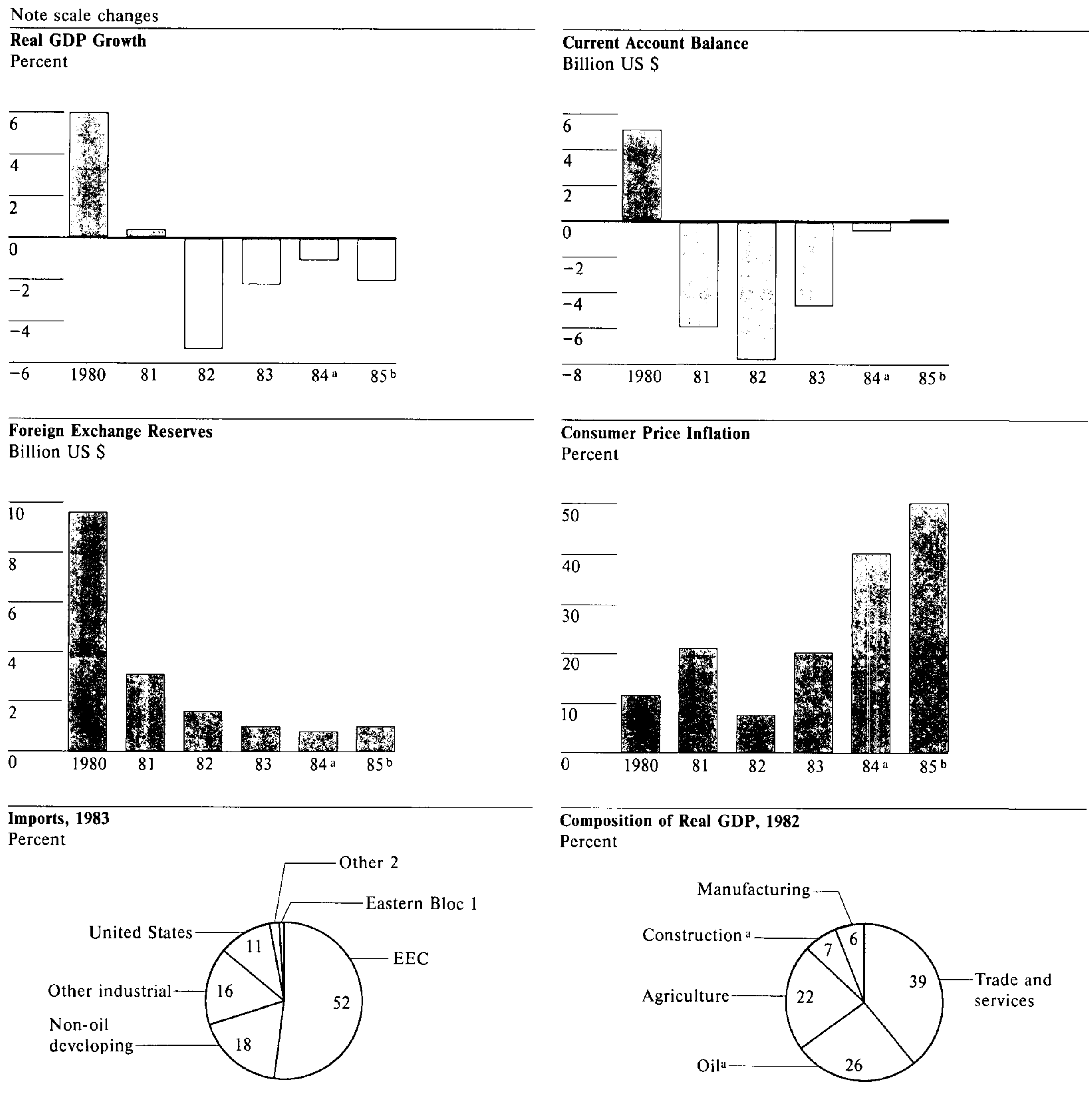
Figure 1
Nigeria: Economic Indicators, 1980-85



[a] Estimated.
[b] Projection.

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Nigeria: Implications of Economic Decline

Introduction

The Nigerian economy reached its peak during 1981 but has declined continually since then, according to International Monetary Fund (IMF) data. By 1984, real GDP had dropped to the level of a decade earlier, while the population had increased by 25 million to more than 90 million. Over the same 1974-84 period, the official consumer price index, which usually understates inflation, rose by over 500 percent and Lagos's foreign debt increased from $2 billion to about $23 billion. Nigeria's debt service also rose from 2 percent of export earnings in 1974 to 36 percent in 1984, according to estimates by the US Embassy. At the same time, oil revenues, which provide over 95 percent of export earnings, peaked in 1980 at $25 billion but then declined to less than half that amount by 1984.

By the end of 1984, political stability in Nigeria seemed as elusive as economic development. The cycle of rapid regime changes, brought on in part by popular dissatisfaction with the failure of successive governments to manage the economy, seemed likely to continue. The current Federal Military Government (FMG), which seized power 31 December 1983, has had no more success than its civilian predecessor in reversing the economic decline.

The Economic Setting

The Buhari regime has concentrated on short-term containment of a foreign exchange crisis rather than on solving Nigeria's fundamental economic problems, in our judgment. According to Nigerian press accounts, most Nigerians had welcomed the military coup of December 1983 as deliverance from the official fraud and economic mismanagement of the politicians.[1] Reporting at the time of the coup indicates, however, that the military leaders had badly underestimated the severity of the country's problems. Rather than achieving an easy economic revitalization as promised, the Buhari regime instituted even tougher austerity measures that led to the fourth consecutive year of economic contraction in 1984 (see figure 1). 25X1

Economic Indicators

The standard economic indicators based on official data and Embassy reporting paint a dismal picture of Nigeria's economy:

- *Output.* After falling by 1 percent in 1984, GDP has continued to decline in 1985 because of stagnant oil earnings, only marginal improvements in agriculture, and further deterioration in industrial production stemming from import and foreign exchange controls.[2] 25X1

- *Inflation.* Although the official consumer price index showed an increase of 40 percent in 1984, the US Embassy estimates that prices actually climbed by as much as 200 percent. We believe that the shortages stemming from the planned 57-percent reduction in imports will cause inflation to escalate further in 1985. 25X1

- *The Budget.* Lagos has made deep budget cuts for the second consecutive year, and the 1985 federal budget of $14.6 billion is below even the reductions 25X1

[2] For additional details on key sectors of the Nigerian economy, see appendix. 25X1

Selected Financial Data *Million US $*

	1978	1979	1980	1981	1982	1983	1984 [a]	1985 [b]
Current account balance	−3,785	1,664	5,104	−5,897	−7,691	−4,738	−500	100
Trade balance	−1,177	4,913	11,106	−911	−3,993	−1,691	1,700	3,500
Exports (f.o.b.)	10,508	16,774	25,741	17,961	12,877	10,456	11,200	10,500
Oil	9,457	15,665	24,699	16,713	11,782	9,423	10,900	10,200
Nonoil	1,051	1,109	1,042	1,248	1,095	1,033	300	300
Imports (f.o.b.)	11,685	11,862	14,636	18,872	16,871	−12,147	−9,500	−7,000
Net services and transfers	−2,608	−3,249	−6,002	−4,986	−3,698	−3,047	−1,200	−3,400
Foreign reserves at yearend	1,323	5,017	9,593	3,098	1,568	963	800	1,000
External debt at yearend [c]	3,326	5,196	6,831	8,494	12,748	15,009	23,000	21,000
Debt service	175	555	987	1,571	2,167	2,880 [a]	3,992	4,200

[a] Estimate.
[b] Projections.
[c] Medium and long term except 1984, which includes short term.

[redacted] 25X1

recommended by the IMF and World Bank, according to the US Embassy. Debt repayments make up the single largest portion of the entire budget.

- *Unemployment*. Unemployment probably will continue to rise this year because of budget cuts and the lower level of industrial activity. Although the new military government had promised to create jobs, as many as 230,000 workers were laid off between January and June 1984, according to Nigerian private economic studies. [redacted]

Foreign Exchange Crisis

According to financial and trade data, Lagos does not have sufficient foreign exchange to pay its debts, purchase food, supply inputs for production, and finance the upkeep of billions of dollars of existing investment. Food imports and debt service alone will consume about two-thirds of hard currency earnings during 1985, according to US Embassy estimates (see table 1). [redacted]

Trade Balances. Nigeria's export earnings depend almost totally on the international oil market (see figure 2). According to government statements, Lagos is planning on export earnings of $10.5 billion this year of which only $300 million will come from nonoil sales. Downward pressure on oil prices probably will continue through 1985, according to CIA analysis.[3] If the expected price reduction is moderate, we believe that Nigeria probably will export sufficient oil to approximate the income target by adjusting its prices unofficially as needed. [redacted] 25X1

Severe restrictions on imports and greater control over foreign exchange allocation, which have allowed Lagos to reduce sharply its current account deficit, will continue through 1985. The military government has planned imports of only $4.1 billion in 1985. This level represents the lowest since 1974 and less than one-fourth of the amount spent on imports in the peak year of 1981. We doubt, however, that Nigeria will be able to sustain this import level of only $342 million per month—an amount slightly less than $4.00 per Nigerian per month—because of political pressure coming from both consumers and manufacturers as shortages increase. [redacted]

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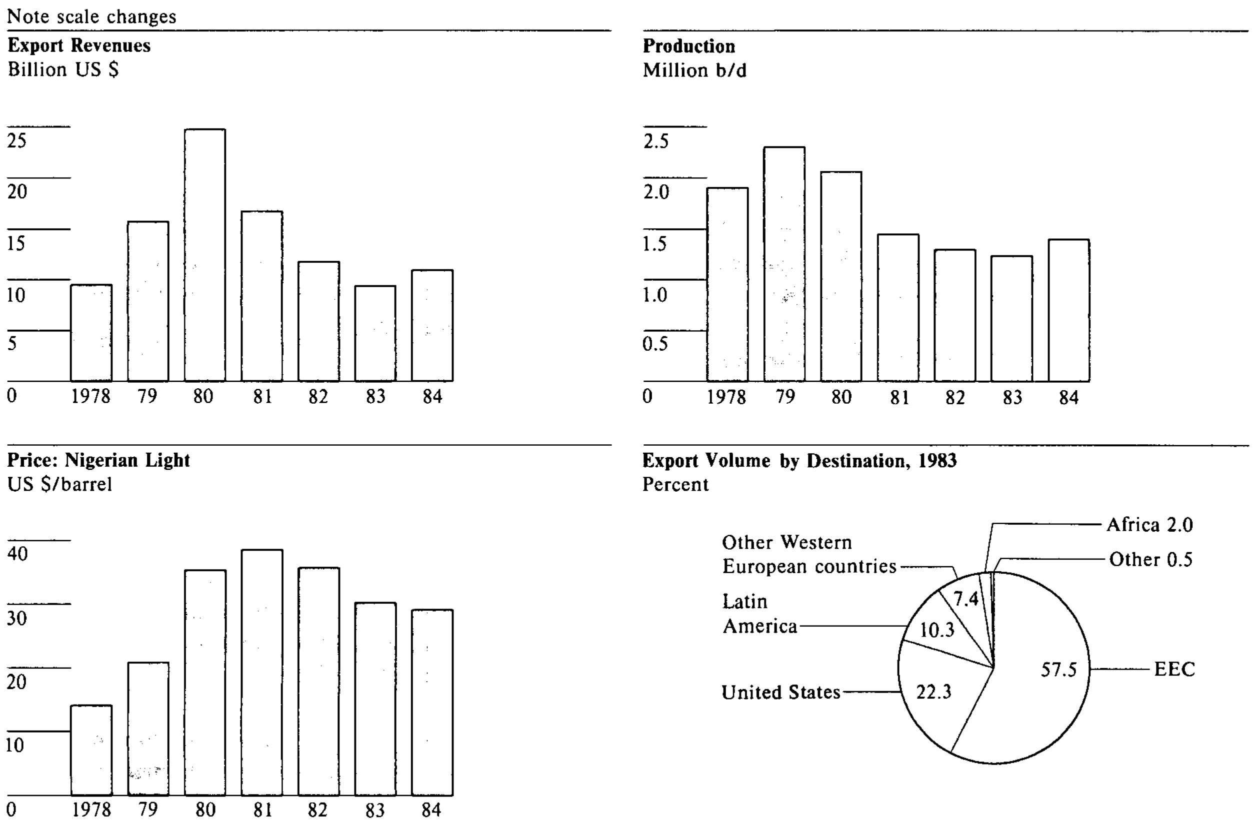
[redacted] 25X1

Figure 2
Nigeria: Oil Statistics, 1978-84



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Relations With the IMF

Lagos believes that it already has imposed sufficient austerity on Nigerians and should receive IMF assistance. Negotiations with the Fund have stalled, however, over Nigeria's refusal to accept three pivotal IMF conditions: devaluation of the naira by up to 60 percent, an end to petroleum subsidies—Lagos sells crude oil to itself for $11.30 per barrel—and liberalization of trade regulations. The military government has publicly accused the IMF of wanting to destabilize the country, claiming that devaluation in particular would result in political chaos.

The military regime argues that a devaluation makes no sense for Nigeria. Lagos reasons that, since oil is denominated in US dollars, a devaluation would do nothing to increase the competitiveness of exports. Manufacturing is small and agriculture is affected by weak markets. Imports already have been reduced to minimum levels. Devaluation would increase the cost of domestically produced goods in Nigeria, cause higher inflation, and precipitate economic chaos, according to the Nigerian argument. It would also cause a surge in food prices, particularly in urban areas where imports are an essential part of the supply. Ultimately, Lagos believes devaluation could lead to social unrest.

Nevertheless, we believe Nigeria's overvalued currency is a major factor in its immediate economic crisis. In addition to encouraging consumption of imports and retarding the development of agriculture and of resource-based industries—because imports are cheap—the overvalued naira continues to be the basis for widespread illegal activity including bribery, smuggling, and currency speculation. It lessens government control over the economy by encouraging the growth of a wide array of activities in the informal economy. Traders in Nigeria and in neighboring countries ignore the official exchange rate, operating at the free market rate of up to 4 or 5 naira to the US dollar versus the official rate of 0.794 (January 1985). Cross-border trade and currency transactions are based on free market rates between the naira and the African Financial Community (CFA) franc, a convertible currency used in Benin, Togo, Niger, Chad, and Cameroon. This encourages Nigerians to sell their produce in neighboring countries where they can receive up to four or five times the amount they would realize on the same sale in Nigeria.

Lagos's resistance to IMF requirements probably will prevent the conclusion of an agreement with the Fund during 1985, but, as debt service increases, we believe the regime will be forced either to concede or to cease making payments on external debts. A moratorium on payments probably would result in a cutoff of trade credits, which might lower oil income because Lagos would have difficulty purchasing oil equipment and supplies. On the other hand, an IMF agreement, while not solving the basic structural problems of the economy, would allow a respite from the foreign exchange struggle by: 25X1

- *Providing $2.5-3 billion in IMF loans.*
- *Allowing disbursement of a $300 million Structural Adjustment Loan from the World Bank.*
- *Permitting the conversion of approximately $3 billion in officially guaranteed trade debt to medium-term debt; Paris Club governments are refusing to restructure this short-term debt until Lagos has an agreement with the IMF.*
- *Facilitating the rescheduling of medium- and long-term debt when payments become unmanageable, commercial creditors generally have also hesitated to reschedule LDC debt unless there is an IMF role.* 25X1 25X1 25X1
- *Encouraging short-term lines of credit to remain open so that Lagos can purchase essential goods.* 25X1

We believe that the Buhari regime probably will continue to hold out against devaluation and the IMF until there is a shift in the top leadership. General Buhari and Chief of Staff Tunde Idiagbon have been the most outspoken in their opposition and we believe that they have deprived the regime of the latitude to maneuver by making the refusal to devalue a point of Nigerian sovereignty. Having convinced Nigerians that disastrous consequences would ensue from a devaluation, it will now be difficult for this government to survive the political repercussions of a big devaluation. 25X1

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Shifting Trade Patterns

Lagos has been attempting to diversify its sources of imports partly through increased use of countertrade agreements. A $1 billion exchange with Brazil—by which Nigeria will supply crude oil in return for Brazilian goods, including automobile parts needed for Nigeria's assembly plants—could make Brazil Nigeria's largest trading partner in 1985. Brazilian imports from Nigeria for the first nine months of 1984 amounted to $470 million compared to $195 million for all of 1983, according to press accounts. Countertrade agreements with France and Austria have also been completed and others with Yugoslavia, Italy, Canada, West Germany, and several US firms may follow soon, [redacted] *Although countertrade allows Lagos to avoid some hard currency expenditures, it may be detrimental in the longer term because it reduces the foreign exchange realized from oil sales.* [redacted]

US sales to Nigeria may decline again in 1985 as a result of the drop in Lagos's overall imports and the low availability of credit from official sources. Imports from the United States dropped by about one-third in 1984 to only $575 million, while Nigerian exports to the United States—virtually all oil—dropped from $3.9 billion in 1983 to $2.6 billion in 1984, according to IMF data. US agricultural exports—mostly wheat—increased slightly, however, to $338 million in 1984. Lagos is expected to import 2 million metric tons of wheat in 1985, according to the US Embassy, and, while most should come from the United States, purchases from Canada—because of credit—and Argentina—because of price—are being considered. Credit from the US Commodity Credit Corporation (CCC) is not available to Nigeria pending an IMF agreement. Lagos has shifted most of its rice purchases to cheaper sources, in particular Thailand. [redacted]

The Current Account. Although the government is forecasting a current account surplus of $300 million in 1985, we believe a deficit of at least $1 billion would be more likely if all obligations were paid. However, because Nigeria does not have access to sufficient new borrowing and other capital inflows to finance such a deficit, it probably will delay some payments in order to avoid a current account deficit. Lagos has been accumulating substantial payments arrears for nonmerchandise trade and debt service, estimated by Nigeria at $4.2 billion in 1985 and by the US Embassy at $6.5 billion, which will consume most of the trade surplus. Because there has been pressure to make ontime interest payments, Lagos could begin to build trade arrears again by late in the year. [redacted] 25X1

We concur with the US Embassy estimate that Lagos plans to spend only $4.2 billion for debt service in 1985 regardless of the amount actually owed. This would cover obligations on medium- and long-term debt and result in a debt service ratio of about 40 percent of foreign exchange earnings. If Lagos were to 25X1 pay all the interest owed on short-term debt, which includes almost $1 billion in interest arrears from 1984, the debt service ratio would rise to 62 percent. [redacted] 25X1

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Political Constraints on Policy Implementation

Nigeria's endemic political instability and ingrained system of patronage and corruption have prevented successive regimes from instituting structural economic reforms that could reduce dependence on oil and lead to future growth. Groups perceived by leaders as potential threats to the regime have opposed such measures as privatization of government-owned firms, realistic exchange rate policies, trade liberalization, and cutbacks in the bureaucracy. Governments in Lagos, in our view, have usually given short-shrift to longer term considerations because of immediate concerns of self-preservation, the struggle to avoid ethnic conflict, the vested interest of the bureaucracy, Nigeria's tradition of taking advantage of time in office for personal enrichment, and demands for special treatment by the armed forces. 25X1 [redacted]

25X1

The bureaucracy also plays an important role in impeding reform. A permanent civil service runs the daily affairs of the government and has provided administrative continuity through several regime changes. The growth in government control over the economy has enhanced the position of this administrative class, which guards policies that protect its urban standard of living and opposes serious efforts to eliminate mismanagement and corruption, according to academic studies. 25X1

Regional, Religious, and Ethnic Conflict 25X1

The deep divisions and mutual suspicions between the ethnic and geographic components of Nigeria often shape and constrain government policies, usually to the detriment of long-term national economic growth. According to academic studies, governments since 1970 generally have been conscious of the fragile nature of the federation and have sought to contain the type of rivalries that led to the secession of the former Eastern Region (self-proclaimed Biafra) in 1967, and a 30-month civil war (see figure 3). 25X1

Both the civilian government of former President Shagari and the present military regime have attempted to create a veneer of ethnic and regional balance. Nonetheless, nonnortherners, led by the country's two largest ethnic groups—Yoruba and Ibo—charge publicly that the current government represents the same northern Hausa-Fulani elite that backed Shagari—an allegation that we and the US Embassy believe is largely valid. Yoruba and Ibo efforts to contain Hausa-Fulani favoritism in the current government are only an extension of the north-south conflict, in our view. Members of all three of these major ethnic groups, as well as those of the over 200 minority tribes, have a fundamental and mutual distrust for all who are identified with a group other than their own, according to Embassy reporting. 25X1 25X1

The Buhari regime's reluctance to take bold steps toward economic reform is in part a reflection of its fears about the potential reactions of nonnortherners to the adverse effects of such reform, in our judgment. 25X1 25X1

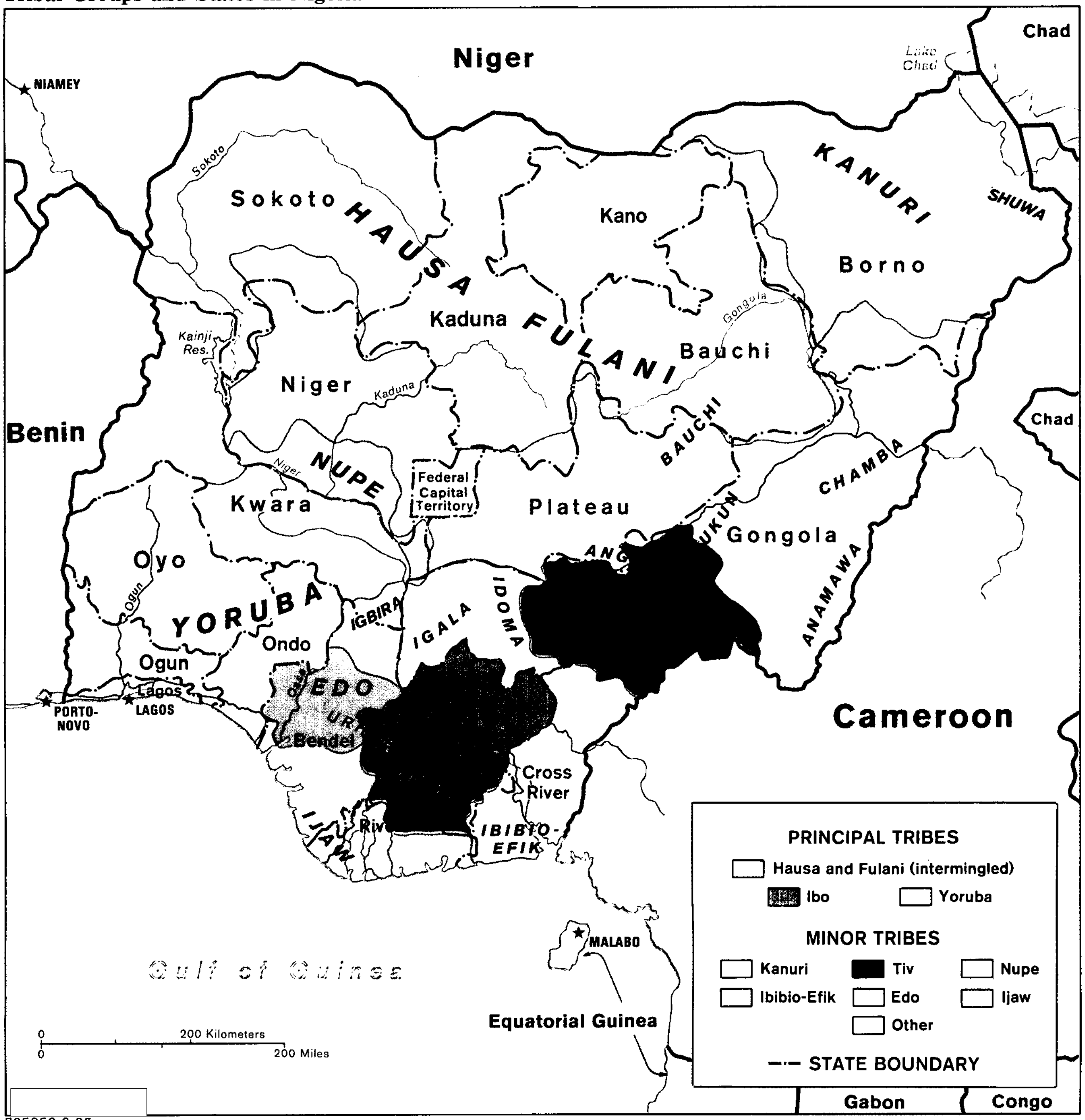
Nigeria and OPEC

Nigeria, a member of OPEC since 1971, is widely considered by oil industry analysts to be the cartel's weak link. Lagos's large population, low level of development relative to other members, and its desperate need for cash have led to increasingly independent actions on both pricing and production levels.

Although Nigeria is unlikely to leave OPEC unilaterally, we believe Lagos will increasingly set its own course while giving tacit support to OPEC quotas and price structures, essentially its current stance. Saudi Arabia in the past has made loans to Lagos, and Nigeria probably hopes that the Saudis can be approached in the future. Current market conditions permit Lagos to pursue its own oil policy, letting both price and production adjust to whatever the market can bear, without tangible discipline from the OPEC organization. However, Nigeria's independence is tempered in part by its realization that any real challenge to Saudi Arabia could be met by Saudi moves to absorb Nigerian markets through price and political pressures.

At present, we believe that Nigeria has nothing to lose by remaining in OPEC. Some OPEC members will continue to express annoyance at Nigeria's behavior, but the cartel must increasingly respond to a softening oil market and not just to Nigerian intransigence. Other OPEC countries under pressure to produce beyond their quota have joined Nigeria in breaking ranks with the cartel. OPEC is unlikely to single out Nigeria for discipline, in our view, in large part because of fear that such a move could break up the cartel. A recent CIA analysis concludes that the financial bind that the soft oil market has imposed on most OPEC states is increasingly threatening the cohesiveness of the organization.

Figure 3
Tribal Groups and States in Nigeria



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Many rumors of coup plots center around cabals of southern officers, or Middle Belt officers composed of minority tribal groups from central Nigeria. We believe that the northern elite is determined to retain power, however, and any serious move by nonnortherners would probably result in factional violence within the armed forces. [redacted]

Ethnic and regional considerations have led to a number of questionable economic decisions that are still supported by the Buhari government, according to business and academic sources:

- The costly oil exploration undertaken by the Nigerian National Petroleum Corporation in the Lake Chad area has been driven by a desire for a nonsouthern source of oil despite discouraging geological reports on the area. The current oil minister has announced that all the river basins of the country will be explored for oil in an effort to achieve ethnic and regional equity in resource wealth (see figure 4).

- The sites of steel facilities have been chosen with regional balance in mind irrespective of economic rationale, [redacted] with the result that Nigeria cannot reliably produce steel; economists estimate that the price of Nigerian steel—even if all projects were completed—would be at least double the world price. The government has retained the construction plan despite a recommendation by its own advisory panel that it be scrapped, according to Embassy reporting.

- Despite its original intention to sell off some government companies, the Buhari regime has not done so, largely, we believe, because of the opposition of southerners who dominate the Nigerian civil service and hence the management of most government-owned corporations. Southerners suspect that plans to privatize government-owned industries conceal a northern plot to gain control of the economy, according to US Embassy reporting. [redacted]

Corruption

Endemic corruption also inhibits the government's ability to implement economic policy adjustments. Nigerians traditionally have viewed public office as an opportunity for personal enrichment, according to academic studies. Obligations to family and tribe have led many in the government and government-owned corporations to pad the payroll with relatives, to refuse to discipline their relatives and tribal allies, and often to divert official funds for personal and family use. [redacted] 25X1

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That is not to say that the Buhari government has ignored the impact of corruption on the country. The military government has brought a number of officials of the former regime to trial on charges of misappropriation of public funds, currency offenses, and related crimes. During 1984, 13 state governors were found guilty on charges ranging from foreign exchange trafficking to embezzlement of millions of dollars. [redacted] many southerners believe—justifiably, in our view—that the government has been partial in these prosecutions, citing especially the early release of prominent members of former President Shagari's northern-based National Party of Nigeria and the conviction of several opposition governors. Southern political leaders also suspect that senior military officers arranged the escape of some prominent officials in the Shagari government at the time of the 1983 coup, [redacted] 25X1 25X1 25X1

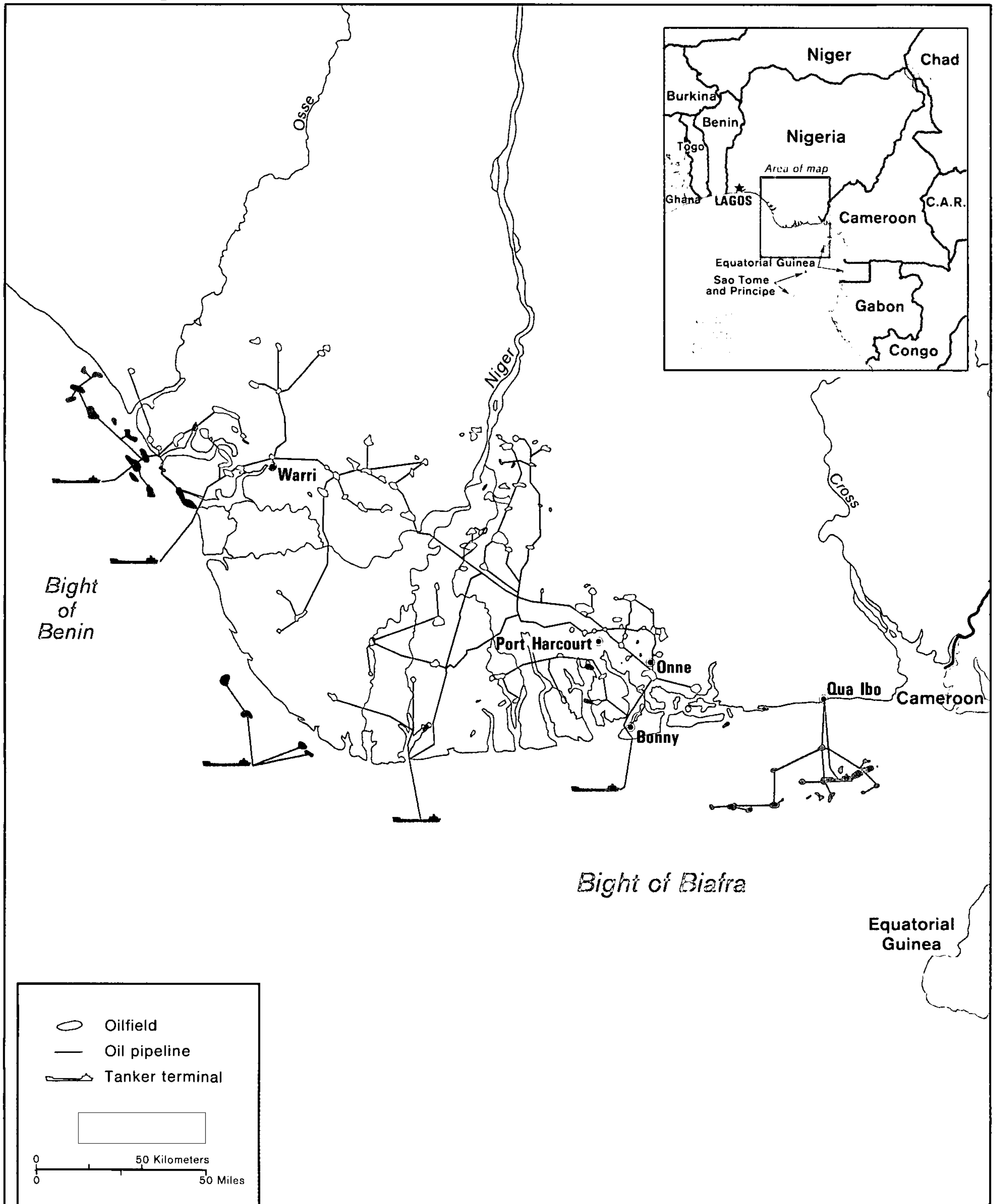
We believe the system of using public office for personal gain persists. The economic downturn even may have resulted in a more intense scramble for a share of the smaller pie. [redacted] widespread bribing of customs inspectors by smugglers and kickbacks for contracts and sales of import licenses. While urging Nigerians to live by the principles of its "War against Indiscipline" (WAI), virtually the entire Supreme Military Council, as well as some civilian ministers, have used their positions for personal enrichment, [redacted] 25X1 25X1 25X1

Power of the Military [4]

In addition to the limits that regional and ethnic rivalries and corruption put on effective economic policy reform, Buhari—or any Nigerian government—has to assess the impact of economic policies 25X1

[redacted] 25X1

Figure 4
Petroleum in Nigeria



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on the military. In our view, Nigeria's history of coups and countercoups will prompt any Nigerian government to make military spending a priority, regardless of other political or economic goals. Persistent rumors of coup plotting by various factions of officers have kept the Buhari regime from applying the same austerity to defense spending that it has to other areas. Although the present regime has said publicly it would cut the size of the military force by about 20 percent, the 1985 budget allows for a 15-percent increase in defense spending—which consumes 12 percent of the budget—despite an overall budget cut of about 10 percent. Moreover, defense expenditures apparently have been quietly exempted from the severe import restrictions, and Lagos has taken delivery of new MIG-21 fighter aircraft, several British helicopters, and other equipment purchases thus far in 1985. [redacted]

Outlook

Nigeria's near-term economic prospects—under any government—appear poor. The severity of Nigeria's economic decline reflects, in our view, both past mismanagement and such structural weaknesses as overreliance on oil for foreign exchange and revenue, stagnant agricultural production, and import-dependent industry. Furthermore, the longer term outlook is also unfavorable because we believe that in the short term any regime would operate under the same political constraints as the present government and, therefore, we expect progress toward restructuring the Nigerian economy to be negligible. [redacted]

Nigeria's foreign exchange predicament, in our judgment, is not a short-term problem. Additional reductions in imports will be necessary during 1986 and 1987 because debt service payments are scheduled to increase, while we expect income to be stagnant at best. Although debt service will peak in 1987, debt obligations will be high throughout the decade, according to analyses by major international banks. [redacted]

Given the severe social and political constraints on needed economic adjustments, we do not see much prospect for a quick or sustained turnaround in the Nigerian economy. Buhari's record shows that he has tried to control the damage accruing from Nigeria's desperate financial condition but has continued many of the policies of past governments that we believe have contributed to the overall decline. For example, budget documents show that investment is still being channeled into politically sensitive areas to satisfy potential opponents or to salve regional and ethnic rivalries. Steel projects, for example, singled out by Buhari's own panel of experts as being uneconomic, constitute the largest line item in the 1985 budget. According to the 1985 budget, agriculture has been granted top priority, but the amount of spending on this sector is less than that committed under the civilian government. While the scale of corruption is less than under the civilians—in part because of reduced income—we see no evidence that the waste and fraud that characterized past governments have been substantially reduced by this regime. [redacted] 25X1

Effective economic management in Nigeria would be difficult for the Buhari government even without the political constraints because the ministries have a shortage of managerial and technical personnel, [redacted] 25X1 Generally chaotic conditions prevail in the central statistics office that, in 25X1 addition to a shortage of skilled staff, lacks a working computer. Thus, the government's knowledge of trends in such key areas as international trade, debt, and national accounts is vague at best, [redacted] 25X1 25X1

With the inability of Buhari to make any constructive improvements to the economy beyond trying to limit import outlays, we believe Nigeria probably will 25X1 experience continued economic decline during the 1986-87 period, even if oil revenues remain steady. We expect Lagos to do little more than attempt to contain the economic crisis given its severe foreign exchange crunch and inherent political instability. [redacted] 25X1

We believe that rising unemployment and inflation, severely restricted credit, and the need to increase imports will finally produce economic pressures severe 25X1 enough to compel the Nigerian Government to agree to an IMF program sometime next year or in 1987. During 1986 and 1987, amortization and interest payments on the rescheduled trade arrears will fall due and debt service will exceed 60 percent of export earnings. We believe that Lagos will have to reschedule its debt by the end of next year and that the preconditions set by creditors will compel Lagos to strike a deal with the IMF. Some technocrats in the government reportedly have urged acceptance of IMF terms to ease the foreign exchange crisis and to permit a broad rescheduling of debt, according to Embassy reporting. Because the Buhari government has limited its own options by making its anti-IMF stance a matter of national policy, however, the agreement might be more palatable to Nigerians if it could be presented by a new and more popular head of state. The urgent need to settle with the IMF could provide strong motivation within the military government to replace Buhari. [redacted]

Nigeria's declining economic health, in our judgment, is likely to increase the competition among various regions for revenues with all of them most likely to be dissatisfied with their diminished portion. The economic decline has sharpened ethnic, regional, and religious conflicts, in our view, and competition among factions for power and for a favored share in the country's diminishing wealth is escalating. Under these circumstances, Nigeria's centrifugal tendencies probably will grow, and regional secession or violent clashes between regions may occur. The north is particularly likely to look for outside help from other Muslim states, including Libya. Libya, buoyed by military successes in Chad, is redoubling its efforts to use Islam as an entree to Nigeria. To date inroads have been made where northern-based Muslims have proved most receptive, according to a CIA study.[5] Iran is also seeking greater influence in Nigeria, according to the same study. [redacted]

We believe that senior Army officers from the north are likely to continue in control of the Nigerian Government over the next 12 to 18 months. It is quite possible that there will be a reshuffling of top personnel, however, including the probable removal—possibly by force—of General Buhari. We do not expect substantial changes in ideology or sudden policy shifts to occur in this case, with this essentially pro-Western group. The new government, which could include Middle Belt officers, would be likely to institute a pragmatic economic program that probably would include an IMF agreement. A new head of state, such as Chief of Army Staff Ibrahim Babangida, probably would have some popular support and buy time for the northern-based military regime. The longstanding ethnic grievances would persist, however, and we would not expect northern domination to go unchallenged in the long term. [redacted] 25X1

Continued economic decline could also encourage ambitious senior military officers to seek power while there are still spoils to be claimed, in our view. Such pressures would contribute to the overall instability of the present ruling group as rival leaders strive for top positions. In the absence of an agreed-upon successor, 25X1
Buhari may be able to claim the support of other officers and northern business interests and remain in office. On balance, however, we believe Buhari probably will be jettisoned as a scapegoat for the regime's failure to cope with the economy. [redacted] 25X1

Flashpoints To Watch

We believe that there are a number of potential sources of unrest that in the long run could lead to either a change in government or to escalating violence:

- Considerable discontent exists within the military over the failure of the Buhari regime to revive the economy and to deal with the corruption of ruling officers, [redacted] A 25X1 carefully planned coup by midlevel officers could succeed, although we believe this is unlikely in the near term.

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- Nigeria's rapidly growing young population is unhappy over the removal of subsidies for education and the shrinking job market, according to US Embassy reporting. Campus demonstrations probably will occur but, in our view, would be unlikely by

[redacted]

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themselves to bring down a government. Nevertheless, widespread student demonstrations—especially if they lead to violent confrontation with the regime—could provide the occasion for rival elements in the military to stage a coup.

- If sectional disputes intensify, northern dissatisfaction with its share of oil revenues or southern resentment of northern domination could turn violent. Such conflict not only could remove a government but also could set off a long period of instability, even leading eventually to civil war.

- Ethnic conflict also shows signs of becoming more acute, with the perception that ethnicity is the most important factor in determining government policy and a conviction among nonnortherners that the regime acts in the interests of the north. [redacted]

Government action that would have an immediately adverse impact on living standards of Nigerians—a devaluation, for example—also could lead to violent unrest. CIA studies indicate that sudden shifts in policy generally are more likely to generate a public reaction than broad, negative economic developments.[6] A cut in subsidies on key consumer commodities, for example, is a potential trigger point for strong political backlash. In our judgment, a major currency devaluation would have the same net effect as removing subsidies because it would raise substantially the prices of food staples for urban dwellers. Similarly, the abolition of subsidies on petroleum would cause a sudden increase in the cost of transport and, therefore, also serve as a trigger point, in our view. [redacted]

Alternative Scenario
A likely alternative scenario to survival of rule by the present conservative, northern-based elite within the next two or three years is a countercoup by midlevel or junior officers. Although we do not know which specific officers might emerge to lead such a coup, [redacted] many younger Nigerian military officers are more nationalistic than their seniors and share a common desire to cleanse the armed forces and the government of corruption. [redacted] 25X1

[redacted] we believe that such a group could be expected to depart from the policies of the previous governments by taking a more nonaligned foreign policy and by instituting highly visible changes domestically. A new regime might, for example: 25X1

- Remove top members of the bureaucracy, despite the resulting chaos in the administration of the government's daily affairs.

- "Nigerianize" the oil sector by eliminating expatriates, even though the loss of expertise probably would hurt production.

- Declare a moratorium on payments—or possibly a repudiation—of external debts, arguing that funds should not go to Western banks at the expense of the Nigerian people, or that Lagos should not repay debts incurred as a result of corruption. [redacted] 25X1 25X1

An attempted coup led by nonnortherners probably would split the armed forces sectionally and ethnically. We believe that the northerners who dominate the current regime would be certain to resist forcefully such moves by other officers. However, this scenario will become more probable if the escalating ethnic and sectional divisions and corruption within the present regime go unchecked. [redacted] 25X1

We believe that the emergence of a younger, reformist, populist faction composed principally of junior officers and enlisted men is a much less likely threat to the Buhari regime at this time because of the practical difficulties of circumventing the command structure and of unifying subordinate elements that are widely separated geographically. The capacity of younger officers to act could increase in the future, however, if regimes headed by senior officers are ineffective and the command structure becomes fragmented. The junior and midlevel officers could garner substantial popular support if they are able to join forces with civilians who also espouse solutions to Nigeria's problems that are anti-Western, unorthodox, and highly nationalistic. [redacted] 25X1 25X1 25X1

[redacted]

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Implications for the United States

Although Nigeria supplied only 6 percent of US oil imports in 1984, Lagos remains an important source of crude oil located outside the Persian Gulf and relatively accessible to the United States and its European allies. In the event of disruption in the supply of oil from the Gulf, Nigeria almost immediately could increase production from the present average of about 1.4 million barrels per day (b/d) to 1.9 million b/d and to 2.1 million b/d within three months, according to the US Embassy. 25X1

US access to Nigerian oil seems assured, especially under weak market conditions, although internal developments could interrupt the supply. For example, oil production would be affected negatively by the removal of expatriate personnel, or possibly by a breakout of sectional violence. In our judgment, the advent of an anti-Western government probably would not affect oil sales to the United States, Nigeria's largest single customer. 25X1

Lagos's deteriorating financial situation probably will reduce the market for US agricultural exports, now totaling about $350 million annually. Although Nigeria will continue to have more hard currency than most Sub-Saharan African nations, Lagos is likely to favor food producers who are cheaper and are willing either to provide credit or to barter. 25X1

The endemic instability in Nigeria indicates, in our judgment, that the United States will be faced with frequent shifts in policy by Lagos and occasionally difficult bilateral relations as new regimes and leaders attempt to confront US policies in Africa to gain support at home. Moreover, continuing political turmoil in Nigeria caused by—and also a cause of—deteriorating economic conditions will provide growing opportunities for outside meddling, particularly by Libya and Iran in the northern, Muslim areas of the country. 25X1

Appendix

Key Sectors of the Nigerian Economy

Hydrocarbons

Oil

Lagos has made several astute moves to protect its markets, [redacted] By obtaining a temporary increase in its OPEC quota, and then in October 1984 acting quickly outside of OPEC to lower its prices in line with North Sea oil producers, Lagos safeguarded virtually its only source of foreign exchange. Furthermore, the government has indicated that it will produce beyond its OPEC quota when market conditions permit. Oil production in the first three months of 1985 has exceeded its official OPEC quota of 1.3 million b/d, sometimes by as much as 400,000 b/d, according to US Embassy reporting. [redacted]

We believe that Lagos will continue to maximize production regardless of OPEC quotas to the extent that it can sell its oil and will rely on increased use of such techniques as discounts, special trades, and spot market sales by its foreign oil company partners to market its oil. [redacted]

Lagos has tried to diversify its markets for oil, [redacted] Recent contracts with several LDCs have included discounts or extended credit, as did an agreement with the Soviet Union for 100,000 b/d for apparent resale to Cuba, according to the Embassy [redacted] The United States is still Lagos's largest single customer although US purchases have fallen from almost 1.1 million b/d in 1979 to 206,000 b/d in 1984. Nigeria as a supplier of oil to the United States has gone from second to sixth over the same period. [redacted]

Nigeria's oil income is unlikely to grow significantly, in our judgment, primarily because Lagos is totally dependent on the export of crude oil and has not diversified into "downstream" activities. Unlike many oil-exporting countries, Nigeria has neither developed a refining industry for export nor purchased refinery operations abroad. Lagos currently imports about 20 percent of domestically needed refined products, although planned refinery expansion could provide self-sufficiency by 1986. [redacted]

Figure 5. Minister of Petroleum and Energy, Professor Tam David-West. "I have my two legs in OPEC and my two eyes on the North Sea." [redacted] 25X1

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Technological changes in the refining industry worldwide have negative implications for Nigeria's future earnings, [redacted] The rapid rise in the price of high-quality, light crude oil during 1974-81, which is the bulk of Nigerian production, encouraged the development of new refining technologies that use less expensive medium and heavy crudes. New refining processes have grown most rapidly in the United States and have contributed to the distinct decline in US purchases of Nigerian oil. Nigerian National Petroleum Corporation (NNPC) data indicate that in 1977 Nigeria exported 37 percent of its production to the EC compared with 58 percent in 1983. During the same period, the US share declined from 40 percent to 22 percent. [redacted]

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NNPC claims crude oil reserves of 16.8 billion barrels or about 33 years of production at the 1984 rate of 1.4 million b/d. [redacted] new exploitable wells exist in the Niger Delta area, but exploration has been discouraged by the weak international

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oil market and by the high cost of projects in Nigeria. Despite unfavorable geological surveys, the NNPC has spent $37 million in thus far unsuccessful exploration in the Chad Basin area. [redacted]

Natural Gas

Lagos would like to develop its natural gas resources as a means of diversifying sources of foreign exchange earnings. However, high investment costs and weak markets have discouraged foreign oil companies from developing Nigeria's natural gas, [redacted] Oil companies continue, as they have for the past 27 years, to burn off the natural gas associated with oil production, despite a government decree that prohibited flaring after 1983. In 1983 over 90 percent of associated gas, or 13 billion cubic meters, potentially worth $4.6 billion was flared, according to a World Bank study. Companies still have not brought in the equipment to reinject the gas into the oil wells as a short-term solution. [redacted]

Several ambitious gas development projects are planned, although funding problems may eventually scuttle them:

- The Bonny LNG project, the most ambitious of the natural gas plans, even after being scaled down from a projected cost of $14 billion to $6.5 billion, assumes—unrealistically, we believe—the availability of external financing and the existence of a market in Europe in the 1990s. Nonetheless, funding for preliminary studies is in the 1985 budget.

- The government has decided to go ahead with the construction of a petrochemicals complex near Port Harcourt with a completion target of 1990, according to public statements by Nigerian energy officials. Encompassing 9 square miles and including construction of a new town for 30,000 people at a currently projected cost of $2 billion, the project is supposed to make Nigeria self-sufficient in a number of plastic products and to reduce Lagos's annual $650 million bill for chemical imports. Again, operators will be expected to provide their own financing.

- A fertilizer plant at Onne, in the planning stages for years, is designed eventually to supply 60 percent of the projected demand for fertilizer in Nigeria, using natural gas that is now flared. [redacted]

Agriculture

Until 1970, Nigeria was a predominantly agricultural country self-sufficient in food and producing for export such crops as cocoa, palm oil, and peanuts. Although 70 percent of the labor force still works in farming, agriculture contributed only about 22 percent to total GNP in 1984 compared with about 70 percent at independence in 1960. Total food production, however, has not kept pace with population growth. The falling production of staple crops, now below the 1975 level, is particularly acute with estimated per capita production of staples in 1984 below that of 1972, according to the Nigerian Central Bank. [redacted]

Rapid urbanization is one of the fundamental factors in the decline of Nigerian agriculture. The urban population, which had been only 13 percent of the total in 1960 but reached 21 percent by 1982, continues now to grow by about 5 percent per year, according to the World Bank. By providing food imports at prices with which domestic produce cannot compete, Nigerian governments have favored the needs of city dwellers over the longer term concerns of agricultural development, in our judgment. [redacted]

Export crop production also has dropped precipitously. Exports of cocoa, the only nonoil foreign exchange earner of any significance, were down 88 percent in 1983 from their peak in 1965, according to IMF statistics. Nigeria at one time accounted for 25 percent of the world supply of palm oil; it now actually imports it. As late as 1965, fully 75 percent of exports by value were agricultural products; now they comprise under 3 percent of Nigeria's exports. [redacted]

The negative trends in Nigeria's agricultural sector probably cannot be reversed soon, or even slowed, given Lagos's desperate financial situation. Although the Buhari government has assigned top priority to agriculture, the 1985 austerity budget gives even less to agriculture than was allocated in 1982, according to statistics published by the Nigerian Central Bank

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(see figure 4). Reduced government spending on agriculture and the country's sharply curtailed capacity to purchase fertilizers and other imports, in our judgment, ensure that per capita agricultural production will continue its decline. [redacted] 25X1

Policies

Lagos's agricultural policies have been targeted at large-scale farms under government direction and have failed to assist the small holders that account for 90 percent of domestic production, [redacted] 25X1 Nigeria's policies, moreover, 25X1 have discouraged the production of crops for export, [redacted] because government 25X1 marketing boards, with a monopoly on the sale of commodities abroad, pay very low prices to producers. Recent price increases still have not kept pace with the increase in world prices, according to Embassy reporting. [redacted] 25X1

Manufacturing

Nigerian manufacturing depends on imports for about 70 percent of its raw materials because successive governments have consistently supported import substitution rather than encouraging the development of resource-based industry, according to economic studies. Consequently, the Buhari government's import restrictions have forced many firms to operate at less than 50 percent capacity during 1984, according to US Embassy reporting, and the situation is likely to worsen in the second half of 1985. Companies with connections within the government have claimed most of the import licenses, [redacted] 25X1 and government projects vie with other private firms for the remaining licenses:

- Volkswagen, one of five automobile assembly plants, has been able to acquire less than 20 percent of its components locally and has produced only 70 cars per day in late 1984 compared with 130 cars per day in 1981.

- The steel plant that supplies other steel mills in Nigeria now operates less than two days per month, since most of its raw materials are imported. Steel production nationwide grinds to a halt whenever foreign exchange becomes scarce. [redacted] 25X1