The Impact of Foreign Exchange Market:
The Case of Nigeria

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Introduction

In an article published in a previous issue of this journal, I discussed the politics of foreign exchange reform in Nigeria. Briefly, I tried to explain and conceptualise the logic of the Nigerian foreign exchange policy between 1986 and 1995. I argued that General Ibrahim Babangida's government was unwilling to allow the national currency, the *naira*, to float because of political pressure from the financial wing of the economic elite. In principle, the reform was intended as a government subvention to the inefficient and import-dependent (albeit highly influential) industrial sector and, by extension, the general society through reduced product prices. However, the putative felicitous impact of the subsidy was lost as the banking sector hijacked the largesse. I also attempted to explain the political struggle that underscored the unexpected outcome, and how that outcome gave definitive shape to the social and economic malaise that engulfed and ravaged the Nigerian political economy. In this article, I seek to explain the impact of the foreign exchange market of Nigeria from 1986 to 1995.

The Impact of Foreign Exchange Market

The charged political atmosphere surrounding the extent of devaluation seemed to have a strong impact on the ability or willingness of the Central Bank of Nigeria (CBN) to pursue a stable foreign exchange policy. Within the first few months of the operation of the Second-tier Foreign Exchange Market (SFEM), the CBN wavered between a market-determined rate and a fixed rate for the *naira*. It started off SFEM with an average rate system for determining the week's exchange rate. However, it backed off after only two auctions because bank officials complained that the average rate method was highly inflationary given the inadequate supply of foreign exchange.

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By relenting to such pressure, the CBN ignored the fact that it was the banks themselves that pushed prices up through their bidding. In turn, the inflated bids were motivated by the high domestic demand for foreign exchange that the banks were fighting to fill by bidding 'too high.' By using an interventionist strategy that sought to allow some private sector influence, while not allowing the market to freely determine the effective exchange rates, the Central Bank actually sabotaged the government's policy objectives. Regardless of the actual merit of the policy, the effective discount or subsidy on the market value of foreign exchange was not transferred to the users of foreign exchange such as manufacturers, industrialists, traders and, possibly, the public through cheaper goods and services and less unemployment. Banks and banking institutions routinely sold their supplies at highly inflated (and illegal) prices.[1] Consequently, the ability of many users of foreign exchange to absorb the shock of higher costs, while adjusting to the new financial environment, was seriously damaged.

Under the new marginal rate system, the CBN intervened repeatedly to keep the *naira*'s rate of depreciation down. The system and the associated tinkering quickly became targets of critical commentary as new banking houses mushroomed to take advantage of the bonanza. As conflicts developed over access and allocations, many of the banks—particularly the less established ones—appeared to circumvent legal restrictions on their operations in a furious attempt to compete and maximize profits. Otedo Peterside (the General Manager of NAL Merchant Bank), and some critics of the policy complained that the regime seemed determined to keep the *naira* value low by deliberately under-funding SFEM, and intervening directly when the ploy failed (*Newswatch*, 7/18/88:34). Others such as Bola Kuforiji-Olubi, the Chairman of the United Bank for Africa, argued that the frequent Central Bank interventions had become counterproductive and a matter of concern to domestic and foreign financial experts. She argued: "… the *naira* should be left entirely to the forces of supply and demand and allowed to reach equilibrium at an acceptable rate based on the conditions of the market" (*Newswatch*, 7/18/88:34).

The demand that 'full market forces' be allowed to determine the exchange value of the *naira* was apparently broached, but deemed unacceptable by the policy-makers. It is now known that the regime itself was seriously divided over the question of how (and how much) to devalue (*Daily Times*, 3/31/92). This might partially explain the CBN's unwillingness or inability to stay the course on its choice of modes. The Central Bank abandoned the marginal rate

system on April 2, 1987 in favour of the Dutch auction system under which foreign exchange was sold to successful dealers at their own bid rates. During its use in 1987, unsuccessful dealers charged that the system devalued the *naira* too much by compelling banks to bid very high for the scarce foreign exchange. Although the system was abandoned because of the incessant complaints, it was reintroduced subsequently and then abandoned again following a massive devaluation in March of 1992.

Under the new March 1992 system, "the CBN sought to meet the demand of the banks at a rate set by the CBN after taking the level of demand into consideration" (*EIU* 'Nigeria' #1, 1993:24). The Central Bank felt compelled once again to abandon that system in February of 1993 because of the institution's "reluctance or inability to recognize the need for an ongoing process of depreciation" (*EIU* 'Nigeria' #1, 1993:24-5). The Dutch auction system was re-installed in the interim period pending CBN decision on a more appropriate method. This led to speculation that the CBN would use the new system to argue that devaluation was not a result of actual policy decisions but a direct consequence of the irregular or illegal activities of banks. Central Bank interventions re-emerged under the new Dutch system. The February 24, 1993 auction was cancelled by the CBN because it was displeased with the "outrageous rates that emerged" (*EIU* 'Nigeria' #1, 1993:25). At the time, the bids were as high as N33 for $1.

During the first few weeks of operation, SFEM was widely praised by many members of the business community as an effective policy instrument. Boniface Chizea, the senior manager in strategic planning at United Bank for Africa (one of the biggest banks in Nigeria), declared the *naira* devaluation a resounding success: "…with SAP, Nigeria has achieved more than it was envisaged in arriving at an acceptable exchange rate for the *naira* without causing much convulsion within the system" (*Newswatch*, 10/5/87:63).[2] The *Business and Economic Digest*, a United Bank for Africa mouthpiece, concluded in its July 1987 issue that the devaluation of the *naira* and the "numerous incentives contained in the 1986 and 1987 budgets, as well as the export promotion decree, have made export business very lucrative."

Devaluation was widely praised in the business community for enabling the government to better control the problem of over-invoicing, and re-introducing sanity into the management of the country's resources. Supporters claimed that the profligacy that marked the behaviours of industries and average citizens was being reduced. M.O. Sokenu of the

Association of Professional Women Bankers praised the reform program for affecting the value judgment of many Nigerians. Arguing that it was a "discipline capsule which has injected sanity into the life styles of many Nigerians," she credited the new changes with breaking her habit of travelling to London at least once a year for a shopping spree:

> These trips have become unnecessary because, apart from the fact that the fare has gone very high, many imaginative designers, have sprung up across the country producing even better dresses than those we rush to London to buy (*Newswatch*, 7/18/88:34).

Other supporters such as Rasheed Gbadamosi, the board chairperson of the Nigerian Industrial Development Bank, credited the introduction of the foreign exchange market with nearly eliminating large-scale smuggling. He also insisted that SAP was not only encouraging backward integration of local industries, but was also having dramatic effects on the expansion of non-oil exports (*Newswatch*, 10/5/87:63). Some business leaders who disagreed with the devaluation policy grudgingly agreed that there were some positive aspects to the policy. The elimination of the notorious import licensing system was one of the most roundly praised changes. Christopher Kolade (Managing Director, Cadbury Nigeria Limited), a devaluation critic, was pleased with the increased efficiency and predictability of economic planning:

> SFEM has considerably reduced the areas of uncertainty in the management of enterprises. Because the system is well known, and fairly straight forward, planning can now be done more efficiently and other elements of management can now be determined and operated on a truly business-like criteria (*Newswatch*, 9/14/87:56).

Nevertheless, Kolade, MAN and other devaluation critics insisted that although they could secure foreign exchange and import raw materials and spare parts freely, the costs under SFEM had become too prohibitive. The difficulties prompted criticisms from opponents and some supporters of devaluation. Boniface Chizea, who initially praised SFEM for depreciating the *naira* without causing a convulsion within the system, charged that the *naira* had become excessively undervalued when the currency slid down to about N4.12 to $1.00. By July of 1988, the *naira* had depreciated to as much as N7.00 to $1.00 in the black market, N6.60 in the autonomous market, and between N4.00 and N4.60 in the foreign exchange market. For many critics, the differences in rates re-affirmed the problems with the exchange rates policy. Uzo Okeke, then Executive Director (Economics and Statistics) of MAN pointed out that: "…as long as these rates exist side by side with the

SFEM rate, and they are at variance with each other, it would be difficult to say that we have achieved a realistic exchange rate" (*Newswatch*, 7/18/88:33). It was widely thought that the exchange ratio between the *naira* and the dollar should be no more than 3:1. The higher rate of exchange was attributed both to CBN misguidance, and the low supply of foreign exchange in a high demand context. The Central Bank was called on by some members of the business community to redress the situation by eliminating the bidding process, and replacing it with a system in which the CBN would simply allocate foreign exchange to banks on an agreed percentage basis.

Impact of Devaluation on the Manufacturing Sector

As was shown earlier, a principal reason for exchange valuation battles centres on the matter of who benefits and who loses. Similarly, the battle over the realistic rate of exchange for the *naira* centered over which of the societal actors was bearing the escalating costs attendant to its devaluation. Despite government efforts, the impact of the exchange rates policy was severe on the manufacturing sector for which raw material and machinery costs increased by more than 200 percent after only one year of SFEM operation. The import content of the installed manufacturing production capacity was such that over 90 percent of the equipment, and about 70 percent of the raw materials were imported. The situation was exacerbated by one unintended consequence of devaluation—the upward movement of prices for local raw materials and services (*This Week*, 5/21/90:33).

There were three major reasons for the increases. First, competing imported goods were far more pricey in the local currency. Second, the demand for local products and services increased sharply. Finally, the high external dependence of the Nigerian economy meant that the exchange rates policy had a generalized inflationary impact on the entire range of macroeconomic activities. For instance, farmers of food and cash crops, merchants and others dealing in items and services with high local content often argued that price increases were justified since they too must pay for the more expensive items and services. Overall, the situation got much worse by the end of 1992. Chief Olu Adeaga, a small-scale manufacturer in Lagos, complained that:

> Before the deregulation, banks kept us waiting for months before selling us foreign exchange. Now with deregulation, most of us find it difficult to raise the *naira* needed to buy foreign currency. You should understand what I'm saying. If you need $100,000 to import machinery, you have to look for about N2 million (*African Concord*, 3/13/92:32).

Other normal costs of doing business also went up for manufacturers. Among those, for instance, were utility costs which went up dramatically as a direct consequence of both the effects of the exchange rates policy, and another pivotal element in the economic reform package—the privatisation and commercialisation program. Official increases in tariffs were approved for utilities such as the National Electric Power Authority (NEPA), Nigeria Telecommunications Limited (NITEL), Nigeria Postal Services (NIPOST), and the Nigerian National Petroleum Corporation (NNPC). In 1989 alone, NEPA raised its energy consumption tariff for commercial industries by about 900 percent, from 6 *kobo* to 66 *kobo* per unit. In 1990, NITEL increased its charge for personal calls by 800 percent, from 10 *kobo* to 90 *kobo* per pulse; its booked calls went up by more than 600 percent, from 90 *kobo* to 7 *naira* per minute; and its international calls went up by up to 270 percent, from 22 *naira* flat rate per minute to 66 *naira* (Africa) and 80 *naira* (non-African) per minute. At the end of 1992, NIPOST raised its prices for regular mail. The rates for international letters were raised from N1.5 to N30. NNPC increased its prices from 25 *kobo* per litre in 1987 to 60 *kobo* in 1990, 70 *kobo* in 1991, and N5 in 1993.

The immediate implication of these increases to manufacturers can be illustrated by a simple comparison of related cost for goods produced. According to the calculations of *Business in ECOWAS*, whereas it cost a company about 8 *kobo* to obtain power for goods produced in 1988, the same quality of goods could only be produced at the cost of N1.23 in 1990; and this was "…without taking into account the multiplier effect of the tariff increase as it affects materials and service used by the manufacturers" (1/10/90:38).

As can be expected, much of the additional costs were transferred to consumers, many of whom were already suffering from the devastating effects imposed by the belt-tightening logic of structural adjustment program. The result was that manufacturing warehouses became clogged due to weak demand for the goods. This prompted MAN to proclaim in its review of the 1990 budget that "…the cost of industrial production rose by 120 percent in 1989, while capacity utilization deteriorated from 40 percent in 1988 to 31 percent in 1989." The net effects included plant closures and retrenchment of labour. Nevertheless, there were some areas of improvement. For example, capacity utilization that stood at less than 25 percent in 1985, increased to 38 percent and 40 percent in 1987 and 1988 respectively—buoyed partly by the government's reflationary measures (*AR*, April-June 90:9). However, most of the gains were lost by 1991 due to the adverse effects on demand and lower capacity utilization (31 percent) that resulted from more restrictive government policies.

In 1989, the government became embroiled with MAN over the performance of the industrial sector. The Central Bank figures that placed 1989 capacity utilization at 42 percent were challenged by MAN, which claimed that the figures were concocted. Arguing that its own survey suggested a capacity utilization of 29 percent for 1989, the group insisted that the CBN had no credible basis for the claim, especially given that Babangida had stated in his 1990 Budget Speech that capacity utilization for the first half of 1989 stood at 31 percent. Dr. Oladapo Fafowora, then executive director of MAN, demanded that the CBN was obligated to identify the factors that changed in the second half of the year to justify its figures. Measuring the persistent difficulties, Uzo Okeke, MAN's Director General, warned: "…a structural adjustment programme that does not encourage production is no good to any one. The whole foreign exchange mechanism has to be reviewed" (*AR*, August 1992:15).

Also central to the problems of the manufacturing sector were the unusually high interest rates (45 percent in 1992), low credit ceilings, and poor consumer demand.[3] Although those factors may have exacerbated the inability of the government to stay within or near its budgets, MAN and many analysts were unable to provide adequate explanations for the increased profits declared by some manufacturers. The argument that the high turnovers and profits were more indicative of inflation indices than production realities does not explain why some manufacturers such as Lever Brothers, UAC, Nigerian Breweries Limited, and PZ thrived while others closed down or cut down their workforce. SAPs are usually designed to eliminate industries that are so inefficient and inflexible that they can only survive under a rigid protectionist umbrella. The Babangida regime's SAP package was no different. It anticipated that the surviving companies would be efficient and more competitive, and that the removal of unnecessary regulations and bureaucratic bottlenecks would create an enabling environment conducive for new entrepreneurial entrants. Given this productionist logic, it was not only expected that resources would be better allocated (due to the reduction in non-contributive activity), but also that the decaying national productive competence would be reversed.

Banks, Manufacturers, and the Foreign Exchange Reforms

At the heart of the dispute between MAN and the government is the unpalatable business environment for manufacturers due to high production costs, and weak demand for finished goods brought on by very restrictive monetary measures and chronic foreign exchange shortages. MAN had a

myriad of complaints. In 1992, it contended that the *naira* had become too unstable and undervalued at about N19 to $1. Arguing that the currency should exchange at no more than N15 to $1, it blamed the government mismanagement of the economy for the problems and for the persistent gap between the official rate and the autonomous and parallel market rates (*AR*, August 1992:15). A major part of the problem stemmed from the effects of the 'round-tripping' that resulted from the foreign exchange reforms adopted by the government after extensive consultations with bankers and manufacturers. Under SFEM, the Central Bank used pre-set quotas to allocate foreign exchange to banks at rates which were determined by the weighted average of bids tendered by the banks at a weekly auction. Although banks were only allowed an official margin of 1 percent, they often sold the acquired foreign exchange for huge profits at the higher rates prevailing in the parallel and autonomous markets. The banks then turned around and used the proceeds to purchase more foreign exchange at the official price.

The resulting astronomical profits led to an explosion of new banks in Nigeria. Between 1986 and 1995, the number of banks in Nigeria more than tripled to about 130. The profits were such that despite efforts by the Central Bank in 1989 to reduce bank liquidity, virtually all the existing banks (including the brand new ones) declared large profits in 1990 (*The President*, 5/14/90:22-34). Expectedly, the banking sector argued that the huge profits were the result of sound and efficient management (*Guardian*, 6/5/90).

Reportedly, some bank managers owned or controlled interests in the autonomous and parallel markets.[4] Although the autonomous market was established in 1989 as Bureau de Change to compete with, and eliminate the parallel market, the latter not only remained resilient but also continued to thrive. The Central Bank reacted to the illegal commercial bank activities by attempting to penalize the ones that were caught. In October of 1991 alone, 73 Nigerian banks were accused of foreign exchange improprieties. Of these, 54 were found guilty and 'fined', and an additional two were barred completely from participating in the foreign exchange market (*AB*, 1/12/92:37). Nevertheless, because of high profits and low penalty, many of the banks continued with their irregular transactions. The CBN was forced to suspend foreign exchange sales between December 1992 and February 1993 after the speculative activities of banks destabilized the exchange rate system. According to the CBN, some banks—40 were disqualified from participating in November 1992 alone—were purchasing foreign currency "… far in excess of CBN rates with a view to using it for irregular and unauthorized purposes" (*Newswatch*, 1/11/93:41).

In essence, deregulation created a huge boom in the banking and other financial service industries (such as insurance and securities). However, much of the boom in banking activities occurred at the expense of other sectors, such as manufacturing and agriculture that were denied access to medium and long-term loans despite stipulated government policy (*Times Week*, 1/11/93:18; *AB*, January 1992:36-40). In fact, the maturity structures of banks in 1992 showed short-term loans and advances totalling N5.3 billion, and representing about 54 percent of total loans; this, despite the legal maximum of 20 percent (*Times Week*, 1/11/93:18).

The Impact of Devaluation on SAP Policy

Pressed by the need to shore up its sagging popularity and by the devastating impact of the economic situation, the Babangida government spent 'heavily' on non-productive and distractive sectors.[5] The resulting large budget deficits attracted severe criticisms from private sector groups such as MAN, NACCIMA, and the Money Market Association of Nigeria. Substantial amounts of the extra-budgetary spending did not target social projects such as health or education. Rather, they were spent in an ad hoc fashion as donations to a wide assortment of influential groups such as junior military officers. The failure to adequately address the plight of the lower classes rendered the Babangida regime vulnerable to attempts by opportunistic elements within the ruling classes seeking to score points with those groups. However, the most ardent criticisms of the government's SAP policy came from two important coalitions—the MAN and the NLC. For the former, which represents a wing of the ruling elite, this was clearly because of the unfavourable consequences that the policy imposed on its members. For the latter, this was because its membership of mostly working class people and the leadership of the organization constituted some of the biggest victims of SAP.

Assessment by the MAN

The pace of rationalization within the industrial sector was so rapid that it severely strained the ability of many vital sectors to adjust. According to MAN, about 20 percent of manufacturers in Nigeria closed down because of unfavourable and inappropriate government policies. One of the most contentious issues was the import tariff regime. Although the 1988 revisions of the tariff schedule raised the level of protection, they also reduced duties for finished products, while increasing them for imported inputs. This, clearly, was an attempt to encourage local sourcing of raw materials.[6]

Pointing to their dependence on government in a variety of areas such as chemicals and steel, MAN charged that local substitutes for many of the inputs were not readily available, and that there was a dire need for a more gradual adjustment. The manufacturers also complained bitterly about foreign dumping of manufactured goods, and the government's inability to control the illegal inflow of untaxed inexpensive products into the country. They had a long list of complaints:

> A continuing theme was the campaign to maintain or restore tariff differentials between inputs and finished goods. Some manufacturers demanded that competing goods be banned, or, at another extreme, that inputs should enter duty free. More generally, bitter complaints were made about the difficulties created by foreign exchange scarcity, high taxes, and escalating costs, and about government's lack of appreciation for industry efforts as far as local content was concerned... (Moseley, 1992:130).

Given the closing of factories and the continuing sluggishness of capacity utilization in sectors with heavy external dependence for inputs—10 percent or less at the auto plants, and less than 18 percent for the paint industry—MAN claimed that the Nigerian economy was being plunged into a 'deindustrialization' process.[7] Interestingly enough, the World Bank was claiming about the same time that the structural reforms had placed the Nigerian economy on a more efficient and competitive footing (*AR,* April-June 1990:9). The World Bank argued that the dismantling of the pre-SAP sellers' market created an open buyers' market where, due to devaluation, the environment was full of new possibilities for productive investment, and local manufactures were competing effectively with imported goods. Other observers such as Moseley (1992) and Forrest (1990) also agreed broadly with that assessment.

For its part, the Babangida government scoffed at the suggestion that the country was being 'deindustrialized' by citing some of the success areas including textile, beer, and rubber. Because of their ability to successfully develop or source local raw materials, such industries experienced relative prosperity with over 50 percent capacity utilization. Nevertheless, due to both pressure from critics and the realization of the importance of some of the threatened sectors (such as the iron and steel industry), the regime was persuaded in 1989 to re-impose a seven-year protective tariff schedule.

In a scathing attack on the Organized Private Sector, Augustus Aikhomu (Babangida's deputy) insisted that the private sector had failed the nation

because of its inability to utilize the regime's innovative policies for the good of the national economy. Charging that the private sector had remained weak and dependent on the government, Aikhomu accused them of cozenage and preferring to lean on the government rather than making creditable efforts to secure their own foreign exchange, source local raw materials, create more jobs, and increase their capacity utilization. He declared that:

> Instead, the executive capacity of the public service has been dissipated and over-stretched in their effort to continuously ensure the conformity of the private sector with business regulations and rules (*AB*, January 1992:23).

Arguing that MAN's characterization of the government's performance and the state of the Nigerian economy was likely to "breed negative vibrations" which will hamper local and foreign interest in investment opportunities in Nigeria, Aikhomu concluded that such attacks were like ammunition in the hands of the regime's and the country's enemies. The uncharacteristic hard line adopted by the government led to immediate speculation that an effort was under way to oust some of MAN's top officials. Oladapo Fafowora, MAN's Executive Director, was replaced a few months later.

Assessment by the Nigerian Labour Congress

Although the program was credited with providing a more efficient allocation of foreign exchange, the persistent level of depreciation became problematic due to its negative impact on the manufacturing sector and the national economy. Given the collapse of oil-based foreign exchange earnings—from over US$26 billion in 1980 to US$6.5 billion in 1988—the structural basis of the *naira* depreciation becomes clearer.[8] The devaluation-driven relative abundance of the *naira* had a more general impact. The federal and state governments, and public sector workers at all levels were beneficiaries of the huge *naira* windfall that accrued to the Federal Government from petroleum sales.

In terms of foreign exchange accounts, the increased *naira* value of export earnings did not make up for the decreased dollar value of the oil exports. However, the increased *naira* income effectively meant that workers could receive prompt and back salaries. (In some states, many workers had not received their salaries for several months.) It also meant that contractors, some of whom were owed money dating back two years, were paid off. Nevertheless, the net effect of these developments and the economic reform agenda was the upsurge of inflationary pressure, and the associated burdens that it imposed on the lower and middle classes.

Some of the most determined attacks on the devaluation policy came from the Nigerian Labour Congress. As consumer prices and retrenchments soared in reaction to the depreciation of the *naira*, the NLC charged that the government was insensitive to the plight of workers,[9] and that its policies had resulted in higher import and production costs for many employers. Citing figures that indicated that the cost of raw material imports outstripped those for capital goods, the NLC acknowledged that the country could not maintain such a policy, but decried an industrial policy that required manufacturers to use local substitutes immediately.

The foreign exchange policy was blamed for low sales and capacity under-utilization as warehouses bulged with unsold merchandise. Because of such devaluation-driven cost increases, many employers—especially in industries with high import content (automobile plants, poultry, milk, paper products, textiles, flour mills, pharmaceuticals, etc.)—pursued rigorously the rationalization of their operations. The NLC insisted that this was despite the huge profits before the economic downturn. For example, the NLC argued that Guiness, UAC, Cadbury, and many other companies retrenched workers while making up to 300 percent profit annually over the previous ten years. Although many companies were cutting back on labour before SAP, they reacted to the devaluation-induced cost escalation with quick recourse to retrenchment (*Vanguard*, 1/30/90:13; Bangura, 1986:52). In reaction, the NLC adopted a wide array of strategies including dialogue, published papers, limited protests such as sit-ins and go-slows, strikes, and demonstrations (Bangura, 1989:182-3). The NLC targeted both the companies and the government. Charging that the companies were accumulating huge profits through unfair industrial relations practices and a complete disregard for business and social responsibility, the NLC insisted that the defence of workers against insensitive transnational enterprises was part of the government's responsibility. The NLC also argued that the government should drop its 'simplistic' and 'utopian' policy of trying to effect immediate stoppage of raw material imports in favour of a policy which provided jobs and lowered costs for manufacturers and consumers.

As part of its effort to attract investment in support of SAP, the government issued the 1986 National Minimum Wage (amendment) Order[10] that effectively sought to eliminate the N125 per month minimum wage requirement. NLC was so incensed by the combined effect of the law and the on-going devaluation that it charged the Babangida regime with attempting to undermine the basic rights of workers. Calculating that SFEM had already

reduced the N125 minimum wage to N35 earning power, the NLC undertook a nationwide mobilization campaign in opposition of the regime's policies (Aremu, 1987:14). Armed with effective campaign literature, the NLC held mass rallies in various state capitals, and initiated mobilization efforts in local government areas. Faced with mass politicisation, the government quickly rescinded the National Minimum Wage (amendment) Order in April of 1987 (Bangura, 1989:187).

In November of 1989, the NLC gave a 21-day ultimatum to the government to revise the minimum wages upward. Citing the depreciation of the *naira* by about one thousand percent since the 1981 law was established and the high inflation rates, the NLC insisted that a fair minimum wage rate under the circumstances existing then was N1,500 per month. The regime ignored the ultimatum and a subsequent extension of the deadline. Chastened and unable to deliver the threatened severe action, the 'barking toothless bulldog' was forced to adopt a different tone. Subsequent negotiations with a twenty-man Presidential committee led in 1991 to an upward revision of the minimum wage to N250 (*National Concord*, 2/5/90:7). Following the massive devaluation of March 1992, 13 unions issued a joint statement demanding another upward revision of wages to compensate both for inflation and the devaluation (*National Concord*, 11/27/89:5; *West Africa*, 20-26 April 1992:683).

The NLC also issued a memorandum in which it not only called for a 200 percent increases across the board for salaries, pensions, and allowances; but also contended that the only logical and objective way of redressing the added economic hardships and the devastating impact imposed by the March 5 devaluation was to revert back to an exchange rate of between N8.50 to N9.50 to one dollar. The organization warned that the "… failure to revert, and continued deregulation of the forex [foreign exchange], will further depreciate the value of the *naira* to ridiculous and dishonourable levels." The NLC argued not only for "appropriate legislation to protect consumers, tenants and commuters" but also for enforceable legal and administrative price control measures (*West Africa*, 11 - 17 May 1992:806).

Although criticisms from NLC were frequent and stinging, they lacked the pungency of the virulent attacks the Babangida government received from MAN under Fafowora's leadership. Of course, the attacks from both groups reflected drastically divergent interests. If nothing else, the attacks signalled an end to the putative corporatist partnership that was thought to exist between the government and the Organized Private Sector (OPS). Although

groups such as NACCIMA continued to maintain a spirit of cooperation with the government, the NLC, MAN, and others adopted a more confrontational attitude. The NLC's struggle with the government was so bitter that its leaders, reportedly, became targets of government subterfuge that caused a deep internal rupture within its ranks and ultimately led to government intervention and the replacement of the NLC leadership.[11]

Evaluating the Foreign Exchange Regime

The conflict between the government and its critics took an unexpected turn at the end of 1991 when Lannon Walker, the US Ambassador to Nigeria, delivered an undiplomatic assessment of the Babangida regime's economic management. Citing the free market value of the *naira* that was then less than 50 percent of the official rate, Ambassador Walker argued that the regime was misdirecting national resources by subsidizing certain areas at the official rate. He disputed claims by the Federal Office of Statistics that the rate of inflation was at 5.5 percent in June of 1991, and placed it close to 30 percent (MAN placed it at 13 percent). Arguing that the inflationary pressure was due to the regime's fiscal excesses, the Ambassador concluded: "…the poor (economic) performance is structural and managerial" (Thompson, *AB*, January 1992:23). Though there were no official reactions to the Ambassador's comments, his relations with the Ministry for External Affairs became strained. He was quickly recalled and replaced by the Bush administration.

For the Babangida regime and most Nigerians, the most unsettling devaluation episode occurred on March 5, 1992. In one swoop, the already weakened *naira* was devalued to N18.00 from N10.55 to the dollar. The action stirred up such strong nationalist anger that one writer argued that it "… raised questions about the survival of the nation, the citizens, the Babangida regime and the civilian administration to succeed it" (*AC*, 4/13/92:24). The dramatic price hikes that quickly followed added to the regime's sagging popularity, and calls for Babangida to resign. Gani Fawehinmi, an activist lawyer, immediately sued the government to challenge the devaluation, and to compel the regime to declare the oil export earnings and expenditure from the Gulf War bonanza. Tensions were so high that the government reacted with a panicky set of 'relief' measures to alleviate the hardships and frustrations of citizens.

Babangida himself, seeking a measure of damage control, granted interviews to *Daily Times* and *African Concord*, the two largest newspapers. The

interviews were startlingly candid but politically damaging as they revealed a seemingly confused and overwhelmed leader. Babangida suggested that the Nigerian economy defied all logic. He also appeared to openly suggest that the regime had been inept at redressing the economic problems when he admitted wondering why "the economy of this country has not collapsed till now." He went further: "… what is it that is keeping it up? Surely, it is not our knowledge, it is not our theories, it is not anything we have read. I still have not found an answer" (*African Concord*, 4/13/92:31; *Daily Times*, 3/31/92). Many Nigerians regarded the comments as further proof of the government's ineptitude in handling the nation's economic difficulties.

Babangida also acknowledged that devaluation had been a very thorny issue in his inner circle as far back as 1986. At the time, the issue was not so much whether to devalue but the modality for doing so (*Daily Times*, 3/31/92). Conceding that the *naira* might have fared better if the regime had adopted a floating exchange rate system in 1986, Babangida admitted that his economic advisers were very divided on the issue: "Each school of thought held strongly to their opinion and we had a stalemate" (*African Concord*, 4/13/92:32).

The *Daily Times* interview also confirmed reports that the Central Bank had been an errand institution for the government despite the regime's decision in 1988 to remove it from the control of the Ministry of Finance. Babangida's remarks strongly suggested that the government—not the CBN—was responsible for critical exchange rate and fiscal policy decisions (*African Concord*, 4/13/92:32). Although there were suggestions that the policy framework for SAP was being made by Babangida's economic advisers and not economists from CBN or the Ministry of Finance, top CBN officials were insistent that the institution was independent of any other branch of the government.[12]

Regardless of the exact role played by various policy-makers, it is still possible to assess the effectiveness of the exchange rates policy based on available information. Although the government devoted about 60 percent of the available foreign exchange to manufacturing, the sector's contribution to the GDP remained unimpressive at less than 7 percent. The government appeared sincere in its efforts to suffuse the sector with new dynamism. Yet, many of its policies tended to favour a very narrow section of the industrial sector represented by NACCIMA, while having a negative impact on the rest of the sector. For instance, the regime's foreign exchange policy exacted a

huge toll on its industrial objectives. Gbenga Akinnawo, the managing director of African Paints Nigeria Limited, argues that:

> … before SAP we met with government and agreed on a raw materials replacement programme or import deletion scheme. If that scheme had been followed, most raw materials would be made locally by now. But with SAP, came a better access to foreign exchange and much of our efforts at backward integration are now destroyed (*Newswatch*, 7/18/88:34)

In that regard, the devaluation policy actually worked against the regime's stated policy objectives. The unwillingness or inability of the CBN to allow the *naira* to find its own level in the foreign exchange market was disastrous to Nigeria's attempt to move away from the old industrial development patterns. In other words, the regime's refusal to sell its available foreign exchange at the market value not only denied needed financial resources to the state, but also discouraged the allocating efficiency that the policy was intended to introduce and nurture. Vital resources were diverted to banking institutions whose general modus operandi pointed toward profitable short-term mercantile pursuits rather than toward long-term productive investments. As banks prospered at the expense of the manufacturing and industrial sectors, prices for manufactures shot up; sales and capacity utilization declined; unemployment soared as inventories increased; and, even worse, installed capacity declined due to those sectors' inability to buy spare parts and contributive capital goods. Indeed as Dumas surmised generally,

> … resource diversion thus has a potent negative effect on SMO [social material optimum][13] in the long run, through its depressive effect on both contributive R & D (research and development) and capital investment ... Therefore if resource diversion is large and continuing, it will produce serious negative effects on the contributive economy's ability to function in the long run, resulting in an unavoidable decline in the society's material well-being (Dumas, 1986:171).

Conclusion

In effect, the foreign exchange regime served as another form of government subsidy that fell far short of the intended consequences. Instead of the palliative effects it was designed to have on manufacturing operations and, ultimately, on the cost of manufactured goods to consumers, the policy enabled banking operations to hijack the subsidy through subterfuge and against explicit government regulation. This arrangement also fostered the government's inability to deal a deathblow to the foreign exchange black

marketers who actually thrived despite the introduction of competitive foreign exchange bureaus in 1989. The net effect of all this was not so much that the policy distorted the impact of exchange rates by encouraging the proliferation of 'banking' and 'foreign exchange' houses and other distractive and neutral pursuits. Rather, by diverting vital and scarce resources from the industrial and manufacturing sectors, the foreign exchange policy deprived the national economy of the necessary contributive inputs and capital goods. This contributed directly to the decimation of the national productive competence for which SAP is blamed.

Notes

1. Interview #11, CBN (Forex Section), May 20 1990, Lagos.
2. After the *naira* fell from about N3.60 to about N4.00 to $1.00 three weeks later, Chizea was quoted by another reporter as saying that the *naira* had become undervalued: "… the issue is that of over-correction. *Naira* has now become excessively devalued" (*Newswatch*, 9/14/87:56).
3. A 1990 World Bank study—*Manufacturer's Responses to Infrastructure Deficiencies in Nigeria: Private Alternatives and Policy Options*—demonstrates that Nigeria's weak infrastructures impose abnormal costs on the country's manufacturing enterprises. The study, which looked at power and water supply, and communication, concluded that Nigerian enterprises are compelled by weak infrastructure to bear extraordinary expenses in their efforts to secure adequate alternatives. (*National Concord*, 5/1/90:7).
4. Interview #25, Presidency (Economics Section) May 15 1990
5. Interview #2, Central Bank, January 6 1993, Lagos.
6. Local sourcing of raw materials, one of the most important planks of SAP, was responsible for a significant portion of new investment. According to a second-half MAN survey in 1989, about 38 percent of new investment was devoted to plant modification to facilitate backward integration of manufacturing capacity; 57 percent was aimed at plant refurbishment or expansion; and 4 percent represented new capital ventures (*Business Concord*, 4/24/90).
7. In 1989, 17 of the 32 appliance manufacturers in Nigeria remained in business. Their plight was perhaps illustrated by another statistic: only 15,000 domestically manufactured refrigerators were sold in 1988 compared to 744,000 in 1985. (*Financial Post*, 8/19/89).
8. Although the relationship between available foreign exchange and the *naira* base is not necessarily direct, given the effects of money velocity and other factors, Nigeria's weak economy and heavy reliance on foreign inputs served to valorise the impact.

9. The NLC estimated in 1987 that since the austerity measures began in 1984 under the Buhari/Idiagbon regime, 427,242 workers had lost jobs in 18 out of its 42 affiliated unions (*Newswatch*, 10/5/87:64).
10. The National Minimum Wage Order exempted employers of less than 500 workers from observing the Minimum Wage Act of 1981. The act set a national minimum wage requirement of N125 per month.
11. That change (by some account) and the effects of an economic depression seem to have crippled the ability of labour leaders to negotiate from a position of power. Though the NLC remained an important voice, its relative ineffectiveness seemed apparent.
12. One of the highest-ranking officials at the Ministry of Finance and Economic Development stated very simply that the Ministry was largely irrelevant in the formulation of structural adjustment policy. He acknowledged that Dr. Chu Okongwu, then Minister of Finance, was in the loop on many issues but insisted that policy formulation was largely influenced by Alhaji Abubakar Alhaji (Budget and Planning Minister), Olu Falae (Secretary to the Federal Military Government), and the economic advisers. Asked what role the CBN played, the official stated simply that they articulated and carried out government directives. Interview #23, Ministry of Finance, March 27 1990, Ikoyi, Lagos.
13. Social Material Optimum is the maximum potential contributive activity that a society is capable of producing at any given time (Dumas, 1986:150-1).

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