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ADDRESS BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA ALHAJI ABDULKADIR AHMED AT THE QUARTERLY MEETING/LUNCHEON OF THE INDUSTRIAL GROUP OF THE LAGOS CHAMBER OF COMMERCE AND INDUSTRY ON 30th SEPTEMBER, 1982

Mr. Chairman, Distinguished members of the Industrial Group of the Lagos Chamber of Commerce and Industry, Ladies and Gentlemen, it is my great pleasure to be invited by this august body, as a guest speaker at your quarterly meeting/luncheon.

From your invitation letter, I observed that the main purpose of this meeting is 'to review the activities of the group and to appraise the performance of the industrial sector and re-assess its short-term prospects'. I have also observed that you will deliberate on the difficult experiences of industry during the last twelve months and that you are desirous to see the speedy recovery and stabilization of the economy as well as the encouragement of local manufacturers for a more sustained growth and support to the economy. I also feel flattered to observe that you have decided to invite me as a guest speaker on this occasion 'owing to the importance which the group attaches to the speedy recovery of the economy'.

In this brief address, therefore, I would like to seize the opportunity to talk on the recent economic stabilization measures which were introduced in April, 1982 and the vital role expected to be played by the private sector, particularly Nigerian industrialists, in ensuring that the measures work. In this regard, it will be appropriate to cast a glance at the background to the introduction of the stabilization measures.

For this purpose, it is instructive to highlight developments in the major components of the Gross Domestic Product (GDP) in the last ten years.

The contribution of the agricultural sector to GDP declined from 31 per cent in 1973/74 to 23 per cent in 1981. The share of the manufacturing sector doubled in the period from 4 to 8 per cent but remains relatively insignificant. Wholesale and retail trade contribution ranged between 18 and 23 per cent and averaged 21 per cent. The share of the building and construction sector fluctuated between 11 and 15 per cent but maintained a general upward movement. The services sector value added also maintained an upward trend, moving from about 10 per cent in 1973/74 to 16 per cent in 1981.

The contribution of crude petroleum sector to GDP increased from 24 per cent in 1973/74 to a peak of 27 per cent in 1974/75 and fluctuated thereafter in a downward direction to 15 per cent in 1981. It averaged 22 per cent in the nine-year period.

However, it should be observed that the significance of the oil sector to the nation's economy is understated by the figures of its relative contribution to GDP. A better idea of the pervading influence of the petroleum industry on the Nigerian economy may be gleaned from an analysis of its contributions to federally collected government revenue, total export earnings and external reserves, etc.

The Federal Government revenue from oil rose sharply from ₦ 3.7 billion in 1974 to ₦ 6.1 billion in 1977, registering an increase of about 22 per cent per annum in those years. It

slumped by 25 per cent to ₦ 4.6 billion in 1978 as a result of the weak demand for oil in the world market. It soon regained a strong upward movement and shot up through ₦ 8.9 billion in 1979 to the peak of ₦ 12.4 billion in 1980. With the re-emergence of weak demand popularly known as the world market oil glut, government revenue from oil declined to ₦ 8.6 billion in 1981. The proportion of total Federal Government revenue from oil declined from 82 per cent in 1974 to 62 per cent in 1978 but quickly regained all lost grounds in the following year when it again contributed 82 per cent of total Federal Government revenue. This position was maintained in 1980 before declining to 70 per cent in 1981.

The share of crude oil in aggregate exports rose from a meagre 2.5 per cent in 1960 to 33 per cent in 1966. After the disruption of oil production in 1967 and 1968 it rose to 45 per cent in 1969. Thereafter, it escalated in rapid succession to over 93 per cent in 1977 and 98 per cent in 1981. Consequently, our balance of payments position as well as external reserves are heavily dependent on developments in the oil sector. For instance, a rising level of imports in the face of short-falls in oil receipts would exert pressures on the balance of payments and result in significant reserve losses.

The above sketch is intended to emphasize the unique position of oil in the Nigerian economy. It has been shown that the pervading influence of oil in the economy is far greater than its share of the GDP. It is the major source of Federal Government revenue. By extension, it is also the major source of States and Local Governments' revenue. Crude oil export dominates our total export earnings. It is persistently the surplus sector in our balance of payments and hence the major foreign exchange earner.

It is not surprising, therefore, that the recent adverse developments in the Nigerian economy should be traceable to the vicissitudes of the oil sector. The international market for oil has suffered serious reverses, especially from the second quarter of 1981. This has been popularly referred to as the glut in the world market for crude petroleum. The glut has been traced to a number of factors. These factors include the economic recession and conservation policies in the industrialized oil consuming countries; de-stockpiling of oil by members of the International Energy Agency (IEA); and the increase in non-OPEC oil production.

The prolonged recession in the economies of many advanced industrialized countries, which constitute the major consumers of crude oil, led to a decline in their demand for oil. The decline in demand was aggravated by the adoption of more stringent conservation policy measures such as driving less and often in smaller cars, electricity utilities switching from oil to coal and gas, and economy in the use of fuel and electricity in homes and factories.

The international oil market was further depressed by the de-stockpiling policy of the industrialized countries. The Inter-

national Energy Agency which was created in 1974 with the objective of achieving self-sufficiency in case of severe oil shortage had since accumulated large stockpiles of oil. This agency took advantage of the depressed oil market to release large quantities of its stockpile to further weaken the market. As the price of oil tumbled, and the high cost of carrying surplus stocks by oil companies worsened, the mounting downstream losses arising from slackness in aggregate demand, the oil companies not only de-stockpiled, but were also reluctant to renew purchase contracts which were not accompanied by substantial reductions in price.

Until very recent times, the unco-ordinated production policy of OPEC members was in itself a major factor in depressing the oil market. For example, Kuwait and Saudi Arabia assigned to themselves the role of stabilising the world price of crude oil by increasing their production rates beyond the levels considered commensurate with price stability.

Other factors in the glut include the rapid increases in non-OPEC production. Production in the North Sea, Alaska and Mexico especially, have increased tremendously (and the indications are that increases from these sources will continue, given the magnitude of recent oil discoveries). To these may be added the USA de-control programmes aimed at stimulating production through the removal of control on the production of US crude, the elimination of price controls on gasoline and propane as well as the removal of limits on refiners' profit margins. Of particular relevance to our situation is that some of the new producers were major consumers of Nigerian crude which have now turned major competitors in the supply of oil to the world market.

All the above factors have exerted serious adverse effect on the level of OPEC oil output which declined from 31 million barrels per day (*mbd*) in 1972 to 26.8 *mbd* in 1980 and to the ceiling of 17.5 *mbd* introduced by its members early in 1982 to stabilise their oil prices by attempting to adjust their supply to the level of demand in the world market.

As a result of the developments sketched above, Nigeria's crude oil production fell from 2.1 *mbd* in 1977 to 1.9 *mbd* in 1978 and recovered to the peak of 2.3 *mbd* in 1979. Thereafter it fell persistently to 2.07 *mbd* and 1.4 *mbd* in 1980 and 1981 respectively. However, government revenue and export earnings from oil increased in 1980 because the increases in the prices of oil more than compensated for the fall in production. There was a slight improvement in January 1982, when production averaged 1.7 *mbd*. This improvement was however short-lived as production fell to 1.4 *mbd* in February and 1 *mbd* in March. The performance of the non-oil export has also been disappointing. The sector's export which rose from ₦ 557.9 million in 1977 to ₦ 670.0 million in 1979 has since maintained a declining trend. Such exports fell persistently to ₦ 554.0 million in 1980 and a meagre ₦ 189.8 million in 1981. The end-result was that total export earnings which rose from ₦ 7.6 billion in 1977 to ₦ 14.1 billion in 1980 fell to ₦ 10.5 billion in 1981. In the same period, however, imports rose from ₦ 7.1 billion to ₦ 12.0 billion. Thus the substantial over-all balance of payments surpluses recorded in 1979 and 1980 turned into a heavy deficit of ₦ 3.0 billion in 1981.

The poor performance of exports accompanied by high and rising rate of importation and foreign exchange disbursements

and the consequent dwindling of the external reserves continued into 1982. In the first quarter of 1982, foreign exchange disbursements ran at a monthly average of ₦ 1.24 billion compared with inflows averaging only ₦ 0.7 billion. By the middle of April, returns from 22 out of 28 commercial and merchant banks operating in Nigeria indicated that the outstanding foreign exchange commitments in respect of imports amounted to ₦ 4.9 billion of which ₦ 2.6 billion or 52 per cent was due for payment within three months. At the same time applications for opening letters of credit awaiting checking at the Central Bank amounted to another ₦ 1 billion while approved allocations of foreign exchange awaiting release was ₦ 483.7 million. In the face of dwindling foreign exchange reserves, high outflows and falling inflows and the gloomy prospect of crude oil, the over ₦ 5 billion merchandise import commitments demonstrated vividly the very dangerous and critical situation the economy was facing, and dictated the drastic measures announced by the President.

The April measures included wide-ranging fiscal, monetary and other measures aimed at combating the severe financial pressures already sketched above. The fiscal measures featured import bans, import licencing and increases in import and excise duties. They were intended to balance the compelling need to reduce imports and stem foreign exchange outflows and the equally important aim of maintaining and increasing revenue from customs and excise duties. Other important objectives of the restrictive import measures included the promotion of the consumption of domestic manufactured products and increased use of domestic raw materials. The exchange control measures were to re-inforce the import restrictions with a view to ensuring that total disbursement is kept within the foreign exchange budget.

The imposition of increased duties on some industrial materials or intermediate products is explained by the need to stimulate increased use of local raw materials. It has been observed that the slow growth in the contribution of manufacturing sector to GDP is traceable to the high import content of our manufactured products. This tendency is contrary to the declared industrial objectives and policy of Government of developing a self-reliant economy. In constraining the importation of raw materials and intermediate goods, consideration was given to the availability of these goods and the existing potentials for producing them in the country. It is hoped that with improved data, it would become increasingly possible to match the importation of such commodities with short-falls in domestic production.

Another aspect of the April 1982 measures is the 2 per cent across the board increase in interest rates. It has been observed that with the relatively high rates of inflation over the years, real rates of interest have tended to be negative in a number of cases, thus tending to discourage savings while encouraging borrowing.

The scenario of the April measures will be incomplete without mentioning that the Federal Government imposed on itself a number of austerity measures intended to check the growth in public expenditure. This is in appreciation of the fact that Government expenditures also have large import content. Similarly, the income generation associated with the multiplier effects of government expenditures exerts pressures on aggre-

gate demand and the external sector. In a renewed attempt to combat smuggling, the Federal Government undertook a strengthening reorganisation of the Customs and Excise Department and set up an Anti-smuggling Presidential Task Force.

Each time the external sector is heading for the rocks and economic stabilization measures are taken to arrest the situation, there is an outcry about depression with a view to pressurising Government into relaxing the measures. The pressures for the relaxation of restrictive measures are in themselves the result of our over-dependence on imported consumer goods and raw materials, as well as our inability to come to terms with reality. Consequently, attempts in the past to control imports have left the economy with fairly high level of prices and have exposed industrial production to threats of depression, reduced production and increased unemployment. In other words, domestic production did not respond to policy measures — with consequent slow progress in some key sectors of the economy such as agriculture and manufacturing.

In retrospect, frequent recurrence of depletion in foreign exchange and the introduction of stringent measures cannot be divorced from the premature dismantling of such economic measures in response to strong pressures from powerful interest groups. Consequently, the structural shifts necessary to move the economy into a path of self-sustaining growth were given sufficient time to materialise. The end-result is that we find ourselves in a vicious cycle of stop-go policies and the much talked about objective of economic self-reliance becomes increasingly elusive. This time, however, we should not and must not let our personal interest over-ride the overall interest of the economy and the nation.

By greater self-reliance is implied increased dependence on own resources in seeking to achieve the various objectives of the society. This also implies increased efforts to achieve optimum utilisation of the country's human and material resources.

What then is expected of the Industrial Group of the Chamber of Commerce and all Nigerian business groups and individuals in ensuring that the recent measures work?

First and foremost, the Industrial Group should fully appreciate, as I am aware that they do, that the rapid development of the industrial sector of the economy is a *sine qua non* for self-reliance, economic stability and social peace. An important aspect of our industrial development strategy should be the maximization of local value added. An aspect of this strategy includes increased use of local raw materials and increased productivity through research and development; increased quantity and improved quality of 'made-in-Nigeria' products; and the maximum use of labour intensive technology within limits of economic viability.

Secondly, Nigerian industrialists can and should effectively contribute to the minimization of the inherent dangers of heavy reliance on one product — oil — through increased industrial production for both domestic consumption and exports. It is imperative to steer away from this heavy dependence on oil and its inherent instability in order to move the economy into a self-sustaining growth and self-reliance. In this move, the Industrial Group of the Chamber of Commerce and Industry is expected to play a leading role.

Thirdly, as mentioned earlier, some of the fiscal incentives and protective measures were intended to enable farmers and domestic manufacturers increase their output and productivity. It would amount to an exercise in futility if the response of Nigerian business community is to increase prices and make windfall profits. It is expected that the Industrial Group of the Chamber of Commerce and Industry would take the lead in taking advantage of protective measures to expand production and employment to ensure the success of Government policies to the advantage of the whole nation.

It has been long recognised that the oil sector is an enclave which cannot by itself transform the whole economy, no matter how large the income derived from it. Its direct local employment and investment generation as well as indirect employment and investment generation through demand for local materials and suppliers are insignificant. The greatest impact of the oil sector on the economy, as has been shown earlier, is foreign exchange earnings and government revenue. It is, therefore, through the use to which we put these resources that the economy can be structurally transformed.

Another important role expected to be played by the Industrial Group of the Chamber of Commerce and Industry in ensuring the success of the recent measures is in combating speculative importers and those who engage in smuggling. Smuggling is not only a threat to the success of government policies, but also a serious threat to the survival of many industrial groups. I am aware of the role your Group has played in the past in combating smuggling. Nevertheless, the continued vigilance of members of your association in the exposure of smugglers and increased co-operation with Government and law enforcement agencies in the intensified measures to combat smuggling, cannot be over-emphasized.

Mr. Chairman, distinguished members of the Industrial Group of the Chamber of Commerce and Industry, ladies and gentlemen, I wish to emphasize that Government actions are only regulatory and largely indicative of the course expected to be followed and are consequently necessary but not sufficient for the achievement of desired goals. The role of the private sector institutions and individuals at whose actions and activities the policy measures are directed at, or intended to influence, are very crucial to the success of such measures in achieving desired objectives. From the quality of the membership of your association, from your past records and your recent favourable reactions and responses to the new measures, there is no doubt that you have both the capacity and the willingness to ensure the success of the recent government measures.

Once again, I would like to express my sincere and deep appreciation to the Chairman, the Industrial Standing Committee and Members of the Industrial Group of the Chamber of Commerce and Industry for inviting me to this Luncheon and giving me the opportunity to present an address. I would like to assure you that in spite of the present difficulties, the prospects of the manufacturing sector are very bright. The size of the Nigerian market is very large and fast growing. With rising income and increasing sophistication, the Nigerian economy is increasingly more able to demand high quality manufactured goods. The country is endowed with abundant human and material resources and untapped raw materials. The manufacturing sector through relatively young, is strong and resilient, with very great potentials for development. But there

are bottle-necks and teething problems. With the leadership of your Group and in collaboration with sister associations and individual industrialists, there is no doubt that we can achieve a speedy recovery of our ailing but resilient economy and evolve a self-sustaining and self-reliant economy.

Thank you.