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An Address by Alhaji Abdulkadir Ahmed, Governor, Central Bank of Nigeria, at the 12th Annual General Meeting of Manufacturers Association of Nigeria on Wednesday, 9th March, 1983

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AN ADDRESS BY ALHAJI ABDULKADIR AHMED, GOVERNOR CENTRAL BANK OF NIGERIA. AT THE 12TH ANNUAL GENERAL MEETING OF THE MANUFACTURERS ASSOCIATION OF NIGERIA ON WEDNESDAY, 9TH MARCH, 1983

Mr. President, distinguished members of the Manufacturers' Association of Nigeria (MAN), Ladies and Gentlemen; I consider it a great honour to be invited by your association as the Guest Speaker at the Presidential Luncheon following your 12th Annual General Meeting.

Taking advantage of the free-hand you gave me in the choice of a topic, I would like to address myself to **"The Problem of Over-dependence of the Nigerian Economy on Imports"**. Within this theme, it should be possible to handle the questions raised by your association as to "how the Bank is coping with the conditions imposed by the world recession and the outlook for industry in the Bank's scheme of things".

After impressive balance of payments surpluses and external reserve build-up in 1979 and 1980, developments in Nigeria's external transactions resulted in substantial balance of payments deficits and dwindling external reserves in 1981 and 1982. The adverse developments in the last two years are attributable to the poor performance of crude oil exports in the fact of mounting imports.

The factors accounting for the current world market oil glut have been well documented. They include the prolonged economic recession in, and the conservation policies of, the industrial oil consuming countries; de-stockpiling of oil by the members of the International Energy Agency (IEA); and the tremendous increase in non-OPEC oil production, especially in the North Sea, Mexico and the United States.

In their attempt to balance demand and supply, OPEC countries had to reduce their level of production. Thus OPEC oil output fell persistently from 31 million barrels per day (mbd) in 1979 to 26.9 mbd in 1981, a production ceiling of 17.5 mbd in 1982 and an estimated production of about 14 mbd in February 1983. As part of these adverse developments, Nigeria's crude oil production fell from a peak of 2.3 mbd in 1979 to 1.3 mbd in 1982 and to less than 1 mbd in February 1983. Similarly, crude oil exports declined from 2.2 mbd in 1979 to 1.1 mbd in 1982. These adverse developments in the oil sector were aggravated by the continued deteriorating performance of the non-oil sector exports. Non-oil exports fell successively to a meagre ₦120.5 million in 1982.

The end-result was that total export earnings which had risen from ₦10.4 billion in 1979 to ₦14.2 billion in 1980 fell to ₦10.0 billion in 1982. By contrast, however, the value of imports rose persistently from ₦7.5 billion in 1979 to ₦13.6 billion in 1982. These developments turned the substantial overall balance of payments surpluses in 1979 and 1980 into substantial deficits of ₦3.0 billion in 1981 and ₦1.4 billion in 1982. As foreign exchange disbursements on imports persistently exceeded inflows from exports, foreign reserves dwindled from ₦5.5 billion in 1980 to only ₦1.1 billion by the end of 1982. In other words, the sharp swings in our balance of payments and the accompanying fluctuations in our external reserves have been largely precipitated by mounting imports. Inspite of the vicissitudes of the export sector, merchandise imports rose by 21.4 and 42.0 per cent in 1980 and 1981, respectively.

An examination of the structure of Nigeria's imports is even more revealing. Imports of consumer goods rose from ₦2.1 billion in 1979 to ₦5.7 billion in 1981, showing an average annual increase of 65.0 per cent. The share of consumer goods in total imports rose from 28 per cent in 1979 to over 44 per cent in 1981. Imports of food and live animals alone grew from ₦766.5 million in 1979 to ₦2,115.1 million in 1981. Importation of grains, especially rice, by State and Federal Governments contributed to the substantial increase in food imports. Rice import rose from ₦193.7 million in 1979 to over ₦300 million in 1982. There was also huge increases in the importation of vegetable oil and animal fats. This category of imports rose from ₦52.3 million in 1979 to ₦123.1 million in 1981, with an annual average growth rate of 63.0 per cent.

An aspect of our import bill of particular relevance to the Manufacturers Association relates to the importation of raw materials. This category of imports rose from ₦1.9 billion in 1979 to ₦3.2 billion in 1982.

The share of industrial raw materials in total imports averaged 24 per cent. In comparison, the share of the manufacturing sector in Gross Domestic Product (GDP) at current factor cost between 1979 and 1981 averaged only 5.8 per cent. When account is taken of importation of machinery and spare parts by the manufacturing sector, (a lot of which is admittedly inevitable at our stage of development) it becomes obvious that the manufacturing sector induces heavy foreign exchange outflows. It may be observed that as of now, the manufacturing sector earns little or no foreign exchange for Nigeria.

In response to the request from your association, I will, at this stage dwell briefly on how the Central Bank of Nigeria has been coping with the unfavourable developments on the external sector. As part of government machinery for formulating and implementing economic policies, the Bank participated in the design of measures to revamp the economy. A case in point is the package of stabilisation measures introduced in April 1982, and further streamlined early this year. The measures which featured import bans, import licensing and a number of exchange control measures were intended in the short run, to reduce imports and stem foreign exchange outflows such that foreign exchange disbursements are kept within sustainable levels. From a long term perspective, the measures are expected to induce structural adjustments which should bring about increased economic self-reliance by switching demand from imports to domestic manufactures as well as to stimulate increased use of local raw materials.

An important aspect of coping with the adverse developments relate to the control of foreign exchange movements through foreign exchange budgeting. It is not possible here to go into the details of the foreign exchange budgeting technique applied by the Bank. However, the overall aim is to streamline foreign exchange outflows with inflows. As payments due had persistently exceeded inflows even after the April 1982 measures, it is to be expected that there must be some queueing and priority ordering in the release of foreign exchange cover for external commitments. In this regard, payments for imports of machinery and equipments, as well as raw materials and spare parts have topped the bank's order of payment priorities. This has been variously misunderstood to the point of accusing the Bank of being the cause of shortages of raw materials and spare parts.

Mr. President and distinguished members of MAN, we are not unaware of the temporary side effects of the stabilisation measures on domestic producers which you represent. There are reports of shortages of raw materials and spare parts caused by delays in their importation. Shortages are said to be so acute in some cases as to lead to complete cesation of production and retrenchment of workers. Cesation of, or reduction in production of course leads to scarcities and exorbitant price increases. These developments and other temporary inconveniences are strong indications that we had been living far beyond our means in the past. The question is can we continue to do so indefinitely?

The Central Banker's management of the nation's external reserves is no different from the management of the finances of a firm or the individual. A company that persistently incurs more expenses than receipts cannot stay long in business. Neither can an individual live above his income indefinitely. In the same way, a country cannot import more than it exports on a permanent basis. Individuals and corporate bodies can certainly borrow to cover temporary short-falls. In the same way Central Bankers in collaboration with national governments can borrow to cover temporary short-falls in export earnings. In so doing, however, serious consideration has to be given to the means of future payment. Otherwise, the creditworthiness of the borrower, be it an individual or a central banker, would be thrown into serious jeopardy. Examples of countries that have engaged in injudicious borrowing and in the process incurred serious doubts about their creditworthiness, are not far-fetched.

With the present vicissitudes of the international crude petroleum market, it will be foolhardy to think that oil exports will continue to finance ever increasing imports. The pertinent question, therefore, is What can we do to restructure the economy away from over-dependence on imports to the path of increased self-reliance and sustained growth? While we may not be able to do much about the importation of capital equipment for industrial and infrastructural development in the short-run, it appears to me that we can do much to reduce our dependence on the importation of food and raw materials.

While some manufacturers have taken positive steps to use local raw materials, it appears that there are indications of reluctance or even resistance on the part of others to develop and substitute local raw materials for imported ones. The reasons for such reluctance and resistance are not hard to find. The initial efforts at industrialisation in Nigeria was based on the policy of import substitution. In the design of this policy, sufficient emphasis was not placed on the use of local raw materials by industries that were established to produce import substitutes. Another major constraint to the development and use of local raw materials even when the need to do so became obvious, relates to the problem of externalities. There is a free-rider attitude to incurring the initial expenses involved in the development of local raw materials or suitable substitutes. In such a situation, it has not been easy to forge mutual co-operation in sharing the initial expenses involved in the development of particular raw materials widely used in industries. Refusal or reluctance of some companies to use local raw materials when they are available is also traceable to the traditional attachment of many local industries to their parent multinational companies. Often, however, such attitudes are associated with the practice of over-invoicing and the use of transfer pricing to the advantage of the foreign parent company.

In the light of the constraints imposed on the economy by the current shortage of foreign exchange earnings, it is clear that the current over-dependence of our industries on imports cannot be sustained. For instance, if we project the current figures of capital goods and raw material imports into the future, we would sooner than later reach a stage where we can no longer finance the importation of raw materials and capital equipments. While the Government may borrow externally to finance essential imports in the short-run, there is a need for structural adjustments in the medium to long run to minimise the excessive dependence on the external sector. The Manufacturers Association has a crucial role to play in this crusade for economic self-reliance by promoting among their members the development of alternative local sources to imported raw materials and capital goods and thereby complement government well known efforts in this direction.

It is gratifying to note the lead already being taken by some members of your Association in the encouragement of the production and use of local raw materials. It is hoped that other members of your noble Association will take the lead to forge the necessary co-operation with each other, and where desirable, with Federal and State Governments to invest in, and develop local raw materials. It will not be possible to produce all our raw materials. However, in the long-run the test of a successful industrialisation on a self-sustaining basis will depend on the ability of that sector to generate export earnings to finance inevitable imports of raw materials which the nation cannot produce.

As indicated earlier, there is growing dependence on imported food, especially rice. Such imports have in recent years competed vigorously for scarce foreign exchange that could be devoted to other developmental needs. Increased incomes in developed countries are known to have been reflected largely in increased consumption of more nourishing proteinous food with marked decline in carbohydrates. Increased incomes from very low levels are also known to have been reflected in increased consumption of basic carbohydrates. Increased incomes in Nigeria in the last decade has led to increased consumption of imported carbohydrates such as rice and wheat bread rather than in traditional foodstuffs. On the other hand, Nigeria has great potentialities for the production of grains such as rice, wheat and maize. Advantage should be taken of these potentialities, and this is the essence of the green revolution programmes.

The main problems inhibiting production have been identified as inadequate facilities for processing, storage and marketing. These factors lead to a high degree of wastage while placing serious limitations on production expansion. Another important constraint to increased domestic production is traceable to unfair competition from imported food. This is particularly true of rice production in Nigeria today. In the interest of the Federal Government's Green Revolution Programme, the Nigerian farmer, and in view of the depressant effects of imported rice on domestic production, efforts should be made to phase out the importation of rice. It is also hoped that MAN will take the lead in helping to curb the food import syndrome by investing in the processing and marketing of Nigerian food crops, especially rice, in order to attain comparable quality with their imported counterparts.

I would also like to touch upon the fate of the consumers of Nigerian manufactures, who are made to pay exorbitant and unfair prices, even where there are no shortages. This practice is a product of our peculiar distributive system. A distributive system that guarantees higher profit margins to the middlemen than to the producers need to be re-examined. It is also paradoxical that producers either covertly or overtly nurture and protect such a system. Even where producers of branded products advertise retail prices, distributors and retailers insist on a different set of prices far above the advertised ones. This type of situation is sustainable only because, very often buyers are not allowed direct access to producers. In my candid opinion, this type of practice is not in the long-term interest of producers whose aim should be to expand the market for their products. I would like to appeal to all members of MAN to lead a national crusade against the exploitation of consumers by their appointed agents. There is some need for resale price maintenance.

Mr. President and distinguished members of MAN, I would not like to end this address without assuring you that the outlook for industry is very bright. The size of the Nigerian market is very large and fast growing. There are yawning gaps between the supply of, and demand for, many products that can be locally produced, especially those of agro-allied, basic engineering, pharmaceutical and building materials. This is also evidenced by the surge in imported consumer durable and non-durable goods which I have pointed out earlier. The prospects are also bright with regards to increased production and use of local raw materials. Nigeria has abundant natural resources and untapped raw materials. After all, not long ago, we were major exporters of cotton lint, groundnuts and its derivatives as well as a variety of palm produce which we now import as food or raw materials. These are highly indicative of our ability to reduce the high import content of our manufactures. The Federal Government itself is alive to the problems of food and raw material imports. This realisation is exemplified by the priority given to Agriculture and Industry and elaborated in successive Development Plans. The publication titled "Industrial Policy and Strategy: Guidelines to Investors" is a comprehensive and eloquent review of our industrial objectives and policy and the necessary re-orientation of strategies in line with the national objectives of developing a self-reliant economy.

I would like to emphasise, however, that Government actions are only regulatory and largely indicative of the course or action expected to be followed, and are consequently necessary, but not sufficient for the achievement of desired goals. The role of the private sector at whose actions and activities the policy measures are directed, is very crucial to the success of such measures in achieving desired goals and stated objectives. From the quality of the membership of your Association, from your past records and the favourable reactions and responses to the new government initiatives, there is no doubt that you have both the capacity and the willingness to move the industrial sector to the path of self-sustaining growth. With the leadership of your association, and in collaboration with sister organisations and government, there is no doubt that we can achieve a speedy recovery of our ailing but resilient economy and evolve a new industrial age in Nigeria.

Finally, Mr. President and distinguished members of MAN, I would once again, like to express my sincere and deep appreciation for giving me an opportunity to present this address.

Thank you.