Nigeria's Foreign Reserves and the Challenges of Development, 1960–2010

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Since independence in 1960, the Nigerian state has struggled to earn for itself a respectable position globally. Scholars of various disciplines such as economics, political science, sociology and history through their works, have examined those resources that enhance the country's economic potentials. Resources such as cocoa, groundnut, palm oil and palm kernel which served as the country's export potentials as well as foreign exchange earnings before crude oil export became the kernel of Nigeria's foreign exchange earnings in the 1970s are typical examples of the country's exports that had boosted its foreign reserves in the past. Similarly, scholars of various disciplines since crude oil became the backbone of the country's economy have made attempts at charting new approaches through which the country's exports can be enhanced vis-à-vis its foreign reserves. These include effective and functional refineries, maximum exploitation of other items such as gas as embedded in the country's crude exports, deregulation of both upstream and downstream sectors of the oil industry as well as the exploitation of non-oil sectors for exports. However, adequate and comprehensive intellectual attention has not been paid to the connection between the vicissitudes and diversities of Nigeria's foreign reserves and the country's economic development. It is against this backdrop that this paper interrogates the nature of Nigeria's economic development from the perspective of its foreign reserves. The paper argues in its conclusion that Nigeria's development prospects and challenges are tied to the management of its foreign reserves by the successive administrations since 1960.

[Nigeria; Development; Challenges; Exports]

Introduction

Foreign reserves are those assets of a country's monetary authorities that can be used directly or through assured convertibility into other assets to support its rate of exchange.[1] It can be defined as catch-up

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[1] I. MESHAK, External Reserve Composition and Economic Growth in Nigeria: A Time Series Analysis, in: *Canadian Open Economics Journal*, 1, 1, 2014, p. 1.

strategies and second best growth strategy in an economy where domestic financial market is underdeveloped.[2] Is a process through which a country maintains its external stock of assets as this enables the authority in charge of its monetary affairs to pay up any imbalance in external payments due, or influencing the rate of exchange for domestic currency by getting involved in market exchange activities.[3] Foreign reserves denote foreign currency deposits and bonds present in the central banks while the strength of deposits in reserves determines any country's foreign exchange.[4] Is a deposit that helps in insulating countries against economic woes by providing resilience for any economy and enables such an economy to absorb adverse effects of crisis in the event of any.[5] It can be defined as reserves which consist of official public sector foreign assets that are readily available and controlled by monetary authorities for direct financing and regulating payment imbalances through intervention in the exchange markets.[6] Is an invaluable store of asset that monetary authorities use in influencing the exchange rate of their domestic currency as well as building the international communities' confidence in the nation's policies, credit worthiness and a precautionary measure to cushion against sudden financial turbulence.[7]

From the foregoing, foreign reserves are those external assets such as foreign currency, bond and gold kept by any country's Central Bank to enhance the potentials of that country's currency with the exchange rate. It is used as an instrument of external payment. It can also be used as a potent tool of forestalling crises which emanate within the domestic economy as well as a buffer against external shocks that may arise from the international economy. One may also posit that foreign reserves are the key drivers that strengthen any country's economy. It can be defined as a deposit that has strong nexus with any country's exports, debt, imports and infrastructures because these drivers

2 Ibidem, p. 3.
3 *International Monetary Fund Annual Report*, Washington D.C. 2000, p. 4.
4 C. RAJESH, *The Financial Sector in India: Emerging Issues*, Oxford 2006, p. 15.
5 G. U. EBUH, *Understanding Monetary Policy Series No 50 External Reserves Management*, Abuja 2015, p. 1.
6 *Public Debt and External Reserves*, p. 1.
7 A. U. AKPAN, Foreign Reserves Accumulation and Macro-Economic Environment: The Nigerian Experience 2004–2014, in: *International Journal of Economics and Finance Studies*, 8, 1, 2016, p. 29.

determine the strength of foreign reserves. Development on the other hand can be defined a process through which the quality or nature of interaction of a nation with other states is largely determined by internal stability and comprehensive policy framework of such a nation.[8] Development in the opinion of Crush Jonathan requires the administrative astuteness which policy makers of industrialized nations use to impose their views on the beneficiaries of their aid with the aim of being the major beneficiary of the economic interaction in the long run.[9] Development is a process in which production and exchange of any society are anchored upon political and intellectual peculiarities of such a society; these peculiarities provide the platform for revolutionary change such as knowledge and technical progress.[10] It can also be defined as a process that enhances economic progress of the developing societies through the disbursement of technological aid with this disbursement having the capacity to accelerate the implementation of policy formulated while the traditional methods of production which hitherto constitute impediments are jettisoned.[11] According to Susan George, there cannot be development if such development did not take care of welfare of the people in all strata of the society.[12]

From the foregoing, development can be defined as the increase in Gross Domestic Product (GDP), Gross National Product (GNP), increase in national income, declared surplus and increase in foreign reserves. It can be defined as vertical economic relationship between the rulers and the ruled in the areas of Purchasing Power Parity (PPP) of the citizenry, Physical Quality of Life Index (PQLI), increase in life expectancy, good educational system and effective health care system. It is important to state that increase in PPP, PQLI, GDP, GNP and foreign reserves may not necessarily translate into real development. All these, at best, can be described as economic growth. This is because real development is transcendental as it takes into cognizance the welfare of the people in a society. This is because economic growth is a pre-condition for development. The idea that when there is economic

8 J. M. BOLI – J. GEORGE – M. T. RAMIREZ, World Society and the Nation-State, in: *American Journal of Sociology*, 4, 1, 1997, p. 181.

9 J. CRUSH, *Power of Development*, London 1995, p. 43.

10 U. S. KAMBHAMPATI, *Development and Developing World*, London 2004, p. 68.

11 Ibidem, p. 70.

12 J. S. GOLDSTEIN, *International Relations*, New York 1999, p. 513.

growth, development takes place appears like a utopian and a difficult concept to tame. Succinctly put, the concept of development is transcendental, and its appropriate applicability can be assessed if the variables of economic growth align with the empowerment of the people.

By implication, foreign reserves are one of the drivers of economic growth of a nation. The impact of this growth on the overall economic well-being of the citizenry could be seen as a developmental stride. It must be stated that increase in foreign reserves also affects positively, other drivers of an economy such as exchange rate, buffer against external shocks as well as enhanced export drive that generates income for a country. However, low or depleted foreign reserves equally have the potentials of having negative impact on other drivers of an economy as this could affect the welfare of the citizenry. These unpleasant economic scenarios create problems of economic growth and development. Globally, world reserves have grown from $1 trillion in January 1995 to more than $4 trillion in 2005.[13] It should be noted that China, Japan, United States and Russia accounted for 56.9 % total reserve accumulation between 1995 to 2001 while these countries held a share amounting to 68.4 % of world accumulation in 2004 with Japan and China having more than half.[14] The developing economies of Africa and Middle-East accounted for 7.1 % of global foreign reserves between 1997 to 2004. [15] These developing economies of Africa and Middle-East realized that capital accumulation and technological progress are key to their economic growth if they were to achieve sustained growth as experienced by the developed economies.[16]

Various regional governments in Nigeria in the 1950s before the country's independence deposited their revenue which accrued for the export of their produce in foreign banks abroad.[17] However, scholars like Akanninyene U. Akapan postulate that the Nigerian foreign

[13] *The Accumulation of Foreign Reserves*, European Central Bank Occasional Paper, Series No. 43, February 2006, Frankfurt, p. 9.

[14] Ibidem, p. 10.

[15] Ibidem, p. 11.

[16] MESHAK, p. 3.

[17] A. S. ABORISADE, *A History of Import Control in Colonial Nigeria, 1939–1960*. Being an on-going Ph.D. thesis in the Department of History University of Ibadan, p. 23 of Chapter 6.

reserves have been on the increase since independence in 1960.[18] Thus, literature abounds on Nigeria's foreign reserves in terms of foreign exchange and management,[19] crude oil production and export,[20] non-oil export and economic growth,[21] expansion of oil reserves,[22] impact of revenue on foreign reserves,[23] agricultural exports,[24] foreign policy formulation,[25] and public debt.[26] This paper focuses on Nigeria's foreign reserves and the challenges of development from 1960 when the country attained her independence to 2010 when the country celebrated its golden jubilee as an independent nation. The study is important because it brings to the fore how successive administrations since independence used foreign reserves to navigate challenges of the country's development. The study notes that discussions on Nigeria's foreign reserves have been centred around foreign exchange management, import and export profile. In this way, scholars have paid adequate attention to the nexus between foreign reserves, debt and export profile to the exclusion of the assessment of how successive administrations since the country's independence have used the reserves for the overall development of the country vis-à-vis the welfare of the citizenry. The conventional wisdom on the subject matter of foreign

[18] AKPAN, p. 28.

[19] F. OLADAPO – J. A. OLOYEDE, Foreign Exchange Management and the Nigerian Economic Growth, 1960–2012, in: *European Journal of Business and Innovation Research*, 2, 2, 2014, p. 19.

[20] O. I. INYIAMA – O. I. IKECHUKWU, Crude Oil Production, Prices, Export and Foreign Exchange Rate. Do they Interact? Evidence from Nigeria, 2006–2014, in: *International Journal of Developing and Emerging Economies*, 3, 2, 2015, p. 24.

[21] O. OGUNJIMI – E. ADERINTO – T. OGUNRO, An Empirical Analysis on the Relationship between Non-Oil Exports and Economic Growth in Nigeria, in: *International Journal of Academic Research in Business and Social Sciences*, 5, 12, 2015, p. 68.

[22] U. B. AKURU – O. I. OKORO, A Prediction on Nigeria's Oil Depletion Based on Hubert's Model and the Need for Renewable Energy, in: *International Scholarly Research Network ISRN Renewable Energy*, 1, 2011, p. 1.

[23] A. OLUWASEYI – O. M. OSOBA, Oil Revenue, Government Expenditure and Poverty Rate in Nigeria, in: *Global Journal of Management and Business Research: B Economics and Commerce*, 15, 10, 2015, p. 11.

[24] O. G. GBAIYE et al., Agricultural Export and Economic Growth in Nigeria, 1980–2010, in: *Journal of Economics and Sustainable Development*, 4, 16, 2013, p. 1.

[25] F. CHIDOZIE – J. IBETAN – E. UJARA, Foreign Policy, International Image and National Transformation: A Historical Perspective, in: *International Journal of Innovative Social Sciences and Humanities Research*, 2, 4, 2014, p. 53.

[26] V. SENIBI – E. ODUNTAN – O. UZOMA et al., Public Debt and External Reserve: The Nigerian Experience, 1981–2013, in: *Economics Research International*, 1, 2016, p. 1.

reserves places emphases on the problem of foreign exchange management, production for exports, oil revenue, strength of foreign reserves, foreign reserves and public debt, strength of Nigeria's crude oil production and economic growth.[27]

However, Ifurueze Meshak drawing on the strength of the composition of foreign reserves to the management of an economy challenged the conventional wisdom by maintaining that the strength of foreign reserves of Nigeria sustains its technological advancement as well as economic growth.[28] Victor Ushahemba Ijirsha corroborates this evidence by arguing that huge export profile of crude oil sustains the revenue potentials of Nigeria as this was capable enhancing expansion of industries as well as technological breakthrough. This according Ijirsha enabled Nigeria to diversify its economy for exports in her first decade of independence as this boosted the country's foreign reserves during this period.[29] In a similar vein, Victoria Senibi e-tal note tangentially on how balance of payment deficit and shortfall in revenue necessitated the need for foreign debt as this affected the prospect of Nigeria's foreign reserves between 1981 to 2013.[30]

Apart from Meshak, Victoria Senibi e-tal and Ijirsha's analyses that examine the impact of oil export and the country's foreign reserves and effects of foreign debt on it, extant studies have not paid adequate attention to how successive administrations fared in the management of the country's foreign reserves as well as its impact on the welfare of the citizenry since independence. This neglect reduces our comprehensive understanding of the history and dynamics of the country's foreign reserves. The main thesis is to demonstrate that the challenges

27 OLADAPO – OLOYEDE, p. 19; L. I. EHIKIOYA – M. I. MOHAMMED, The Impact of Exchange Rate on Nigeria's Non-Oil Exports, in: *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 5, 1, 2015, p. 194; O. OMOROGIUWA – J. ZIVKOVIC – F. ADEMOH, The Role of Agriculture in the Economic Development of Nigeria, in: *European Scientific Journal*, 10, 4, 2014, p. 140; E. EDAME – E. GREG – Ch. EFEFIOM, The Trend Analysis of Oil Revenue and Oil Export in Nigeria, in: *IOSR. Journal of Business and Management*, 10, 3, 2013, p. 5; U. B. ANIEFIOK – A. A. SYVESTER, Opportunity Cost of Nigeria's External Reserves, in: *IOSR. Journal of Economics and Finance*, 3, 5, 2014, p. 12; OGUNJIMI – ADERINTO – OGUNRO, p. 71; SENIBI – ODUNTAN – UZOMA et al., p. 5.

28 MESHAK, p. 8.

29 V. U. IJIRSHA, The Empirical Analysis of Oil Revenue and Industrial Growth in Nigeria, in: *African Journal of Business Management*, 9, 16, 2015, p. 600.

30 SENIBI – ODUNTAN – UZOMA et al., p. 1.

of Nigeria's development vis-à-vis the strength of the country's foreign reserves in a period under study lied greatly on the quality of leadership of successive administrations. It is a contribution to study of Nigeria's post-independence economic history and moves discussions on Nigeria's challenges of development in new directions. The study is divided into five sections, namely, introduction, the First and Second Republics and the management of Nigeria's foreign reserves: A Comparative Analysis, Nigeria's foreign reserves under the military, the return to civil rule and the challenges of managing Nigeria's foreign reserves and conclusion.

The First and Second Republics and the Management of Nigeria's Foreign Reserves: A Comparative Analysis

Nigeria's foreign reserves before independence were part of the operations of West African Currency Board (WACB) while the country's non-pounds sterling earnings were deposited in London. By 1959 when the Central Bank of Nigeria (CBN) was established, the bank had the mandate to hold external reserves solely in gold and sterling.[31] With the amendment of the Act which established the bank in 1962, the CBN acquired the mandate to maintain the country's foreign exchange reserves not only in sterling balance but also in non-sterling assets such as gold coin, bank balances and bills of exchange.[32] It should be noted that Nigeria's agricultural policy at independence was based on the inter-face between the federal and regional governments with well-defined agricultural trade policies anchored upon agricultural exports that assisted revenue generation which enabled the regions to finance the importation of capital goods necessary for development.[33]

The country's export was anchored upon export items like groundnuts, cocoa and oil palm produce. Nigeria's agricultural exports were facilitated by the marketing boards whose pivotal roles in the country's exports provided the country with employment and foreign exchange earnings.[34] These positive signs of economic growth were further enhanced through strategies that ensured changes in the

31 ANIEFIOK – SYVESTER, p. 8.
32 Ibidem.
33 T. A. OLAIYA, Examining the Political-Economy of Cocoa Exports in Nigeria, in: *The International Journal of Applied Economics and Finance*, 13, 1, 2016, p. 2.
34 OMOROGIUWA – ZIVKOVIC – ADEMOH, pp. 136–137.

traditional farming methods as this became the top priorities of the Tafawa Balewa administration because the regime believed that the economic strength of Nigeria rested largely upon further development of Nigeria's agricultural sector.[35] This development in the estimation of the Balewa government hinged upon accelerated agricultural exports which increased the strength of the country's foreign reserves.[36] This strength emanated from a formidable agricultural exports which served as the engine of growth to the overall economy.[37] This growth enhanced the effectiveness of Gross Domestic Product (GDP) as agriculture contributed about 70 % to the GDP while 70 % of Nigerians were provided employment opportunities through viable agricultural production that equally served as 90 % of foreign exchange earnings for the regions and the federal government.[38]

The efficacy of agricultural production and exports positioned Nigeria as a major exporter of other commodities such as cotton, rubber and hides and skin[39] during the First Republic. Enhanced export potentials bestowed on the country's foreign reserves that fluctuated between \$10 billion and \$12 billion during the First Republic.[40] This in turn reflected in the strength of infrastructural expansion such as manufacturing which positioned industries to contribute 11.3 % to the GDP.[41] The quest for infrastructural expansion was further enhanced by the First National Development Plan that was initiated in 1962 and was designed to last till 1968. In order to give the Plan a boost and the need to conserve foreign exchange, the federal government decided to

[35] R. A. AKINDELE, Nigeria's External Economic Relations, 1960–1985: An Analytical Overview, in: R. A. AKINDELE – B. E. ATE (eds.), *Nigeria's Economic Relations with the Major Developed Market-Economy Countries, 1960–1985*, Lagos 1988, p. 102.

[36] C. S. EKESIOBI – C. MADUKA – A. ONWUTEAKA et al., Modelling Non-Oil Exports and Foreign Reserves in Nigeria, in: *Journal of Developing Country Studies*, 6, 6, 2016, p. 127.

[37] O. OGEN, Patterns of Economic Growth and Development in Nigeria Since 1960, in: S. O. ARIFALO – G. AJAYI (eds.), *Essays in Nigerian Contemporary History*, Lagos 2002, p. 62.

[38] O. G. GBAIYE et al., Agricultural Exports and Economic Growth in Nigeria, 1980–2010, in: *Journal of Economics and Sustainable Development*, 4, 16, 2013, p. 1.

[39] Ibidem.

[40] EKESIOBI – MADUKA – ONWUTEAKA et al., p. 127.

[41] C. A. OKEZIE – B. H. AMIR, Economic Crossroad: The Experiences of Nigeria and Lessons from Malaysia, in: *Journal of Development and Agricultural Economics*, 3, 8, 2011, p. 371.

consolidate the external assets into a more liquid form.[42] Prior to 1962, overseas assets of Nigeria were scattered among various officials and semi-official bodies and were held in form of long term foreign securities.[43] This monetary arrangement, despite the difficulties of implementation of the First Plan, aided the successful completion of projects like Port Harcourt refinery, the Nigerian Security Printing and Mining Plant, Jebba Paper Mill, Bacita Sugar Company, Kanji Dam, Lagos Port Extension and construction of some roads while the country's overall GDP rose from 4 % in 1965 to 5.1 % in 1966.[44]

From the foregoing, the vicissitudes and diversities of the global economy as determined by economically advanced nations did not affect the management of the country's foreign reserves under Balewa. What further strengthened the management of the country's foreign reserves was the efficient exchange rate which pegged the Nigerian pounds sterling at per with the British pounds sterling. Though this was made possible through the Exchange Control Act of 1962 which empowered the Minister of Finance to grant approval for foreign exchange transactions,[45] the effective management of the country's foreign reserves further enhanced the export potentials which in turn strengthened the reserves as well as infrastructural expansion during the First Republic. The general performance of the country's foreign reserves during the First Republic whittles down the argument of Ekesiobi et al. that despite the positive relationship between non-oil exports and foreign reserves, the relationship is very weak as the former coefficient is not always significant.[46] The significance of the relationship reveals how the country's foreign reserves were effectively used to activate the drivers of the Nigerian economy such as export potentials, exchange rate, infrastructure, and GDP that equally determine the effectiveness of foreign reserves.

By the time Nigeria's democratic transition materialised for the second time in 1979, emphases were no longer on the export of

42 MESHAK, pp. 6–7.
43 Ibidem, p. 6.
44 G. EKHATOR, *Issues in Nigeria's Economic Development in the Pre- and Post- Independence Periods*. Being a Paper Delivered in the Post-Graduate Class Department of History, University of Ibadan, 2011, p. 2.
45 OLADAPO – OLOYEDE, pp. 21–22.
46 EKESIOBI – MADUKA – ONWUTEAKA et al., p. 131.

agricultural produce. This was due to the quadrupling of the prices of crude oil from $3 per barrel to about $14 per barrel in 1974 while the country emerged as the sixth largest producer of crude oil globally with $8 billion revenue that year.[47] Despite the fluctuating trend of oil prices during the Second Republic, the administration of Shehu Shagari according to Nigeria National Petroleum Corporation (NNPC), earned more than what the country earned between 1958 to 1979 as the country earned 42 billion naira in twenty one years before the commencement of Second Republic in 1979 while the Shagari administration earned 43 billion naira between 1979 to 1983.[48] These promising monetary prospects of Nigeria deteriorated as the gap between domestic consumption, imports and national output deteriorated substantially in the 1980.[49] During this time, there was astronomical increase in external debt of 1.87 billion naira in 1980 to over 15 billion naira in 1983 while external reserves also declined from 5.4 billion naira in 1980 to 2.4 billion in 1981 and by 1983, it had plummeted to a mere 781.7 million naira.[50]

The astronomical decline of the country's external reserves during this period was not unconnected with the collapse of crude oil petroleum trade that further compounded Nigeria's struggles against imports.[51] The poor state of the reserves meant that infrastructural expansion such as industries that can produce consumption goods remained elusive. This incapacitation further propelled the importation of consumer goods as this further depleted the country's foreign reserves. For instance, importation of food and consumable items increased from $818 million in 1980 to $1.6 billion in 1981[52] as this cre-

[47] O. ALUKO, Oil at Concessionary Prices for Africa: A Case Study in Nigerian Decision Making, in: *African Affairs, Journal of Royal African Society*, 75, 301, 1976, p. 427.

[48] Anon: Shehu's Regime Earned 43 billion Naira from Oil, in: *Daily Times*, June 17, 1985, p. 1.

[49] OLUWASEYI – OSOBA, p. 12.

[50] Ibidem.

[51] O. G. MUOJAMA, Historicizing Development Policies in Nigeria Up to 2010: An Anatomy of External Occasions for Nigeria's Economic Backwardness, in: B. SOFELA – V. O. EDO – R. OLANIYI (eds.), *Nigeria @ 50 Politics, Society and Development*, Ibadan 2013, p. 573.

[52] O. LAWAL, *Nigeria's Foreign Policy Since Independence*. Being a Paper Delivered in the Department of History and International Studies, Lagos State University, Ojo 2008, p. 4.

ated wide gap in the balance of payment that reached deficit of over 2 billion naira[53] under Shagari. This unfavourable balance of payment coupled with the failure of 1981–1985 Fourth National Development Plan did incalculable damage to the country's foreign reserves. The Fourth Plan that was supposed to transform the agricultural sector through the allocation of 3 billion naira was vitiated by the importation of agricultural inputs that would have been sourced locally by the indigenous and foreign investors.[54] Their access to foreign exchange further encouraged importation[55] as this further sustained the vulnerability of the naira to depreciation. This was due to lack of capacity for export of goods, even the crude export during this time was not encouraging due to the oil glut. Huge import profile depleted the reserves and by implication sustained the instability of the naira with huge debt profile.

One may argue that the economic misfortune of Nigeria under Shagari could be traced to the oil glut. It is equally plausible to state that revenue which accrued from crude oil export was higher than revenue generated than previous administrations before Shagari. This advantage was not exploited by the administration due to huge import profile which plummeted the country's foreign reserves. By implication, huge importation stifled the country's capacity for local production that would have generated employment opportunities. This lack of policy creativity pushed Nigeria into huge debt profile at the peak of oil glut[56] under the Shagari and this had huge impact on the depletion of foreign reserves.[57] This further hindered the country's capacity to exploit to the fullest the opportunity provided by quantum of revenue generated from oil export through the establishment of industries that would have curbed importation as well as the creation of employment opportunities. Part of what facilitated imports during the Second Republic was the liberal import policy of the regime. This

53 MUOJAMA, p. 573.

54 A. A. LAWAL, The Economy and the State from Pre-Colonial Times to the Present, in: A. OSUNTOKUN – A. OLUKOJU (eds.), *Nigerian Peoples and Cultures*, Ibadan 1997, p. 197.

55 Ibidem.

56 A. S. ABORISADE, *A Historical Analysis of the Countertrade Agreement Between Nigeria and Brazil, 1984–1985*. Being an M.A. Dissertation Submitted to the Department of History, University of Ibadan, 2012, p. 80.

57 SENIBI – ODUNTAN – UZOMA et al., p. 8.

liberal approach further increased the country's import expenditure from 9.1 billion in 1980 to 12.8 billion in 1981 even when revenue generated from crude oil export was at the lowest ebb and this further aggravated the country's balance of payment difficulties.[58] This unbearable import burden compelled the government to restrict imports through trade tariffs but the efforts were less effective due to low capacity utilization of industries as this further elongated the country's dependence on imports.[59]

The adverse effect of this was the degeneration in the standard of living due to the unbearable cost of living of the citizens majority of whom were out of job and this was compounded by the rising external debt which stood at $15 billion in 1982.[60] As the cost of servicing the external debt depleted the reserves, huge import profile further weakened the naira due to lack of commensurable exports that would have provided a buffer for it. A critical examination of the country's foreign reserves shows that its management was better during the Balewa regime than that of Shagari. This was due to low debt profile and imports which provided a buffer for the country's currency during the First Republic. While agriculture contributed 70 % to GDP under Balewa with 70 % of Nigerians gainfully employed, agriculture contributed 0.5 % to the country's GNP under Shagari. Though the reserves during the Second Republic was stronger than that of the First Republic due to lucrative crude oil exports, huge import profile, lack of infrastructure and external debts weakened the foreign reserves as one of the key drivers of the country's economy.

From the peak of 15 billion naira in 1980, revenue accruing to the state from oil exports fell sharply to about 5.1 billion naira in 1982 at a time when import requirements stood at an average 1 billion naira a month.[61] During the same period, the country's import requirements further rose by 45 %[62] as this further depleted the country's foreign

58 E. J. NOKO, Analysis of the Determinants of Nigeria Imports Demand, https://educacinfo.com/nigeria's-import [2017–06–14], p. 8.

59 Ibidem.

60 A. D. ALI, Nigeria's Leadership Dilemma: The Challenges of Our time, 1979–2009, in: *Singaporean Journal of Business Economics and Management Studies*, 1, 1, 2013, p. 6.

61 A. OLUKOSHI, The Political Economy of Structural Adjustment Programme, in: S. ADEJUMOBI – A. MOMOH (eds.), *The Political Economy of Nigeria Under Military Rule: 1984–1993*, Harare 1995, p. 140.

62 Ibidem.

reserves. By the time the Shagari regime was toppled by the military in December 1983, the country's external debt was over $14 billion.[63]

Table 1. Nigeria's external reserves were converted to naira using the end period exchange rate[64]

Year	External Reserves (US$' Millions)				
1960	1,939,25	1977	36,946,20	1994	95,329,02
1961	1,892,23	1978	21,542,90	1995	32,345,00
1962	1,914,17	1979	24,079,60	1996	25,895,59
1963	1,607,25	1980	54,806,00	1997	73,492,11
1964	1,931,71	1981	56,194,80	1998	93,776,74
1965	2,059,21	1982	12,324,30	1999	63,709,20
1966	1,776,40	1983	7,171,40	2000	91,089,20
1967	896,48	1984	5,479,70	2001	123,329,83
1968	852,26	1985	11,781,70	2002	103,104,08
1969	1,098,66	1986	18,922,05	2003	91,701,66
1970	1,397,22	1987	62,554,26	2004	144,753,06
1971	2,409,70	1988	72,266,83	2005	291,849,31
1972	2,603,48	1989	43,953,22	2006	449,473,06
1973	3,547,74	1990	40,293,19	2007	544,731,68
1974	21,472,40	1991	48,620,03	2008	701,674,60
1975	44,830,40	1992	33,391,94	2009	536,428,25
1976	43,488,40	1993	58,824,15	2010	448,268,46

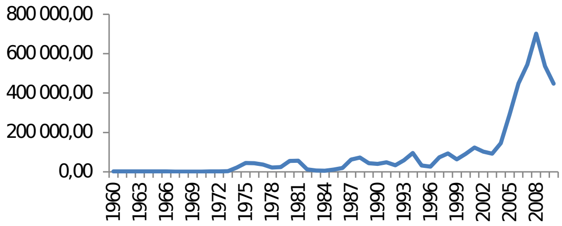

Figure 1.[65]

[63] S. ADEJUMOBI, Structural Reform and Its Impact on the Economy and Society, in: S. ADEJUMOBI – A. MOMOH (eds.), *The Political Economy of Nigeria Under Military Rule: 1984–1993*, Harare 1995, p. 165.

[64] Central Bank of Nigeria.

[65] Graph drawn by the author through Table 1.

Nigeria's Foreign Reserves under the Military

The truncation of the First Republic by the military in January 1966 automatically placed the management of the economy on the shoulder of the military while the four regions inherited were previously sustained. By 1966, the export potentials of Nigeria were diversified due to the important role oil began to play in the country's export profile as production reached over 400,000 barrel per day.[66] After the Civil War in 1970, crude oil production reached an average of one million barrel per day and further attained an unprecedented height of 2.26 million barrel per day in 1974.[67] As the prices of crude oil quadrupled from $3 per barrel to $14 per barrel in the international market in 1974, Nigeria earned the respectable status of one of the 50 richest countries in the world.[68] The boom in oil export diminished agricultural exports which accounted for 85 % of the country's earnings in 1960 to only 5 % in the mid-1970s while crude export rose from 3 % in 1960 to over 90 % in 1975.[69] A critical observation of the trend of the country's economy shows that the military did not diversify the source of revenue which accrued to the country's foreign reserves. For instance, agricultural exports which stood at 60 percent contribution to the GNP in 1960 dropped to 49 percent in the late 1970s.[70]

Similarly, agricultural exports as a percentage of total exports declined from about 43 % in 1970 to 7 % in 1974 as this made it difficult for agricultural sector to meet domestic food requirements, supply of raw materials for industries with capacity to earn enough foreign exchange through exports.[71] As the country's non-crude export declined, the importation of consumer goods quadrupled from 1974 to 1979.[72] As the unquenchable taste for imports decreased the strength of the country's foreign reserves, federal government capital expenditure underwent ten-fold increase between 1970 and 1980 with the

66 J. F. E. OHIORHENUAN, The State and Economic Development in Nigeria Under Military Rule, 1966–79, in: T. N. TAMUNO – J. A. ATANDA (eds.), *Nigeria Since Independence The First 25 Years Volume IV Government and Public Policy*, Ibadan 1989, p. 141.
67 Ibidem.
68 OLUWASEYI – OSOBA, p. 1.
69 OHIORHENUAN, p. 142.
70 OMOROGIUWA – ZIVKOVIC – ADEMOH, p. 139.
71 GBAIYE et al., p. 1.
72 OHIORHENUAN, p. 143.

capital expenditure more pronounced in the construction and service sector.[73] This construction was dictated by the Fourth National Development Plan (1975–1980) which placed emphasis on the public sector investment programme of 43.3 billion naira as this led to the establishment of two integrated steel mills and three rolling mills from 1978 to 1979.[74] While these laudable efforts were aimed at boosting domestic production, the government guaranteed 75 % of loans given by commercial banks to farmers through Agricultural Credit Guaranteed Scheme Fund for the purpose of agricultural exports.[75] The scheme was further complemented by 124 million naira disbursed in loans to farmers between 1978 and 1979 by the Nigerian Agricultural Bank.[76]

The consistency which the federal government displayed in the 1970s towards the expansion of industries assisted greatly in the provision of employment and production of consumer goods like cotton, textiles, beer, cement and paints while immediate and capital products were imported.[77] The aim of this expansion was to create for Nigerian businessmen, who were interested in the production of intermediate and capital goods, an enabling business environment as this minimized capital flight from the economy.[78] It is instructive to state that these efforts at revamping the agricultural exports by the military did not lift the agricultural sector to its status of feeding the population, meeting the raw materials needs of industries and substantial surplus for exports.[79] This reflected in the contribution of the sector to total GDP as it fell from 55 % in 1970 to 28 % in 1979.[80] As the country accumulated sizeable foreign reserves which arose from oil boom in the 1970s, the naira appreciated. This was due to the dismantling of the direct relationship between the naira, pound sterling, and the United States dollar in 1973 as this led to the progressive appreciation of the naira in the 1970s.[81]

[73] Ibidem.
[74] Ibidem, p. 149.
[75] Ibidem, p. 151.
[76] Ibidem.
[77] LAWAL, *The Economy*, p. 199.
[78] OHIORHENUAN, p. 155.
[79] OKEZIE – AMIR, p. 371.
[80] Ibidem.
[81] OLADAPO – OLOYEDE, p. 22.

The appreciation was not unconnected with the petrol dollar windfall as oil exports rose from 4.733 billion naira in 1975 to over 15 billion naira in 1979 while the revenues were used to support indigenous trading as well as the expansion of manufacturing through subsidy system that ensured delivery of goods produced at cheaper rate.[82] As revenue from oil strengthened the naira, importation of heavy machinery enabled the government in the 1970s to embark on infrastructural expansion. This was due to the importation of the machinery by construction companies that were saddled with the obligations of public infrastructure. Companies such as Julius Berger, Cappa and D'Alberto, Roads Nigeria, Solel Boneh and A. G. Ferrero constructed federal secretariat complexes for federal ministries in all the state capitals, secretariats building for all local governments in the country, establishment of more educational institutions at all levels, staff quarters, stadia, bridges as well as 59,000 housing units in all the states.[83] It plausible to argue that as the foreign reserves grew stronger alongside with the naira, importation which became cheaper did some harm to the economy. This manifested in the late 1970s when 50 kobo out of everyone naira spent found its way out of the economy.[84]

This was due to the inability of the military to curb the country's excessive imports through local production that would been enhanced by the growing strength of foreign reserves and naira. By 1984, the country's economic crisis had reached its crescendo due to the reluctance of the military to abide by the conditions given by the country's external creditors. By October 1985 when the Babangida regime had been fully entrenched, the government initiated Structural Adjustment Programme (SAP) with the aim of reducing dependence on crude oil exports, consumer goods import while First Tier and Second tier foreign exchange markets were created under SAP with the aim of dealing with external debt problems and market exchange rate respectively.[85] This came at a time when crude oil production had dropped from 760.1 million barrels in 1980 to 535.9 and 383.3 million barrels in 1986 and 1987 respectively.[86] The implication of this reduction was

82 OLUKOSHI, p. 139.
83 LAWAL, *The Economy*, pp. 204–205.
84 OLUKOSHI, p. 139.
85 ADEJUMOBI, pp. 169–170.
86 A. E. AKINLO, How Important is Oil in Nigeria's Economic Growth?, in: *Journal of*

the continuous decline of foreign reserves. Apart from the decline in crude oil production, external debt and its servicing which stood at $18.63 billion in 1986[87] further reduced the strength of the country's foreign reserves. Given the poor state of the country's economy during this period, one may argue that the introduction of SAP was an economic necessity, but its poor implementation further aggravated the country's economic misfortune in the 1980s. This could be viewed from how the economy performed. For instance, the naira under SAP maintained a downward trend in terms of exchange rate from 2.40 naira to $1 in 1986 to about 10.00 naira at the end of 1990.[88]

This was imminent because the military regime failed to explore other opportunities that would have boosted the country's exports which by implication would have strengthened the foreign reserves and the naira. While the prices of crude oil continued to plummet, diversification of the economy through agricultural exports was neglected. For instance, agricultural sector as a function of GDP plummeted from 9.8 % in 1988 to an all-time low of 1.9 % in 1992.[89] In a similar vein, the capacity utilization of agro-allied which was essential to the expansion of industries fell below 50 % during this period while Manufacturers Association of Nigeria (MAN) declared in its research that 20 % of manufacturers were out of business between 1990 and 1992.[90] As the prospect of agro-allied industries declined, the growth rate of industrial sector witnessed a drastic decline of 12 % in 1988 to 4 % in 1992 while per capital income plummeted from $175 in 1988 to less than $100 in 1992.[91] By implication, Nigeria's foreign reserves bore the brunt due to the poor performance of the country's export profile. The poor state of the economy which emanated from lack non-oil export further mounted pressure on the reserves.

As the external reserves increased from $1.7 billion in 1994 to $4.10 billion in 1996, the country's debt profile rose to an unprecedented height of $34.5 billion during the same period despite the $12.2 billion oil windfall which the country generated during the First Gulf

Sustainable Development, 5, 4, 2012, p. 167.

87 Ibidem, p. 165.

88 OLUKOSHI, p. 148.

89 ADEJUMOBI, p. 177.

90 Ibidem, p. 175.

91 Ibidem, pp. 176–180.

War of 1991which did not improve the reserves by 1996[92] led to the vilification of the country's leadership. This has been described by A. A. Lawal as lack of accountability. This mismanagement of the reserves attracted public opprobrium of the government. These harsh criticisms compelled the government to exploit the performance of the reserves when the Abacha regime reduced the debt stock to $28 billion[93] while the reserves fluctuated between $7.58 billion and $5.50 billion from 1997 to 1999.[94] It should be noted that the impact of the reserves was palpable in the country's infrastructural as the country's road network which stood at 171,328 km without proper maintenance in 1996 had about 32,000 km of it maintained throughout the country while massive construction of road was undertaken in the newly created states by December 1997.[95]

This infrastructural performance could be linked to the improved situation of crude oil output and export that rose from 711.3 million barrels in 1992 to 772.9 million barrels in 1998.[96] It may not be out of place to argue that the management of Nigeria's foreign reserves vis-à-vis the development of the country by the military was more effective than the civilian regime of the Second Republic. It is worthy of note that the military were as guilty as the country's policy makers during the Second Republic in terms of corruption and lack of diversification of the country's exports.

Table 2. Sectoral Contribution to the Nigerian GDP in %[97]

Sector	1960	1970	1980	1990	2000	2002
Agriculture	64,10	47,60	30,80	39,00	35,70	28,35
Manufacturing	4,80	8,20	8,10	8,20	3,40	5,50
Crude Petroleum	0,30	7,10	22,00	12,80	47,50	40,60
Others	30,80	37,10	39,10	40,00	13,40	25,55

A close examination of the above table reveals the declining prospects of agricultural sector as this equally corresponds with the decline of agricultural export from 1960 to 2002. Both the civilian and

92 LAWAL, *The Economy*, p. 211.
93 The 1997 Budget Broadcast by the Head of States.
94 ANIEFIOK – SYVESTER, p. 9.
95 LAWAL, *The Economy*, p. 205.
96 AKINLO, p. 167.
97 Adapted from ADEDIPE, *The Impact of Oil on Nigeria's Economic Performance*, 2004.

military regimes were guilty of lack of enhanced potentials of the sector in terms of exports that would have boosted the country's foreign reserves. However, the table shows that manufacturing fared better under the military than the civilian administration. This by implication enhanced the prospects for multiple export structure that equally boosted the country's foreign reserves under the military than the civilian. This equally reveals the exploitation of enhanced export potentials of crude oil and other sectors by the military than the civilian.

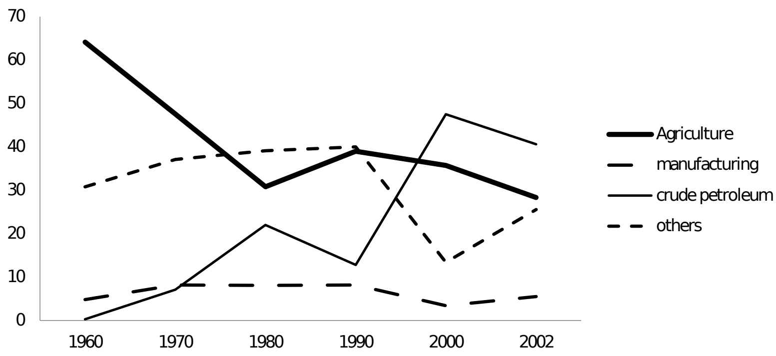

Figure 2.[98]

The graph shows the decline of agricultural sector from the 1970s when the price of crude oil as revealed by the graph gained momentum under the military. The graph reveals steady growth of the manufacturing sector under the military while the sector witnessed a downward trend under the civilian administrations. The contribution of other sectors to the GDP as revealed by the graph witnessed astronomical increase under the military than the civilian. Generally, the graph depicts the effective management of the country's export potentials under the military than the civilian. This by implication enhanced the country's foreign reserves potentials under the military than the civilian.

98 Graph Drawn by the author through Table 2.

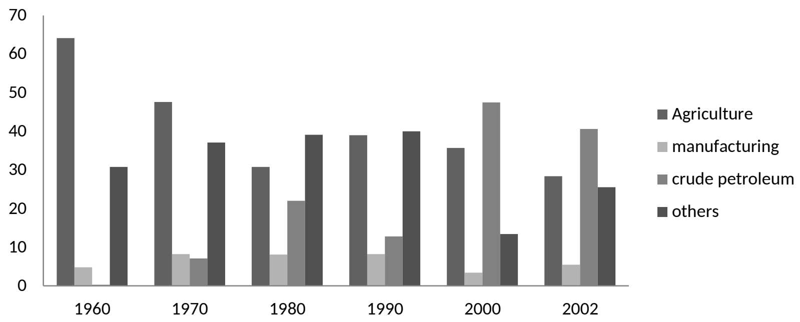

Figure 3. Sectoral contribution to the Nigeria in % (GDP) (1960–2002)[99]

The Return to Civil Rule and the Challenges of Managing Nigeria's Foreign Reserves, 1999–2010

By 1999, the quest of Nigerians for a democratic elected government revealed the dwindling fortune of the military. This dwindling fortune related to the unfashionable nature of the military rule that had taken a centre stage in global consciousness. These internal and external hostilities to the military necessitated the need for a democratic transition in Nigeria. By 29th of May 1999, civilian rule began at a time crude oil export was on the increase. The return to civilian rule was therefore accompanied by net wealth as this provided opportunity for increased expenditure and investment.[100] This increased expenditure reflected in the year 2000 national budget that had capital expenditure which stood at 36.2 % of the total budget which amounted to 300 billion naira.[101] This budgetary allocation appears commendable given the rise in the price of crude oil in the international market at the dawn of the millennium. It expedient to state that this rise in the price of crude petroleum further stimulated production such that the contribution of agricultural exports to the foreign reserves was further stifled. As crude oil production increased in 2003 for instance, the contribution of agriculture to GDP declined from 29 % in that year to 16 % in 2004

[99] Bar Chart drawn by the author through Table 2.
[100] Ibidem, p. 165.
[101] G. N. OGBONNA – A. EBIMOBOWEI, Petroleum Income and Nigerian Economy: Empirical Evidence, in: *Arabian Journal of Business and Management Review*, 1, 9, 2012, p. 34.

with corresponding decline of the manufacturing sector.[102] This lack of capacity for multiple export structures did not cohere with promising foreign reserves which stood at $7.47 billion in 2003.[103]

The attitude of the country's leadership under civil rule depicts lack of understanding of how foreign reserves remain as one of the preconditions for economic development. This lack of understanding lies greatly on the inability of the managers of the country's economy to link multiple export as a buffer to foreign reserves capable of shrugging off the effects of unpredictability of prices of exported goods in the international market on foreign reserves. The amelioration of these effects on the reserves will have two possible effects on the economy. First, the disruption of export flow becomes a minor problem due to multiple export structures. Second, multiple export structures sustain the drivers of the economy such as strong exchange rate, reduction of imports in terms of financial commitment due to the strength of local currency, the burden of debt and debt servicing reduce due to unstoppable growth of the reserves through multiple exports as well as the economic empowerment of the citizenry. This position has been buttressed by Hassan when he argues that the non-oil export serves as one of the catalysts of economic development of a developing country like Nigeria.[104] These arguments whittle down the position of Imoughele and Ismaila that increased crude oil export alone serves as the engine room of economic growth because of its capacity to create employment opportunities, profits, productivity as well as rise in accumulation of foreign reserves.[105]

As the country's reserves witnessed tremendous increase from $9.49 billion in 2004 to $13. 95 billion in 2006, the civilian regime of Olusegun Obasabjo reduced the debt profile of the country substantially[106] while the country's crude export to the United States, Europe, South America, Asia, Caribbean and other parts of the globe reached an

[102] A. IBRAHIM – A. AYODELE – M. HAKEEM et al., Oil Price Shocks and Nigerian Economic Growth, in: *European Scientific Journal*, 10, 19, 2014, p. 378.
[103] ANIEFIOK – SYVESTER, p. 9.
[104] V. HASSAN, Exchange Rate Volatility in Turkey and Its Effects on Trade Flows, in: *Journal of Economic and Social Research*, 4, 1, 2002, p. 48.
[105] L. E. IMOUGHELE – M. ISMAILA, The Impact of Exchange Rate on Nigeria's Non-Oil Exports, in: *International Journal in Academic Research in Accounting, Finance and Management Sciences*, 5, 1, 2015, p. 190.
[106] ANIEFIOK – SYVESTER, p. 9.

estimated 2.15 million barrel per day that year.[107] It is interesting to state that the robust export profile of crude oil which sustained the steady growth of the GDP from 6.51 % in 2006 to 7.69 % in 2010 did not tame the problem of unemployment as unemployment rose from 11.9 % to 23.9 % in the same period indicating that unemployment manifested more than double during this period.[108] During this period, Nigerian manufacturing was unimpressive in the production of consumer durables such as radio, Television, motor vehicle assembly, tyres and tubes and basic industrial chemicals.[109] While annual GDP growth rate averaged 6.8 percent during this period, annual unemployment rate averaged 16.7 % as these show that Nigeria's quest for diversified exports through industrialization which gained momentum in the 1970s under the military lost much of its gains between 2006 and 2010.[110]

Government's efforts at diversifying the country's exports during this period were not enough despite enhanced foreign reserves. As the country's reserves reached an unprecedented height of $62.08 billion in 2008,[111] the country's economy remained undiversified. The unprecedented increase of the reserves did not tame the country's debt profile as public debt, both internal and external stood at $8.1 billion in during the first quarter of 2008 while the Nigerian governments, both federal and state placed the blame of the country's debt on over bloated government bureaucracy at a time when a barrel of crude was over $100.[112] The contradictory position of the country's debt profile and its reserves during the period could be viewed from two perspectives. First, lack of capacity of the debt relief of 2005 that ought to have reduced the country's debt burden manifested because various levels of government failed to exploit the improved position of the foreign reserves for infrastructural expansion. Second, the decision of the country's policy makers to keep robust reserves was plausible but lack of judicious disbursement of funds realized from borrowing as well as

107 AKURU – OKORO, p. 2.
108 P. K. GARBA, *The Impossibility of Sound Economic Outcomes without Sound Management and Leadership*. An Inaugural Lecture Delivered at the University of Ibadan, Ibadan 2012, p. 32.
109 Ibidem, p. 33.
110 Ibidem, pp. 31–33.
111 EKESIOBI – MADUKA – ONWUTEAKA et al., p. 127.
112 SENIBI – ODUNTAN – UZOMA, p. 3.

crude exports on non-oil sectors for viable diversification further propelled borrowing. This lack of bureaucratic creativity mounted pressure on the reserves. This perennial pressure was accentuated by the allocation of funds to the over bloated bureaucracy which sustained the country's recurrent expenditure. This position reduces the potency of Ekesiobi et al. that non-oil exports play no significant part in determining the level of foreign reserves in Nigeria.[113]

The failure of the political leadership to erect multiple export structure due to administrative deficiency was further compounded by lack of accountability. For instance, a report by Economic Confidential revealed that Nigeria earned 34 trillion naira in ten years. According to that report, Nigeria earned 31 trillion naira from oil sector and 3 trillion naira from non-oil sector between 1999 and 2009.[114] The report stated that while seven trillion was recorded in 2008 alone, Obasanjo administration generated over twenty-six trillion naira from oil and non-oil sources. It added that oil sector accounted for 89.28 % of the total revenue while the non-oil sector including solid minerals generated 10.72 % of the total sum.[115] More than that, the fund for peace in its 2010 failed states index analysis of Nigeria showed that none of the indexes for measuring development recorded an improvement. The report states that "*nearly 70 % of Nigerians live below poverty line while many government officials have become wealthy by taking bribes and embezzling funds*".[116]

Conclusion

A critical assessment of the management of Nigeria's foreign reserves since the country's independence shows that the reserves fared better under the military than the civilian administrations except that of Tafawa Balewa whose regime diversified the country's exports with some infrastructural expansion before it was toppled in January 1966. This depicts the nature and structure of the military in terms of chains of command without complex and over bloated bureaucracy but minimal bureaucratic structure that was made up of respected bureaucrats

113 EKESIOBI – MADUKA – ONWUTEAKA et al., p. 126.
114 Anon: Nigeria Earned 34 Trillion Naira in Ten Years, in: *The Punch*, August 3, 2010, p. 9.
115 *The Punch*, July 12, 2010, p. 12.
116 Anon: Global Corruption Index, in: *The Punch*, June 22, 2010, p. 9.

and resourceful experts. Another reason why the military performed better than the civilian administrations may not be unconnected with their quest for legitimacy through the effective management of the reserves and the economy in general. This in their estimation can downplay the aberration that the military regime carried. The civilian administrations with their emblem of legitimacy were not always under pressure as this explains why their commitment towards the management of the economy was not as vibrant as that of the military.