Part Three

The International Economy

CHAPTER 8
International Economic and Financial Developments

The pace of expansion of the world economy was weak in 2001 with growth in most regions remaining very sluggish. The development was a reflection of the slowdown in the United States economy, continued recession in Japan, weak demand in Europe, deteriorating financial conditions of emerging markets as well as low commodity prices. Consequently, discussions at various meetings of multilateral institutions centred on measures to promote growth and development, check abuses in the international financial system, and negotiate a new round of multilateral trade system. Price inflation, however, moderated generally while interest rates were low following persistent cuts, especially in the industrialized countries, as a device to stimulate economic activities. Despite the decline in global trade expansion, Nigeria benefited from a stable oil price, arising from OPEC output cuts during the year. At the ECOWAS sub-regional level, further measures were put in place to fast-track integration efforts, aimed at enhancing trade and monetary cooperation within the sub-region

8.1 World Output And Prices

World output grew at an estimated rate of 2.4 per cent in 2001, indicating a 2.3 percentage points decline from the level in the preceding year. The decline in output was attributed to the delayed recovery in the United States of America (U.S.), continued recession in Japan, weak demand in Europe and Asia, deteriorating financial conditions in emerging countries, and generally weak commodity prices.

Among the advanced economies, growth in the U.S. was 1.0 per cent in 2001, compared with the 4.1 per cent recorded in the previous year. Similarly, output growth in Canada was 1.4 per cent, showing a decline of 3.0 percentage points below the level in the previous year, while Japan recorded a negative output growth of 0.4 per cent, reflecting the deep recession in its economy.

In the euro currency area, the slowdown in economic activity which began in the second half of 2000 continued in 2001. the growth rate for the area was 1.5 per cent, compared with 3.4 per cent achieved in the preceding year. Output growth in the three largest economies namely: Germany, France and Italy declined to 0.5, 2.1 and 1.8 per cent respectively from 3.0, 3.5 and 2.9 per cent in 2000

Transition countries as a group recorded an output growth of 4.9 per cent, compared with the 6.3 per cent in the preceding year. Of the countries in the group, Central and Eastern European countries were more resilient. Russia recorded an output growth of 5.8 per cent, compared with the 8.3 per cent achieved a year earlier.

The output of developing countries as a group grew by 4.0 per cent, representing a decline of 1.8 percentage points from the preceding year's level. A breakdown by region showed that output growth in developing countries of the Middle East and Europe declined to 1.8 per cent from the 5.9 per cent level attained a year ago. Output performance in the Middle East was adversely affected by lower oil prices and earnings from tourism, as well as a weak external demand for commodities. Other adverse factors were financing difficulty, political uncertainty, and policy slippages which affected some countries in the region.

For Western Hemisphere countries, output grew by 1.0 per cent, indicating a decline of 3.1 percentage points from the preceding year's level, while growth in the Asian region declined by 1.2 percentage points percent,

Africa grew by 3.5 per cent, reflecting a 0.7 percentage point increase over the preceding year's level. The increase resulted from significant improvements in output levels of some sub-Saharan African and Maghreb countries.

Inflation rose in the first five months of 2001 in most advanced economies, except in Japan, following the increases in energy and food prices. The subsequent fall in oil and food prices during the rest of the year moderated inflationary pressures. Overall, inflation in advanced economies fell to 2.2 per cent in 2001 from 2.3 per cent in the preceding year. Inflation in the U.S. declined to 2.9 per cent from 3.4 per cent, while the rates in France and Italy remained unchanged at 1.8 and 2.6 per cent, respectively. However, Germany, the United Kingdom and Canada recorded marginal increases of 0.3, 0.2 and 0.1 of a percentage point to 2.4, 2.3 and 2.8 per cent respectively.

For transition countries, the declining trend in inflation rates was sustained, due to a weak global demand and the various reform efforts pursued in these countries. Developing countries as a group had an inflation rate of 6.0 per cent, representing an increase of 0.1 of a percentage point. Inflation in Africa was 12.8 per cent which was 0.7 of a percentage point lower than the previous year's level.

Inflationary pressures in the Middle East and Europe eased marginally to 18.9 per cent from 19.2 per cent in the preceding year, while developing countries of the Western Hemisphere recorded a 6.3 per cent rate, representing 1.8 percentage points below the previous year's level. Also, countries of Asia recorded an inflation rate of 2.8 per cent, indicating a 0.9 percentage point increase above the level of 1.9 per cent recorded a year ago.

8.2 World Trade

Aggregate world trade amounted to US$11,927.3 billion in 2001, representing a drop of US$49.3 billion or 0.4 per cent from the value recorded in the preceding year. The advanced economies accounted for US$9,388.3 billion or 78.7 per cent of the total trade, while developing countries accounted for US$2,539.0 billion or 21.3 per cent.

A disaggregation of the total trade indicated that advanced economies accounted for US$4,586.9 billion of (38.5 per cent) export trade, and US$4,857.9 billion (40.7 per cent) of import trade, while the shares of developing countries in export and import were US$1,336.6 billion (11.2 per cent) and US$1,202.6 billion (10.1 per cent) respectively. A further breakdown of the trade of developing countries showed that non-oil exporting countries accounted for 80.7 per cent of the trade while oil-exporting, developing countries accounted for 19.3 per cent. The decline in oil prices induced by the generally weak global demand, especially in the last quarter of the year, adversely affected the oil-exporting countries. Consequently, their export value declined by US$9.5 billion or 2.9 per cent from US$326.7 billion a year ago.

8.3 The Impact Of International Economic And Political Developments On The Nigerian Economy

The general slowdown in the U.S. economy and the weak demand in Europe impacted on the Nigerian economy during the year. The demand for oil was relatively low because of the slowdown in industrial activities in all the regions of the world. Despite the low global demand for oil, Nigeria benefited from a stable price regime, arising from the OPEC output cuts during the year. The efforts of OPEC at curtailing production helped to stabilize prices as Nigeria's marker crude was sold at an average price of US$25.00 per barrel in the first three quarters of the year before declining to an average of US$19.00 per barrel in the fourth quarter. The weak global demand for other commodities and the decline in their prices also affected the economy. Consequently, non-oil export earnings remained insignificant at 1.3 per cent of total export receipts.

8.4 International Commodity Organisations

8.4.1 The International Natural Rubber Organisation (INRO)

The forty second and final council session of the International Rubber Organisation (INRO) was held in Kuala Lumpur, Malaysia, during the year. The major issue discussed during the meeting was the winding up of INRO operations. The council also decided that final payments to member countries be made in two instalments. It approved that 92.0 per cent of the total net asset of the buffer stock account and 100.0 per cent of the administrative account be distributed to members in the first instalment. The balance (8.0 per cent) would be paid in the second instalment after the receipt of the final statement of the auditor. Nigeria's share of the total net asset to be paid amounted to RM 1,467,550.4 (US$389,270.7) or 5.0 per cent of the value.

8.4.2 The International Coffee Organisation (ICO) and The International African Coffee Organsation (IACO)

The 83rd and 84th regular sessions of the International Coffee Organisation (ICO) and the Extra-ordinary General Assembly of the African Coffee Organisation (IACO) were held in 2001. The major issues discussed included the signing of the International Coffee Agreement, reviewing the coffee market situation, and consideration of the world coffee conference. The International Coffee Agreement which was supposed to come into force on 1st October 2001 could not as only eight exporting and five importing member countries had completed and deposited their instruments of accession with the United Nations and fulfilled all necessary procedures. The Council noted that fifteen exporting and seven importing countries were yet to endorse the Agreement. Consequently, the period of deposit of instruments of ratification, and acceptance or notification of the provisional application was extended from 25th September 2001 to 31st May 2002.

The review of developments in the international coffee market in the second and third quarters revealed excess supply of 18 million bags of coffee, resulting in the fall in prices of the commodity in the international commodity market. The council agreed that the imbalance between supply and demand could be addressed through improvements in the quality of coffee beans and diversion of coffee to alternative use.

8.4.3 The International Cocoa Organisation (ICCO)

The International Cocoa Organisation (ICCO), under the auspices of the United Nation's Conference on Trade and Development (UNCTAD), successfully concluded the negotiation of the sixth International Cocoa Agreement (ICCA) at the second and final round of the Conference held in Geneva in 2001. The ICCO also held two council meetings during the year to discuss developments in the organization, the market situation, and the allegation of child labour in cocoa plantations in West Africa.

In spite of the opposition of the cocoa producers, the European Union adopted the cocoa directive on vegetable fats in chocolate products. The directive allows the use of vegetable fats other than cocoa butter in the manufacturing of chocolate up to 5.0 per cent by weight. The proposal by the Codex Alimentarius Commission on the level of contaminants, particularly lead (Pb), in cocoa butter, cocoa mass and cocoa powders was deflected because there was no scientific evidence that the current level of contaminants poses any health risk to consumers.

Collection of Export Levy

The collection of US$5 per tonne and US $3 per tonne mandatory export levy on cocoa and other agricultural commodities continued during the year. A total of US $135,579.5 was collected on 40,515.8 metric tonnes of agricultural commodities, representing increases of 9.4 and 25.1 per cent respectively on the value and volume. The increase in revenue was attributed mainly to the increased publicity to correct the erroneous impression that the export levy had been cancelled by the Federal Government.

8.4 Bilateral and Multilateral Economic Relations

8.4.1. Bilateral Relations

During the year, Nigeria held bilateral joint commission sessions with several countries including: Congo Democratic Republic, Iran, Turkey, Romania, China and Angola, Tunisia. The sessions reviewed the implementation of existing bilateral agreements, negotiated and signed new cooperation pacts in the areas of science and technology, culture and education, trade and investments.

The Nigeria/Congo Joint Commission's inaugural session reiterated the need for greater cooperation between both countries areas of trade and investment while the Congolese solicited Nigeria's participation in the reconstruction and rehabilitation of its war-torn economy. In addition, two agreements on Bilateral Air Services and Merchant Shipping were signed during the joint session.

Nigeria and Iran held an inaugural Joint Working Summit to begin a new era of economic cooperation. Both countries agreed to collaborate in the organization of trade fairs and solo exhibitions as well as establish bilateral Chambers of Commerce to facilitate private sector joint venture partnerships. The legal framework to support economic cooperation between the two countries was agreed upon.

The Joint Commission meetings with the Angolan Government focused mainly on economic cooperation. Both countries agreed to draw a plan of action for the implementation of the Memorandum of Understanding (MOU) on oil and gas. Angola also solicited Nigeria's assistance for the supply of university lecturers through the existing technical cooperation programme.

The Sino/Nigerian Joint Commission session held in Beijing, China, concluded and signed an Agreement on Trade and Technical Cooperation. Nigeria promised to open a trade centre in Shanghai to reciprocate the Chinese Trade Centre in Nigeria.

The Joint Commission meetings between Nigeria and Tunisia, Turkey and Romania centred on commerce and industry, technical and scientific cooperation, power and steel, as well as petroleum and gas. Nigeria exchanged draft Bilateral Trade Agreement and Investment Promotion Protection Agreements with the countries.

8.4.2. Multilateral Relations

(i) The InternationalMonetary System

The global economic and financial conditions deteriorated in 2001, due largely to the slowdown in the U.S. and other advanced economies, as well as the continued recession in Japan and the financial difficulties and political uncertainties in many emerging market economies. Consequently, discussions at the various international meetings centred on the need to promote growth and development, combat money laundering and abuses in the international financial system, and for the IMF and the World Bank to take the initiatives that could prevent financial crisis.

In a review of global economic performance, the Group of Twenty Four (G-24) Ministers expressed concern over the lull in world economic activities, especially the synchronized nature of the downturn among the United States, European and Japanese economies. This development severely affected the developing countries in terms of a lower demand for their exports, decline in commodity prices and revenue reduced inflow of foreign direct investment, and restricted access to capital markets.

With the launching of a new round of trade negotiations, the urgent need to improve the trading opportunities and capacities of developing countries and ensure an even spread of the benefits of globalisation was stressed. The advanced countries, in particular, were urged to avoid protectionist measures and eliminate trade subsidies, especially for agriculture and textiles, in order to allow developing countries' products improved access to their markets.

There was broad support for the Financial Action Task Force (FATF), as well as recommendations to combat money laundering and the abuse of the international financial system. The developing countries, however, underscored the need for adequate representation in such bodies and stressed that the monitoring of any internationally agreed standards must be implemented on a uniform, cooperative, and voluntary basis.

The IMF and the World Bank were urged to ensure that adequate liquidity and financing were made available to members in need. The G-24 called for early consideration of a general SDR allocation, more generous and speedy debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, and intensified efforts to mobilise more resources within the context of the Poverty Reduction and Growth Facility (PRGF), to provide more resources for the low income countries.

The World Bank Group's total commitments in 2001 amounted to US$23.2 billion, representing a decline of US$4.6 billion or 19.8 per cent below the preceding year's level of US$27.8 billion. The fall in the Group's lending reflected largely the declines in the commitments of the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD).

The Multilateral Investment Guarantee Agency (MIGA) issued 66 guaranteed contracts, valued at US$2.0 billion, as against 53 contracts valued at US$1.6 billion in 2000. Fifteen guaranteed contracts valued at US$186.0 million were for projects in 6 African countries, namely, Angola, Guinea, Mozambique, Tanzania, Togo and Zambia.

In its efforts to support Foreign Direct Investment (FDI) flows to developing countries, MIGA provided advice and technical assistance to the new African Trade Insurance Agency (ATI) based in Nairobi, Kenya.

(ii) *The World Trade Organisation (WTO)*

The World's Trade Ministers met in Doha, Qatar, from 9th to 13th November, 2001 and agreed to launch a New Round of talks on multilateral trade in goods and services, including agricultural products. The trade envoys put together a trade liberalization agenda to open up markets in order to usher in growth and development. The Doha round of talks offers the prospect of long-term commitment to lower tariffs on industrial goods, phase out farm subsidies, reduce barriers to foreign investment, and limit the use of “anti-dumping”. The agreement, if successfully implemented, would offer good prospects for long-term gains boost developing countries' exports through better access to advanced countries' markets for textiles and agricultural products.

Europe and the US agreed to make it easier for poor countries to obtain cheap medicines to treat malaria, AIDS and other diseases. The membership of the Organization was expanded in Doha to include China and Taiwan.

(iii) The Association of African Central Banks (AACB)

The 25th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Johannesburg, Republic of South Africa, on 16th August, 2001.The meeting deliberated on a number of issues aimed at strengthening cooperation among African central banks. The Assembly of Governors underscored the importance of creating an appropriate macroeconomic environment in order to promote rapid growth in Africa. It considered an action plan for the harmonization of the monetary cooperation programmes of the various sub-regional groupings, with the ultimate aim of evolving a Single Monetary Zone by 2021 and the establishment of a common central bank with a common currency at the continental level. The importance of achieving macroeconomic stability and convergence in key macroeconomic aggregates was emphasized as necessary conditions for a monetary union.

(iv) The African Development Bank Group (ADBG)

The Board of the African Development Bank Group (ADBG), at its annual meeting held in Valencia, Spain, from 29th to 30th May, 2001, considered the net income of the Bank for year 2000 and approved appropriations as follows: Special Reserve UA 6.86 million, General Reserve UA93.91 million, HIPC Initiative UA 6.00 million, and ADB Fund UA 10.00 million.

The Board considered the Report of the Governors' Consultative Committee (GCC), amended certain Articles of the Bank Agreement, and removed all obsolete provisions in order to harmonize the Bank's Agreement with the Charters of other Multilateral Development Banks (MDBs). The Board agreed to discontinue the use of the Special Reserve account and transferred its balance as well as the statutory commissions to the General Reserve account.

Loan approvals (134), amounting to UA 2,372.36 million, were granted in year 2001, compared with UA18,760.45 million in the preceding year. The decrease in the period under review was attributed to the low level of external assistance in the form of HIPC Debt relief, equity participation, and Guarantees which affected available resources for loan approvals. The total loans granted to Nigeria in 2001 amounted to UA 28.00 million.

(v) The Economic Community of West African States (ECOWAS)

The Authority of Heads of State and Government of the Economic Community of West African States (ECOWAS) held its 25th Ordinary Session in Dakar, Senegal, on 20th and 2lst December, 2001. The Authority expressed satisfaction at the unrelenting efforts of the countries of the second West African Monetary Zone (WAMZ) to adopt a common currency. It noted the progress made towards the incorporation of a private regional airline , “ECOAIR”, and the coastal shipping line “ECOMARINE”, and urged the regional promoters to make the projects operational as soon as possible.

It also noted the coming into operation of the Constitutive Act of the African Union and the adoption of the New Partnership for Africa's Development (NEPAD) as major steps towards effective integration of the African continent. Consequently, it mandated the ECOWAS Secretariat to harmonize its policies in line with those of NEPAD, with a view to creating synergy that would strengthen ECOWAS and enable it contribute to the establishment of a strong African Union. The Authority urged all member States to implement the provisions of the ECOWAS Trade Liberalization Scheme (TLS), adopt the ECOWAS Passport, and introduce the ECOWAS Common External Tariff (CET) without further delay.

The Authority adopted the supplementary protocol which amended the Revised ECOWAS Treaty to reflect the establishment of the ECOWAS Bank for Investment and Development (EBID) and its two subsidiaries, namely: the ECOWAS Regional Investment Bank (ERIB) and the ECOWAS Regional Development Fund (ERDF), to replace the ECOWAS Fund for Cooperation, Compensation and Development. It expressed satisfaction with the establishment of the ECOWAS Court of Justice and the ECOWAS Parliament and agreed to locate their Headquarters in Nigeria.

(vi) The West African Monetary Institute (W AMI)

The West African Monetary Institute (WAMI), based in Accra, Ghana, was established in January 2001 to undertake all the necessary tasks that would culminate in the adoption of a single currency and the setting up of the West African Central Bank for the West African Monetary Zone (WAMZ).

At the Third Summit of the Authority of Heads of State and Government of the West African Monetary Zone (WAMZ), held in Dakar, Senegal, in December 22, 2001, the Authority signed and adopted recommendations aimed at facilitating the implementation of the Agreements on WAMZ, the Statutes of the West African Central Bank (WACB), and the Stabilization and Cooperation Fund. It adopted decisions on the establishment of an Exchange Rate Mechanism for the WAMZ, the development of National Payments Systems, the establishment of efficient Cross-Border Payment Arrangements, the operationalization of the Stabilization and Cooperation Fund, and the establishment of National Sensitization Committees in member states of WAMZ.

(vii) The West African Monetary Agency (WAMA)

The West African Monetary Agency (WAMA) experienced a lull in its activities during the year, due largely to the departure of some key staff of the Agency to their various central banks. Its activities focused mainly on the management of the ECOWAS Travellers' Cheques Scheme and the monitoring of the ECOWAS Monetary Cooperation Programme. Since the inception of the ECOWAS Travellers' Cheques Scheme, a total of WAUA 31.4 million (₦4,431.0 million) had been supplied to member central banks, out of which the sum of WAUA 11.2 million (₦1,580.5 million) or 35.7 per cent had been sold, encashed and processed for settlement as at September, 2001.

A review of the level of compliance with the convergence criteria for the Monetary Cooperation Programme indicated that macroeconomic performance varied from country to country, and that no country satisfied all the set criteria. Consequently, member countries were advised to prepare and submit to W AMA and ECOWAS, appropriate economic programmes that would enable them meet all the set criteria by the target date of 2003.

(viii) The West African Institute for Financial and Economic Management (WAIFEM)

During the year, the Institute organized 22 training and capacity building activities, up from 12 in the previous year. Of this, eight were related to debt management while seven were in the areas of financial sector and macroeconomic management. A total of 518 senior/executive level officials of central banks and core economic management ministries and other public sector agencies in WAIFEM countries attended the programmes. One hundred and eighty-three (183) Nigerians, or 35 per cent, participated in WAIFEM training and capacity building activities during the period under review. Cumulatively, 734 Nigerians, including 383 officials of the Central Bank of Nigeria, have benefited from WAIFEM programmes since its inception.

WAIFEM commenced the implementation of its medium-term, integrated Capacity Building Programme (CBP), spanning 2001 to 2004, during the period under review. The CBP entails a paradigmatic shift to an holistic integrated approach to capacity building which includes the organization of short-term courses as well as institutional, organizational, and policy framework aspects of capacity building. The programme seeks to strengthen capacity in managing public debt, improve skills and knowledge for financial sector management; macroeconomic policy analysis and management, in The Gambia, Ghana, Liberia, Nigeria and Sierra Leone.